

WELLSPRING HOUSE, INC.

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2011 AND 2010

**Smith  Sullivan
& Company PC**

CERTIFIED PUBLIC ACCOUNTANTS

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WELLSPRING HOUSE, INC
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

Mission Statement

Wellspring is a community of faith, aware that each life touches every other life. Our work and our decisions are therefore guided by the vision of a just society, in which we must care for the earth and her people by using our resources, property and land in a spirit of hospitality. In this spirit we work to meet basic human needs, and participate in social change through the provision of shelter, affordable housing, local economic opportunity and education rooted in community needs.


WELLSPRING HOUSE, INC.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

C O N T E N T S

	<i>Pages</i>
Independent Auditors' Report.....	1
Statements of Financial Position as of June 30, 2011 and 2010.....	2
Statement of Activities for the Year Ended June 30, 2011..... <i>(With Summarized Comparative Totals for 2010)</i>	3
Statement of Functional Expenses for the Year Ended June 30, 2011..... <i>(With Summarized Comparative Totals for 2010)</i>	4
Statements of Cash Flows for the Years Ended June 30, 2011 and 2010.....	5
Notes to Financial Statements.....	6 - 18

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INDEPENDENT AUDITORS' REPORT

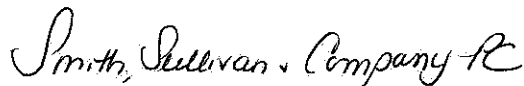
To the Board of Directors
Wellspring House, Inc.
Gloucester, Massachusetts

We have audited the accompanying statement of financial position of Wellspring House, Inc. (a Massachusetts nonprofit corporation) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Wellspring House, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Wellspring House, Inc.'s fiscal year 2010 financial statements and, in our report dated October 5, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellspring House, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2011 on our consideration of Wellspring House, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



Westborough, Massachusetts

October 4, 2011

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS:</u>		
Cash (Note 15)	\$ 266,425	\$ 284,704
Grants and Pledges Receivable (Note 3)	75,000	75,000
Contracts Receivable, Commonwealth of Massachusetts (Notes 9 and 15)	41,624	56,833
Other Program Service Receivables	16,631	31,470
Prepaid Expenses	16,266	13,925
Total Current Assets	415,946	461,932
<u>PROPERTY AND EQUIPMENT: (Note 5)</u>		
Property and Equipment	1,417,808	1,414,858
Less: Accumulated Depreciation	(909,180)	(834,227)
Net Property and Equipment	508,628	580,631
<u>NON-CURRENT ASSETS:</u>		
Board Designated Endowment Investments (Notes 4, 8 and 15)	648,731	593,286
Grants and Pledges Receivable (Note 3)	50,000	125,000
Loan Acquisition Costs, Net of Amortization (Note 6)	2,543	3,597
Total Non-Current Assets	701,274	721,883
<u>TOTAL ASSETS</u>	<u>\$ 1,625,848</u>	<u>\$ 1,764,446</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Current Portion of Long-Term Debt (Note 6)	\$ 11,645	\$ 8,502
Line-of-Credit (Note 7)	-	-
Accounts Payable and Accrued Expenses	47,272	67,536
Deferred Revenue (Note 9)	51,971	-
Accrued Payroll and Benefits	46,092	47,995
Total Current Liabilities	156,980	124,033
<u>NON-CURRENT LIABILITIES:</u>		
Long-Term Debt, Net of Current Portion (Note 6)	247,361	258,245
<u>TOTAL LIABILITIES</u>	<u>404,341</u>	<u>382,278</u>
<u>NET ASSETS: (Note 8)</u>		
Unrestricted:		
Undesignated	337,616	464,900
Board Designated - Endowment	648,731	593,286
Total Unrestricted Net Assets	986,347	1,058,186
Temporarily Restricted	235,160	323,982
Total Net Assets	1,221,507	1,382,168
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 1,625,848</u>	<u>\$ 1,764,446</u>

WELLSPRING HOUSE, INC.
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

(With Summarized Comparative Totals for 2010)

	<u>UNRESTRICTED</u>		<u>TOTAL</u>	<u>TEMPORARILY</u>	<u>TOTAL ACTIVITIES</u>	
	<u>OPERATIONS</u>	<u>DESIGNATED</u>	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>2011</u>	<u>2010</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>						
<i>Gifts, Grants and Contributions:</i>						
Contributions and Grants	\$ 282,697	\$ 60,000	\$ 342,697	\$ 190,981	\$ 533,678	\$ 615,271
Fund Raising Events, Net (Note 11)	131,903	-	131,903	-	131,903	119,486
In-Kind Goods and Services (Note 12)	85,103	-	85,103	-	85,103	105,542
Total Gifts, Grants and Contributions	499,703	60,000	559,703	190,981	750,684	840,299
<i>Program Service Revenue:</i>						
Contracted Services (Note 9)	470,579	-	470,579	-	470,579	482,696
Rental Income	62,586	-	62,586	-	62,586	86,639
Total Program Service Revenue	533,165	-	533,165	-	533,165	569,335
<i>Investment and Other Income:</i>						
Investment Income (Note 4)	114	49,675	49,789	-	49,789	23,794
Other Income	109	-	109	-	109	-
Total Investment and Other Income	223	49,675	49,898	-	49,898	23,794
<i>Reclassifications of Net Assets: (Note 8)</i>						
Satisfaction of Donor Restrictions	279,803	-	279,803	(279,803)	-	-
Release of Board Designations	50,000	(50,000)	-	-	-	-
Total Reclassification of Net Assets	329,803	(50,000)	279,803	(279,803)	-	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>1,362,894</u>	<u>59,675</u>	<u>1,422,569</u>	<u>(88,822)</u>	<u>1,333,747</u>	<u>1,433,428</u>
<u>FUNCTIONAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION:</u>						
<i>Program Services: (Note 2)</i>						
Family Shelter	480,019	-	480,019	-	480,019	421,534
Affordable Housing	108,819	-	108,819	-	108,819	155,992
Family Support Programs	56,314	-	56,314	-	56,314	187,864
Education	362,924	3,861	366,785	-	366,785	320,261
Total Program Services	1,008,076	3,861	1,011,937	-	1,011,937	1,085,651
<i>Supporting Services:</i>						
Administrative	208,423	369	208,792	-	208,792	296,950
Fund Raising	197,672	-	197,672	-	197,672	223,550
Total Supporting Services	406,095	369	406,464	-	406,464	520,500
<u>FUNCTIONAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</u>	<u>1,414,171</u>	<u>4,230</u>	<u>1,418,401</u>	<u>-</u>	<u>1,418,401</u>	<u>1,606,151</u>
<u>CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION</u>	<u>(51,277)</u>	<u>55,445</u>	<u>4,168</u>	<u>(88,822)</u>	<u>(84,654)</u>	<u>(172,723)</u>
Depreciation and Amortization Expense	(76,007)	-	(76,007)	-	(76,007)	(72,107)
<u>CHANGE IN NET ASSETS - CONTINUING OPERATIONS</u>	<u>(127,284)</u>	<u>55,445</u>	<u>(71,839)</u>	<u>(88,822)</u>	<u>(160,661)</u>	<u>(244,830)</u>
<u>OTHER CHANGES IN NET ASSETS:</u>						
Extraordinary Item - Gain on Sale of Property (Note 5)	-	-	-	-	-	101,053
<u>TOTAL CHANGE IN NET ASSETS</u>	<u>(127,284)</u>	<u>55,445</u>	<u>(71,839)</u>	<u>(88,822)</u>	<u>(160,661)</u>	<u>(143,777)</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>464,900</u>	<u>593,286</u>	<u>1,058,186</u>	<u>323,982</u>	<u>1,382,168</u>	<u>1,525,945</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 337,616</u>	<u>\$ 648,731</u>	<u>\$ 986,347</u>	<u>\$ 235,160</u>	<u>\$ 1,221,507</u>	<u>\$ 1,382,168</u>

WELLSPRING HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(With Summarized Comparative Totals for 2010)

	<u>FAMILY</u> <u>SHELTER</u>	<u>AFFORDABLE</u> <u>HOUSING</u>	<u>FAMILY</u> <u>SUPPORT</u> <u>PROGRAMS</u>	<u>EDUCATION</u>	<u>TOTAL</u> <u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND-</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u>	
								<u>2011</u>	<u>2010</u>
Salaries	\$ 234,214	\$ 49,941	\$ 36,225	\$ 190,338	\$ 510,718	\$ 105,814	\$ 120,278	\$ 736,810	\$ 867,103
Payroll Taxes	28,162	6,005	4,355	22,886	61,408	12,723	14,462	88,593	88,976
Fringe Benefits <i>(Note 13)</i>	<u>22,032</u>	<u>4,698</u>	<u>3,408</u>	<u>17,905</u>	<u>48,043</u>	<u>9,954</u>	<u>11,314</u>	<u>69,311</u>	<u>49,495</u>
Total Salaries and Related Expenses	284,408	60,644	43,988	231,129	620,169	128,491	146,054	894,714	1,005,574
Advertising	378	104		402	884	-	25	909	1,609
Bank Charges	-	-	-	-	-	3,140	687	3,827	5,671
Child Care	-	-	302	-	302	-	-	302	1,509
Contractual Services	3,096	3,752	-	9,350	16,198	22,156	2,849	41,203	73,251
In-Kind Expenses <i>(Note 12)</i>	1,696	-	-	76,091	77,787	-	7,316	85,103	105,542
Equipment Rental and Repair	2,735	276	-	1,870	4,881	748	748	6,377	3,723
Food	3,643	146	28	66	3,883	-	-	3,883	6,529
Household Supplies	971	1,115	-	19	2,105	9	-	2,114	4,153
Insurance	4,860	5,201	-	5,310	15,371	4,165	2,124	21,660	34,528
Interest Expense	3,807	3,733	-	4,106	11,646	2,595	1,642	15,883	27,454
Meeting Expense	-	21	-	116	137	196	104	437	5,720
Miscellaneous	761	564	25	-	1,350	1,307	1,414	4,071	5,125
Network Expense	4,735	1,010	732	3,849	10,326	2,140	2,432	14,898	14,829
Office Expense	1,684	132	44	4,264	6,124	2,615	453	9,192	15,610
Participants Expenses	1,579	-	57	5	1,641	-	-	1,641	2,820
Postage	-	-	-	15	15	2,744	8,693	11,452	7,599
Printing	-	-	15	-	15	-	11,469	11,484	19,077
Professional Fees, Audit Expense	-	-	-	-	-	26,000	-	26,000	36,320
Program Supplies	1,137	-	2,080	1,289	4,506	300	40	4,846	2,836
Real Estate Taxes <i>(Note 14)</i>	5,012	3,505	-	6,885	15,402	2,754	2,754	20,910	21,023
Rent <i>(Note 10)</i>	-	-	6,148	-	6,148	-	-	6,148	4,721
Repairs and Maintenance	12,353	13,096	442	6,667	32,558	2,663	2,663	37,884	46,370
Scholarship/Client Assistance	131,802	1,150	-	3,861	136,813	-	-	136,813	97,373
Staff Training	169	36	26	138	369	77	87	533	1,463
Subscriptions/Program Material	1,099	-	-	1,471	2,570	130	1,439	4,139	4,874
Telephone and Internet	1,781	1,598	681	2,887	6,947	3,314	1,924	12,185	11,698
Travel	4,321	-	111	108	4,540	124	-	4,664	3,006
Utilities	<u>7,992</u>	<u>12,736</u>	<u>1,635</u>	<u>6,887</u>	<u>29,250</u>	<u>3,124</u>	<u>2,755</u>	<u>35,129</u>	<u>36,144</u>
Total Functional Expenses Before Depreciation	480,019	108,819	56,314	366,785	1,011,937	208,792	197,672	1,418,401	1,606,151
Depreciation and Amortization <i>(Notes 5 and 6)</i>	<u>26,234</u>	<u>37,476</u>	<u>-</u>	<u>5,247</u>	<u>68,957</u>	<u>2,998</u>	<u>4,052</u>	<u>76,007</u>	<u>72,107</u>
Total Functional Expenses	<u>\$ 506,253</u>	<u>\$ 146,295</u>	<u>\$ 56,314</u>	<u>\$ 372,032</u>	<u>\$ 1,080,894</u>	<u>\$ 211,790</u>	<u>\$ 201,724</u>	<u>\$ 1,494,408</u>	<u>\$ 1,678,258</u>

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ (160,661)	\$ (143,777)
<i>Adjustments to Reconcile the Above to Net Cash (Used) by Operating Activities:</i>		
Depreciation and Amortization Expense	76,007	72,107
Gain on Sale of Emerson Avenue Property	-	(101,053)
Investment (Gains) Losses	(49,789)	(23,794)
<i>(Increase) Decrease in Current Assets:</i>		
Grants and Pledges Receivable	75,000	84,036
Contracts Receivable	15,209	(24,333)
Due from Affiliates	-	6,238
Other Program Service Receivables	14,839	(18,867)
Prepaid Expenses	(2,341)	(525)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	(20,264)	18,675
Deferred Revenue	51,971	-
Accrued Payroll and Benefits	(1,903)	(8,278)
Net Adjustment	<u>158,729</u>	<u>4,206</u>
<u>NET CASH (USED) BY OPERATING ACTIVITIES</u>	<u>(1,932)</u>	<u>(139,571)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Net Transfers to (from) Board Designated Endowment	(10,000)	(60,150)
Equipment Purchases and Building Renovations	(2,950)	(44,000)
Proceeds from Sale of Emerson Avenue Property, Net of Settlement Charges	-	500,438
Proceeds from Sale of Investments	326,846	-
Purchases of Investments	(326,647)	-
Investment Income	114	261
Net Cash Flows From Investing Activities	<u>(12,637)</u>	<u>396,549</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from (Repayment of) Line-of-Credit	-	(106,000)
Principal Reduction on Long-Term Debt	(7,740)	(201,758)
Assessments Payable	-	(2,026)
Expenses Paid from Board Designated Endowment Investments	4,030	5,850
Net Cash Flows From Financing Activities	<u>(3,710)</u>	<u>(303,934)</u>
<u>NET (DECREASE) IN CASH</u>	<u>(18,279)</u>	<u>(46,956)</u>
<u>CASH - BEGINNING OF YEAR</u>	<u>284,704</u>	<u>331,660</u>
<u>CASH - END OF YEAR</u>	<u>\$ 266,425</u>	<u>\$ 284,704</u>
 <i>Supplemental Disclosures :</i>		
Interest Paid	\$ 15,884	\$ 27,454
Income Taxes Paid	\$ -	\$ -

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 ORGANIZATION

Wellspring House, Inc. (the “Organization” or “Wellspring”) was incorporated on July 8, 1981 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. Wellspring has been classified as an organization which is not a private foundation under Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2 PROGRAM SERVICES

Wellspring Family Shelter and Affordable Housing:

The Organization’s emergency shelter program for homeless families has been in continuous operation since 1981. The families (both single parent and two parent families of all ages, races and backgrounds) are sheltered because market-rate rents are beyond their means and their housing is unsafe or unhealthy. The Organization has sheltered more than 692 homeless families since it first opened. In FY 2011, Wellspring provided emergency shelter for 20 families that included 20 adults and 22 children. Wellspring also provides services to families after they have moved into their new homes by assisting in the enrollment of children into school, employment and school opportunities, and connecting with community resources that will help them successfully transition. In FY 2011, 100 percent of Wellspring’s families had maintained their housing after 18 months.

Wellspring House, Inc. has long understood that one of the solutions to homelessness is an adequate supply of safe, affordable housing. While the Organization has always provided shelter to homeless families, it also has a long history of working to increase affordable housing in the community. Since 1987, Wellspring has owned and operated a lodging house that is a permanent home to 11 low-income single people. A service coordinator works with these tenants to ensure that they connected with community resources.

Homeless Prevention and Family Support Programs:

Concern for families is at the heart of Wellspring’s work. To help families avoid the trauma of homelessness, Wellspring provided homeless prevention and advocacy services. The Organization’s Homeless Prevention Fund received 287 calls last year from Cape Ann residents seeking counseling and financial assistance. Wellspring helped to provide one-time funding to 24 families for a total of \$17,662 in the form of assistance with rent and utility arrearages. Wellspring partners with smallcanbebig.org and other community organizations to help callers with resources to meet their housing needs. Wellspring’s annual, volunteer driven, “Holiday Store” ensured that 406 children had happy holiday memories with new gifts that their parents chose for them for a nominal fee. Parents could enjoy the holidays knowing that they could still pay the rent and utilities. Wellspring’s Holiday Meal program provided 351 meals.

Effective December 1, 2010, the Cape Ann Families program was transferred to Pathways for Children, Inc. (“Pathways”) which included all programs operated by Wellspring under this name. Additionally, after this date, Pathways assumed all responsibility for the existing rental agreement which houses these programs.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 2 *(Continued)*

Community Education:

As part of its fundamental commitment to facilitate permanent solutions to homelessness and poverty, Wellspring's mission has always been to "provide education to facilitate personal and social growth and change". The Organization has carried out this mission since 1981 by providing educational programs for low-income members of the community. All of Wellspring's education programs have been established because of its belief that education provides the skills and opportunities that significantly improve the possibilities for families to break out of poverty. Aspirations for the participants of these programs include jobs that pay a living wage, offer reasonable benefits and the possibility of future advancement.

To that end, Wellspring offers a continuum of education: ESOL ("English for Speakers of Other Languages"); the Adult Learning Initiative ("ALI"), a GED, job, and college preparation program that also offers three college credits for computer classes in partnership with North Shore Community College; MediClerk, a job training program offered in collaboration with North Shore Medical Center.

Wellspring also provided six scholarships from the Robert Clark Rogers Fund for college-bound graduates of Wellspring's programs. Wellspring is also a community partner with the One Family Scholar's program and provided support and endorsement to three scholars in FY 2011.

In December 2007, Wellspring began operating the Adult Learning Center located in the Sawyer Free Library. The Center offers an ESOL program which has become increasingly important as 10 percent of Gloucester residents do not speak English at home according to the 2000 Census data. In FY 2011, 73 students participated in the program.

In FY 2011, the Community Education program of the Organization served over 154 low-income women and men.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization's financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, adherence to generally accepted accounting principles, has in management's opinion, resulted in reliable and consistent financial reporting by the Organization. The following policies should be read in conjunction with the accompanying notes to the financial statements.

Basis of Accounting:

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 3 *(Continued)*

Fair Value of Financial Instruments:

As required by the *FASB Accounting Standards Codification*TM, the Organization adopted the provisions of Fair Value Measurements, and has applied its provisions to assets and liabilities that are recognized or disclosed at fair value on a recurring or nonrecurring basis (at least annually). Fair value measurement defines fair value, establishes a framework for measuring fair value, establishes a three-level fair value hierarchy based on the quality of inputs used to measure fair value and enhances the disclosure requirements for fair value measurements.

The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs to the valuation methodology are quoted market prices for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are based on prices or valuation techniques that are unobservable.

Financial Statement Presentation:

As required by the *FASB Accounting Standards Codification*TM, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are related to the existence or absence of donor-imposed restrictions as listed below:

Unrestricted Net Assets - consists of assets, public support and program revenues which are available and used for operations, programs, and capital expenditures. Unrestricted net assets represents the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. In addition, unrestricted net assets of the Organization includes funds which represent unrestricted resources designated by the Board of Directors for the Wellspring House, Inc. Endowment Fund as further described in Note 8.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the Organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. For the years presented, the Organization did not have any assets of this nature.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 3 *(Continued)*

The accompanying financial statements include certain FY 2010 comparative information. With respect to the Statement of Activities, such prior year information is not presented by net asset class and, in the Statement of Functional Expenses, FY 2010 expenses by line item are in total rather than by functional category. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Cash:

For the purpose of these financial statements, cash are defined as cash balances maintained in checking and savings accounts.

Grants and Pledges Receivable:

Grants and Pledges Receivable represent unconditional promises to give, which are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year. For the years presented, non-current *Grants and Pledges Receivable* are due within one to five years. Additionally, the FY 2011 balance consists of two pledges in the amounts of \$25,000 and \$100,000 and the FY 2010 balance consists of two pledges in the amounts of \$50,000 and \$150,000. These amounts are considered fully collectible by management; consequently, these financial statements do not contain a provision for uncollectible pledges. Therefore, if pledges become uncollectible, they will be charged to activities when that determination is made. For the years ended June 30, 2011 and 2010, there were no pledges that were considered uncollectible and no bad debts arising from grant commitments.

Contracts Receivable, Commonwealth of Massachusetts:

Contracts Receivable, Commonwealth of Massachusetts represents amounts which are due from state government agencies. These amounts are considered fully collectible; accordingly, these financial statements do not contain a provision for uncollectible accounts receivable from contracts. If amounts owed become uncollectible, they will be charged to activities when that determination is made.

Property and Equipment:

Property, equipment, furnishing and improvement purchases in excess of \$1,000 are capitalized at cost, if purchased, or if donated, at the fair market value on the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method, and is charged against support and revenues over the estimated useful lives of the assets as expressed in terms of years.

Investments:

The Organization maintains an investment portfolio for its Board Designated Endowment Fund which includes marketable equity securities in the form of exchange traded funds and cash equivalents in the form of certificates of deposit and cash balances. As required by the *FASB Accounting Standards Codification*TM, investments are reported at their fair value, including unrealized gains and losses which are recognized in the current period Statement of Activities.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 3 *(Continued)*

Investments are classified as short or long-term depending upon the type of investment and the intended holding period. Highly liquid investments, with maturities of ninety days or less are classified as cash equivalents. *Board Designated Endowment Investments* are classified as long-term regardless of the investment liquidity. All investments in the accompanying financial statements are classified within Level 1 of the fair value hierarchy.

Contributions, Gifts and Grants:

As required by the *FASB Accounting Standards Codification*TM, contributions are required to be recorded as receivables and revenues and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until the restriction expires, at which time temporarily restricted net assets are reclassified to unrestricted net assets. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

In-Kind Goods and Services:

As required by the *FASB Accounting Standards Codification*TM, Wellspring House maintains a policy whereby the value of the donated goods and services which require a specialized skill and/or which would have otherwise been purchased by the Organization are recognized as revenue on the Statement of Activities and are listed as expenses on the Statement of Functional Expenses, or as Direct Costs of Fund Raising Events. Donations of equipment and goods which meet the criteria of the Organization's capitalization policy are capitalized and depreciated pursuant to the policy described above.

Functional Expenses:

Wellspring House, Inc. allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated according to space and time usage. Supporting services are those related to operating and managing the Organization's programs on a day-to-day basis. Supporting services have been sub-classified as follows:

Administrative - includes all activities related to the Organization's internal management and accounting for program services.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 3 (Continued)

Fund Raising - includes all activities related to maintaining contributor information, donor relations and recognition events, writing grant proposals, distribution of materials and other similar projects related to the procurement of funds for the Wellspring House, Inc. programs. Fund raising expenses also included the indirect costs of special fund raising events, while direct costs are netted against event proceeds. For the years presented, total fund raising expenses were \$222,733 and \$241,918, respectively.

Tax Position:

The *FASB Accounting Standards Codification*TM provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an organization's financial statements. The Organization adopted the provisions of this standard on July 1, 2009. The implementation of this standard did not have any impact on the financial position or net assets of the Organization.

The primary tax positions made by the Organization are the existence of Unrelated Business Income Tax and the Organization's status as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization currently evaluates all tax positions, and makes a determination regarding the likelihood of those positions being upheld under review. For the years presented, the Organization has not recognized any tax benefits or loss contingencies for uncertain tax positions based on this evaluation. All tax periods prior to FY 2007 are no longer subject to examination by tax authorities.

Reclassifications:

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

NOTE 4 BOARD DESIGNATED ENDOWMENT INVESTMENTS

As of June 30, 2011 and 2010, investment costs and unrealized gains and losses consisted of the following components:

<u>Investment Type</u>	<u>June 30, 2011</u>			
	<u>Cost Basis</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Cash Equivalents	\$270,049	\$ -	\$ -	\$270,049
Exchange Traded Funds	<u>354,537</u>	<u>26,516</u>	<u>(2,371)</u>	<u>378,682</u>
Total	<u>\$624,586</u>	<u>\$26,516</u>	<u>\$(2,371)</u>	<u>\$648,731</u>

<u>Investment Type</u>	<u>June 30, 2010</u>			
	<u>Cost Basis</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Cash Equivalents	\$379,357	\$ -	\$ -	\$379,357
Mutual Funds	<u>250,307</u>	<u>-</u>	<u>(36,378)</u>	<u>213,929</u>
Total	<u>\$629,664</u>	<u>\$ -</u>	<u>\$(36,378)</u>	<u>\$593,286</u>

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 4 (Continued)

<u>Composition of Investment Return</u>	<u>2011</u>	<u>2010</u>
Interest and Dividends	\$ 8,438	\$ 6,464
Realized and Unrealized Gains (Losses)	<u>41,351</u>	<u>17,330</u>
Total	<u>\$49,789</u>	<u>\$23,794</u>

NOTE 5 PROPERTY AND EQUIPMENT

The following is a summary of *Property and Equipment* as of June 30, 2011 and 2010:

<u>Asset Category</u>	<u>Est. Life</u>	<u>2011</u>	<u>2010</u>
Land	-	\$ 83,957	\$ 83,957
Buildings	30	685,779	685,779
Improvements	20	529,726	529,726
Furniture and Equipment	5-10	<u>118,346</u>	<u>115,396</u>
Subtotal		1,417,808	1,414,858
Less: Accumulated Depreciation		<u>(909,180)</u>	<u>(834,227)</u>
Net Property and Equipment		<u>\$ 508,628</u>	<u>\$ 580,631</u>

Depreciation Expense for the years ended June 30, 2011 and 2010 was \$74,953 and \$71,053, respectively.

On February 28, 2010, the Organization sold its Emerson Avenue property to The Open Door/Cape Ann Food Pantry, Inc. for \$500,000. This transaction generated a gain of \$101,053, which is reported in the FY 2010 Statement of Activities as an extraordinary item in Other Changes in Net Assets. After the sale, Wellspring entered into a lease agreement with The Open Door/Cape Ann Food Pantry, Inc. (See Note 10).

NOTE 6 DEBT

Mortgage Note:

Note payable to TD Bank, originally dated November 26, 2003 and amended on February 26, 2011, amortized over a 25-year schedule maturing November 26, 2016; secured by property on Essex Avenue, Washington Street, and Chestnut Street. The original note required monthly payments of \$1,943, including principal and interest at 6.31%. Effective March 26, 2011, the amended note requires monthly payments of \$1,782, including principal and interest at 5.16%.

	<u>2011</u>	<u>2010</u>
	\$244,013	\$251,794

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 6 (Continued)

Assessments Payable:

Assessment for sewer betterment due to the City of Gloucester in the original amount of \$20,057; payable over a 20-year apportionment with annual principal payments of \$1,013 at an annual interest rate of 1.56%. Two principal payments were made during FY 2010.

	<u>14,993</u>	<u>14,993</u>
Total Debt	259,006	266,747
Less: Current Portion	<u>(11,645)</u>	<u>(8,502)</u>
Long-Term Portion	<u>\$247,361</u>	<u>\$258,245</u>

The aggregate portion of these debts maturing in the next fiscal year is \$11,645, which has been classified as a current liability. A schedule of maturities of the long-term portion of these debts is as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2013	\$ 10,614
June 30, 2014	11,115
June 30, 2015	11,643
June 30, 2016	12,197
June 30, 2017	192,877
Thereafter	<u>8,915</u>
Total	<u>\$247,361</u>

Debt Covenants:

The debt covenants associated with the Mortgage Note require certain financial statement ratios. The Organization was not in compliance with the Debt Service Coverage Ratio as of June 30, 2011; however, the Bank has waived this covenant for FY 2011.

Loan Acquisition Costs:

Loan Acquisition Costs of \$10,536, associated with the TD Bank, N.A. refinancing of the bundle mortgage on November 26, 2003, are subject to amortization over the term of the loan. Amortization expense related to these costs amounted to \$1,054 for each of the years presented.

NOTE 7 LINE-OF-CREDIT

On November 26, 2003, Wellspring House, Inc. obtained a \$265,000 line-of-credit with TD Bank, N.A. The principal amount of the line-of-credit was increased to \$300,000 effective February 2011. The line-of-credit bears interest at a floating rate per annum equal to the sum of the Prime Rate plus 1% (4.25% as of June 30, 2011 and 2010) and is subject to annual review. Borrowings under the line-of-credit are due upon demand, and the line is secured by a second mortgage on the Chestnut Street, Essex Avenue, and Washington Street properties, as well as all equipment, appliances, furnishings and fixtures therein. As of June 30, 2011 and 2010, there was no balance due on the line-of-credit.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 8 DESIGNATIONS AND RESTRICTIONS OF NET ASSETS

Board Designated Endowment Fund:

During fiscal year 1998, the Board of Directors established the Wellspring House, Inc. Endowment Fund, an unrestricted, board designated fund. An Endowment Policy was adopted and a Committee was appointed to invest the funds. The Board of Directors determines the use of the funds on an annual basis, based on market conditions and the current needs of the Organization. The Robert Clark Rogers Education Opportunity Fund is a special fund within the Board Designated Endowment Fund, which was established to support Wellspring's education mission to include in-house education programs, research and teaching efforts, as well as educational assistance to program participants.

As of June 30, 2011 and 2010, the aggregate balance for the Board Designated Endowment Fund was \$648,731 (of which amount, \$192,807 represents the Rogers Education Opportunity Fund) and \$593,286 (of which amount, \$169,891 represents the Rogers Education Opportunity Fund), respectively, which is held in exchange traded funds, certificates of deposits and cash equivalents and is reported as *Board Designated Endowment Investments* in the accompanying Statements of Financial Position. During FY 2011, the Board voted to transfer \$50,000 from the *Board Designated Endowment Investments* to operating funds. Composition of and changes in endowment net assets for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Board Designated Endowment Net Assets, Beginning of Year	\$593,286	\$515,572
Investment Return:		
Investment Income	8,324	5,940
Net Appreciation (Depreciation)	41,351	17,331
Contributions and Designations	60,000	10,150
Transfers to (from) Board Designated Endowment Funds	(50,000)	50,000
Amounts Appropriated for Expenditure	(3,861)	(4,588)
Administrative Expenses	<u>(369)</u>	<u>(1,119)</u>
Board Designated Endowment Net Assets, End of Year	<u>\$648,731</u>	<u>\$593,286</u>

Temporarily Restricted Net Assets:

Temporarily restricted net assets include unexpended contributions and grants restricted by the donors for the following purposes as of June 30, 2011 and 2010:

<u>Nature of Restriction</u>	<u>2011</u>	<u>2010</u>
Restricted for Future Use	\$100,000	\$150,000
Housing Stabilization	-	34,681
Shelter Renovations	85,160	895
Affordable Housing	-	3,887
Education Program	25,000	62,467
Medi-Clerk	25,000	37,500
Holiday Store	-	26,552
Wellspring Exchange Program	-	8,000
Total	<u>\$235,160</u>	<u>\$323,982</u>

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 8 (Continued)

Net assets released from temporary donor restrictions by incurring expenses which satisfied the restricted purpose, by the passage of time or by the occurrence of events specified by the donors were as follows for the years presented:

<u>Nature of Restriction</u>	<u>2011</u>	<u>2010</u>
Time Restrictions Elapsed	\$ 50,000	\$ 50,000
Housing Stabilization	43,381	11,538
Shelter Renovations	895	36,005
Affordable Housing	6,887	9,618
Education Program	62,467	16,000
Foundations/Adult Learning Initiative	28,750	30,000
Medi-Clerk	44,538	22,145
Wellspring Cape Ann Families	8,333	64,300
Holiday Store	26,552	1,638
Wellspring Exchange Program	8,000	-
Other	-	700
Total	<u>\$279,803</u>	<u>\$241,944</u>

NOTE 9 GOVERNMENT CONTRACTS

Commonwealth of Massachusetts - Department of Housing and Community Development (DHCD):

Wellspring House, Inc. is a party to purchase of service contracts with the Massachusetts Department of Housing and Community Development to provide emergency shelter and related services to homeless families referred by the DHCD. The primary contract is administered on a unit rate basis; accordingly, the funding source is billed as services are provided, and unrestricted program service fees, along with the related receivable are recorded in the period during which the costs were incurred and services were delivered. Total billings under the primary DHCD shelter contract amounted to \$260,225 and \$283,450 for the years ended June 30, 2011 and 2010, respectively.

In FY 2011, Wellspring received a second component to its shelter contract to fund a full-time stabilization case manager position. Funds received under this cost reimbursement contract amounted to \$52,000 for the year ended June 30, 2011.

During FY 2011 and 2010, Wellspring House was also a party to two additional agreements through DHCD to provide housing placements and direct assistance in the form of rental subsidies and outcome payments. For the years ended June 30, 2011 and 2010, WSH received funding of \$98,606 and \$114,531, respectively, for direct client assistance and housing placements. Advance payments from the Commonwealth for FY 2012 rental subsidies are reported as *Deferred Revenue* in the accompanying Statements of Financial Position.

Total revenues arising from the above contracts amounted to \$410,831 and \$397,981, respectively, representing 31% and 28% of total support and revenues for the years ended June 30, 2011 and 2010.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 9 *(Continued)*

The Organization was owed \$41,624 and \$56,833 on these contracts as of June 30, 2011 and 2010, respectively, which is reflected as *Contracts Receivable, Commonwealth of Massachusetts* on the accompanying Statements of Financial Position.

NOTE 10 OPERATING LEASE AGREEMENTS

Facilities:

Wellspring entered into a three-year lease, commencing March 1, 2010 and terminating February 28, 2013 for approximately 1,537 square feet of program space in Gloucester, Massachusetts. The base annual rent was \$12,286, excluding utilities. The lease required monthly payments and was subject to an annual increase based on the CPIU. Wellspring exercised an option to vacate, with appropriate notice given to the landlord, and terminated the lease effective December 2010. The space was no longer needed by Wellspring as the program housed at this location was assumed by another organization as discussed in Note 2.

Equipment:

The Organization leases copier equipment pursuant to two rental agreements which are properly classified as operating leases; accordingly, the combined monthly installments of \$308 are recorded as Equipment Rental and Repair expense in the accompanying Statement of Functional Expenses.

As of June 30, 2011, the future minimum lease obligation arising from the above commitments are as follows:

<u>Fiscal Year Ending</u>	<u>Total Lease Obligation</u>
June 30, 2012	\$3,694
June 30, 2013	3,694
June 30, 2014	<u>1,184</u>
Total Lease Obligation	<u>\$8,572</u>

The total rent paid for program space and copier equipment was \$8,961 and \$4,095 for the years ended June 30, 2011 and 2010, respectively.

NOTE 11 FUND RAISING ACTIVITIES

The Organization sponsors various special events to generate contributions as well as to gain public awareness for its programs and charitable purpose. Contributions from fund raising events are reported on the Statement of Activities net of the direct costs of the events, while indirect costs and the costs associated with direct mail campaigns and annual appeal letters are reported as fund raising expenses in the Statement of Functional Expenses.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 11 (Continued)

The results of fund raising events are summarized below:

<u>Event</u>	<u>Gross</u>	<u>Direct</u>	<u>Net Event Revenues</u>	
	<u>Proceeds</u>	<u>Costs</u>	<u>2011</u>	<u>2010</u>
Holiday Store	\$ 11,486	\$ 633	\$ 10,853	\$ 11,216
Women Honoring Women Luncheon	113,016	15,005	98,011	59,153
Giggles Comedy Night	23,285	4,175*	19,110	-
Dine Around	-	-	-	36,569
Other	<u>5,125</u>	<u>1,196</u>	<u>3,929</u>	<u>12,548</u>
Total	<u>\$152,912</u>	<u>\$21,009</u>	<u>\$131,903</u>	<u>\$119,486</u>

* All Giggles Comedy Night performances were pro-bono and not quantified for financial statement purposes.

NOTE 12 IN-KIND GOODS AND SERVICES

For the years ended June 30, 2011 and 2010, the Organization recognized the following in-kind contributions in its financial statements:

<u>Description</u>	<u>2011</u>	<u>2010</u>
Client Assistance:		
Volunteer Services	\$65,910	\$ 92,853
Printing	6,144	3,689
Books	13,049	
Professional Services	-	9,000
Total	<u>\$85,103</u>	<u>\$105,542</u>

Wellspring received additional donations of goods and services that while significant, did not meet the recognition criteria, and therefore, were not recognized as contributions in the accompanying financial statements.

NOTE 13 EMPLOYEE BENEFIT PLANS

Wellspring House, Inc. offers a SIMPLE IRA retirement plan, to which it is required to match a portion of the employees' elective deferral. For the years ended June 30, 2011 and 2010, the Organization's contributions to the plan were \$13,186 and \$5,593, respectively.

NOTE 14 REAL ESTATE TAXES

During the years presented, the Organization paid 100% of its real estate taxes to the City of Gloucester. Wellspring has chosen this policy because, as part of the Gloucester community, it wants to contribute its share to the cost of city services. The amount of taxes paid for the years ended June 30, 2011 and 2010 was \$20,910 and \$21,023, respectively. All tax payments were current as of June 30, 2011 and 2010.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

NOTE 15 CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Organization to a concentration of credit risk consist of cash, investments and receivables. The Organization maintains its cash balances in various financial institutions. At times during the year, the Organization's cash balance may exceed federally insured limits; however, the Organization's cash balance held at high credit quality financial institutions and management considers credit risk on cash balance to be low.

The Organization maintains an investment portfolio which includes cash equivalents and marketable securities in the form of professionally managed exchange traded funds. The Organization's investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances.

Credit risk with respect to receivables is limited to the credit worthiness of the government entities, individuals and organizations from whom the amounts are due. The Organization has not experienced any losses on such accounts and credit risk is considered low.

NOTE 16 SURPLUS REVENUE RETENTION

The Commonwealth of Massachusetts Division of Purchased Services' regulation, 808 CMR 1.19(3), *Not-for-Profit Surplus Revenue Retention*, allows social service providers to retain a surplus up to five percent of total revenues attributable to or generated by Commonwealth agreements for the provision of social services to clients of the Commonwealth and to use such surplus revenue for charitable purposes of the organization. The cumulative amount of surplus which can be retained may not in total exceed 20% of the provider's prior year's gross revenue from purchasing agencies.

The Division of Purchased Services is responsible for the determination of a provider's surplus as it pertains to the Surplus Revenue Retention Policy, and in addition, the Division shall be responsible for determining the amount of surplus that may be retained by Wellspring House, Inc. in any given year and may determine whether any excess surplus shall be used to reduce future prices or be recouped. The Organization, following the guidelines established by the Commonwealth, has calculated its Revenue Retention Surplus (deficit) as \$(142,667) for the year ended June 30, 2011, with a cumulative surplus (deficit) of \$(2,269,757) which includes fiscal years 1993 through 2011.

NOTE 17 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through October 4, 2011, the date which the financial statements were available for issue.