

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

Board of Directors
Wellspring House, Inc.

We have audited the statement of financial position of Wellspring House, Inc. as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Wellspring House, Inc. as of June 30, 2011, were audited by other auditors whose report dated October 4, 2011, expressed an unqualified opinion on those 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, 2012, 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 September 13, 2012, on our consideration of Wellspring House, Inc.'s internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Bernard Johnson & Co., P.C.

Topsfield, Massachusetts
September 13, 2012

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	\$ 238,932	\$ 266,425
Accounts receivable:		
Grants and pledges	77,750	75,000
Program service receivables	70,139	58,255
Prepaid expenses	15,651	16,266
Total current assets	402,472	415,946
PROPERTY AND EQUIPMENT - At cost		
Less accumulated depreciation	1,478,438	1,417,808
Net property and equipment	968,005	909,180
Net property and equipment	510,433	508,628
OTHER ASSETS:		
Board designated endowment investments	707,065	648,731
Grants and pledges receivable - net of current portion	-	50,000
Loan acquisition costs, net of amortization	1,489	2,543
Total other assets	708,554	701,274
TOTAL ASSETS	<u>\$ 1,621,459</u>	<u>\$ 1,625,848</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 10,485	\$ 11,645
Accounts payable and accrued expenses	38,603	47,272
Accrued payroll and benefits	51,202	46,092
Deferred revenue	8,823	51,971
Total current liabilities	109,113	156,980
LONG-TERM LIABILITIES -		
Long-term debt less current maturities	238,711	247,361
Total liabilities	347,824	404,341
NET ASSETS:		
Unrestricted:		
Undesignated	438,160	337,616
Board designated - endowment	707,065	648,731
Total unrestricted net assets	1,145,225	986,347
Temporarily restricted	128,410	235,160
TOTAL NET ASSETS	<u>1,273,635</u>	<u>1,221,507</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,621,459</u>	<u>\$ 1,625,848</u>

The accompanying notes are an integral part of these financial statements.

WELLSPRING HOUSE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
with comparative totals for the year ended 2011

	UNRESTRICTED OPERATIONS	DESIGNATED	TOTAL UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2012	TOTAL 2011
REVENUES, GAINS AND OTHER SUPPORT:						
Contributions and grants	\$ 276,439	\$ 63,205	\$ 339,644	\$ 241,794	\$ 581,438	\$ 533,678
Fundraising events, net	156,547	-	156,547	-	156,547	131,903
In-kind goods and services	125,423	-	125,423	-	125,423	85,103
Contracted services	464,955	-	464,955	-	464,955	470,579
Rental income	75,600	-	75,600	-	75,600	62,586
Investment income	228	3,273	3,501	-	3,501	49,789
Other income	-	-	-	-	-	109
Net assets released from board designations	2,431	(2,431)	-	-	-	-
Net assets released from restrictions	348,544	-	348,544	(348,544)	-	-
Total revenues, gains and other support	1,450,167	64,047	1,514,214	(106,750)	1,407,464	1,333,747
FUNCTIONAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION:						
Program services:						
Family shelter	453,854	-	453,854	-	453,854	480,019
Affordable housing	60,351	-	60,351	-	60,351	108,819
Education	335,772	5,569	341,341	-	341,341	366,785
Family support programs	-	-	-	-	-	56,314
Total program services	849,977	5,569	855,546	-	855,546	1,011,937
Supporting services:						
General and administrative	191,021	144	191,165	-	191,165	208,792
Fundraising	248,746	-	248,746	-	248,746	197,672
Total supporting services	439,767	144	439,911	-	439,911	406,464
Total functional expenses before depreciation and amortization	1,289,744	5,713	1,295,457	-	1,295,457	1,418,401
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION	160,423	58,334	218,757	(106,750)	112,007	(84,654)
Depreciation and amortization expense	59,879	-	59,879	-	59,879	76,007
TOTAL CHANGE IN NET ASSETS	100,544	58,334	158,878	(106,750)	52,128	(160,661)
NET ASSETS AT BEGINNING OF YEAR	337,616	648,731	986,347	235,160	1,221,507	1,382,168
NET ASSETS AT END OF YEAR	\$ 438,160	\$ 707,065	\$ 1,145,225	\$ 128,410	\$ 1,273,635	\$ 1,221,507

The accompanying notes are an integral part of these financial statements.

WELLSPRING HOUSE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

with comparative totals for the year ended June 30 2011

	Family Shelter	Affordable Housing	Education	Total Program Services	General and Administrative	Fundraising	Total 2012	Total 2011
Personnel:								
Salaries	\$ 258,659	\$ 17,191	\$ 163,031	\$ 438,881	\$ 99,792	\$ 138,585	\$ 677,258	\$ 736,810
Payroll taxes	33,869	2,251	21,348	57,468	13,067	18,147	88,682	88,593
Fringe benefits	16,909	1,231	14,990	33,130	4,798	7,062	44,990	69,311
Total personnel expenses	309,437	20,673	199,369	529,479	117,657	163,794	810,930	894,714
Advertising	525	-	125	650	-	-	650	909
Bank charges	-	-	-	-	2,834	946	3,780	3,827
Child care	150	-	-	150	-	-	150	302
Contractual services	3,040	124	9,927	13,091	27,375	6,135	46,601	41,203
In-kind expenses	19,737	-	71,004	90,741	-	34,682	125,423	85,103
Equipment	10,776	1,574	2,477	14,827	991	991	16,809	6,377
Food	4,605	100	83	4,788	26	97	4,911	3,883
Household supplies	1,831	-	908	2,739	360	360	3,459	2,114
Insurance	6,017	5,594	9,661	21,272	6,090	3,864	31,226	21,660
Interest expense	3,234	3,147	3,581	9,962	1,432	1,432	12,826	15,883
Meeting expense	-	-	18	18	-	1,000	1,018	437
Miscellaneous	590	250	275	1,115	2,099	116	3,330	4,071
Network expense	7,103	517	6,004	13,624	2,015	2,969	18,608	14,898
Office expense	4,350	97	8,917	13,364	2,456	2,190	18,010	9,192
Participant expenses	277	-	70	347	-	-	347	1,641
Postage	296	-	1,264	1,560	526	5,782	7,868	11,452
Printing	-	-	-	-	-	11,142	11,142	11,484
Professional fees	-	-	-	-	15,000	-	15,000	26,000
Program supplies	3,117	-	446	3,563	-	-	3,563	4,846
Real estate taxes	1,307	6,535	-	7,842	-	-	13,071	20,911
Rent	-	-	-	-	2,615	2,614	-	6,147
Repairs and maintenance	8,408	8,357	7,315	24,080	2,925	2,926	29,931	37,884
Scholarship/client assistance	52,570	-	5,569	58,139	-	-	58,139	136,813
Staff training	84	-	60	144	60	-	204	533
Subscriptions/program material	1,536	-	332	1,868	973	1,533	4,374	4,139
Telephone and internet	1,436	489	4,605	6,530	1,908	2,023	10,461	12,185
Travel	4,125	-	-	4,125	91	418	4,634	4,664
Utilities	9,303	12,894	9,331	31,528	3,732	3,732	38,992	35,129
Total expenses before depreciation	453,854	60,351	341,341	855,546	191,165	248,746	1,295,457	1,418,401
Depreciation and amortization	20,957	29,940	4,192	55,089	2,395	2,395	59,879	76,007
Total expenses	\$ 474,811	\$ 90,291	\$ 345,533	\$ 910,635	\$ 193,560	\$ 251,141	\$ 1,355,336	\$ 1,494,408

The accompanying notes are an integral part of these financial statements.

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 52,128	\$ (160,661)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	59,879	76,007
Realized and unrealized gain on investments	(3,501)	(49,789)
Cash provided by (used in) changes in:		
Accounts receivable	35,366	105,048
Prepaid expenses	615	(2,341)
Accounts payable and accrued expenses	(8,669)	(20,264)
Accrued payroll and benefits	5,110	(1,903)
Deferred revenue	(43,148)	51,971
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	97,780	(1,932)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(60,630)	(2,950)
Net transfers to (from) board designated endowment	(60,774)	(10,000)
Proceeds from sale of investments	43,196	326,846
Purchases of investments	(43,196)	(326,647)
Investment income	228	114
NET CASH USED IN INVESTING ACTIVITIES	(121,176)	(12,637)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(9,810)	(7,740)
Expenses paid from board designated endowment investments	5,713	4,030
NET CASH USED IN FINANCING ACTIVITIES	(4,097)	(3,710)
NET DECREASE IN CASH	(27,493)	(18,279)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	266,425	284,704
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 238,932	\$ 266,425
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the years for -		
Interest	\$ 12,826	\$ 15,884

The accompanying notes are an integral part of these financial statements.

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES:

Business Activity

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.

Method 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 incurred.

The Organization reports information regarding its financial position and activities according to the following three classes of net assets:

1. Unrestricted Net Assets - use of resources is not limited or restricted by donors. In addition, unrestricted net assets of the Organization include funds which represent unrestricted resources designated by the board of directors for the Wellspring House, Inc. Endowment Fund as further described in Note 6.
2. Temporarily Restricted Net Assets - use of resources is limited by donors for a specific purpose and/or time period.
3. Permanently Restricted Net Assets - resources must be maintained in accordance with permanent restrictions imposed by donors.

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Method of Accounting (Continued)

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 restrictions expire, 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.

Statements of Functional Expenses

Following are the major classes of programs reported in the financial statements:

Wellspring Family Shelter:

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. The Organization has sheltered more than 712 homeless families since it first opened. In fiscal year 2012, Wellspring provided emergency shelter for 20 families that included 21 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 fiscal year 2012 48 families on Cape Ann and Beverly participated in these stabilization services.

Concern for families is at the heart of Wellspring's work. To help families avoid the trauma of homelessness Wellspring provides homeless prevention and advocacy services. Our Homeless Prevention Fund received 283 documented calls last year from Cape Ann residents seeking counseling and financial assistance. Wellspring helped to provide one-time funding to 15 families for a total of \$7,823 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.

Affordable Housing:

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 11 Chestnut Street, 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 connect with community resources. In response to the homelessness crisis, Wellspring made an apartment available to temporarily house two homeless families on an emergency basis until permanent housing was obtained.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Statements of Functional Expenses (Continued)

Wellspring's annual, volunteer driven "Holiday Store" ensured that 505 children from 226 families 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. Our Holiday Meal program provided 223 meals. Donors ensured that 25 children had back-to-school backpacks and supplies.

Community Education:

As part of its fundamental commitment to facilitate solutions to homelessness and poverty, Wellspring's work includes providing 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.

Wellspring offers a continuum of education; including, ESOL (English for Speakers of Other Languages), the Adult Learning Initiative (ALI), an adult basic education program that helps students with their goals of obtaining a GED, job, and/or entrance to college and offers 3 college credits for computer classes in partnership with North Shore Community College, and MediClerk, a job training program offered in collaboration with North Shore Medical Center which prepares students for medical administrative assistant jobs.

Wellspring provided six grants from the Robert Clark Rogers Educational Opportunity Fund for college-bound graduates of Wellspring's programs totaling \$5,425. Wellspring is also a community partner with the One Family Scholar's program providing support and endorsement to five scholars in fiscal year 2012.

In December of 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% of Gloucester residents do not speak English at home according to the 2000 Census data. In fiscal year 2012, 71 students participated in the program.

In fiscal year 2012, the Community Education program of the Organization served over 160 low income women and men.

The Organization allocates expenses on a functional basis among its programs and supporting services. Supporting services are those related to operating and managing the Organization and its programs on a day-to-day basis and are designated as general and administrative.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Statements of Functional Expenses (Continued)

Expenses that can be identified with a specific program or supporting service are allocated directly to those programs. Expenses common to several functions are allocated in accordance with the Organization's indirect costs allocation plan. Supporting services are those costs 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.

Fundraising - 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. Fundraising expenses also include the indirect costs of special fundraising events, while direct costs are netted against event proceeds. For the years ended June 30, 2012 and 2011 total fundraising expenses were \$299,484 and \$222,733, respectively.

Allocation of functional expenses is based on management's discretion, time studies and estimates. These variables may change from year to year. As a result, there may be a fluctuation in the comparative presentation of data from year to year.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Management's Review

In preparing these financial statements, the Organization's management has evaluated events and transactions for potential recognition or disclosure through September 13, 2012, the date the financial statements were available to be issued.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less to be cash or cash equivalents.

Investments

The Organization has adopted Statement of Financial Accounting Standard ASC 820, *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. Under ASC 820, fair value refers to the price that would be received to sell an asset or to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under ASC 820, fair value measurements are separately disclosed by level within the fair value hierarchy.

Investments measured at fair value are classified and disclosed in one of the following categories:

Level I: Quoted prices are available in active markets for identical investments as of the reporting date.

Level II: Pricing inputs are other than quoted prices in active markets of comparable investments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment.

All investments include listed equity or debt instruments which are publicly traded, and whose fair value is therefore classified and disclosed as Level I. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment income, primarily interest and dividends, is recorded when earned and considered available for unrestricted use unless otherwise restricted by the donor. Realized and unrealized gains and losses are determined on the basis of specific identification and recognized on a trade-date basis.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

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. 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 as an expense when that determination is made. For the years ended June 30, 2012 and 2011, there were no pledges that were considered uncollectible and no bad debts arising from grant commitments.

Program Service Receivables

Program service receivables represent amounts which are due from state and municipal agencies. These amounts are considered fully collectible, accordingly, these financial statements do not contain a provision for uncollectible contracts receivable. If amounts owed become uncollectible, they will be charged as an expense when that determination is made.

Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance are charged to expense as incurred and improvements are capitalized. Acquisitions of property and equipment in excess of \$1,000 are capitalized. Upon retirement or sale, the asset cost and related accumulated depreciation are removed from the accounts and any gain or loss is credited to or charged against income.

Depreciation is computed over the assets' estimated useful lives using the straight-line method. Amortization of leasehold improvements is based on the estimated useful lives of the assets or on the remaining terms of leases plus options, whichever is greater.

Impairment of Long-Lived Assets

The Organization has given consideration to the Financial Accounting Standards Board ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in its presentation of these financial statements. As of June 30, 2012, the Organization has not recognized any reduction in the carrying value of its property when considering FASB ASC 360.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

1. BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued):

Unamortized Expenses

Intangible assets represent costs incurred in connection with the origination of the mortgage note and are deferred and amortized over the life of the loan. Amortization expense related to these costs amounted to \$1,054 for the years ended June 30, 2012 and 2011.

In-Kind Goods and Services

As required by the *FASB Accounting Standards Codification*TM, Wellspring House, Inc. 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 statements of activities and are listed as expenses on the statements of functional expenses, or as direct costs of fundraising 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.

2. BOARD DESIGNATED ENDOWMENT INVESTMENTS:

Fair value measurement was determined using Level I inputs. As of June 30, 2012 and 2011 investments costs and unrealized gains and losses consisted of the following:

	June 30, 2012		June 30, 2011	
	Cost	Market Value	Cost	Market Value
Cash equivalents	\$ 290,575	\$ 290,575	\$ 270,049	\$ 270,049
Exchange traded funds	397,705	416,490	354,537	378,682
	<u>\$ 688,280</u>	<u>\$ 707,065</u>	<u>\$ 624,586</u>	<u>\$ 648,731</u>

The portfolio is diversified by type of investment and industry concentration so that no individual investment or group of investments represent a significant concentration of market risk.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

3. PROPERTY AND EQUIPMENT:

At June 30, 2012 and 2011, property and equipment was comprised as follows:

	2012	2011
Land	\$ 83,957	\$ 83,957
Buildings	685,779	685,779
Improvements	589,225	529,726
Furniture and equipment	119,477	118,346
	<u>1,478,438</u>	<u>1,417,808</u>
Less accumulated depreciation	968,005	909,180
	<u>\$ 510,433</u>	<u>\$ 508,628</u>

Depreciation of property and equipment provided in expenses was \$58,825 and \$74,953 for the years ended June 30, 2012 and 2011, respectively.

4. INCOME TAXES:

Wellspring House, Inc. is a not-for-profit organization qualifying under IRS Section 501(c)(3) and is exempt from federal and state income taxes. However, should the Organization have unrelated business income it would be taxable.

The Organization adopted the ASC 740, *Accounting for the Uncertainty in Income Taxes* standard which requires the Organization to report uncertain tax positions, related interest and penalties. As of June 30, 2012, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2012 and 2011, no provision for income taxes has been made. The Organization is subject to audit by tax authorities. The Organization believes that it has appropriate support for the positions taken on its tax returns.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

5. LONG-TERM DEBT:

At June 30, 2012 and 2011 long-term debt was comprised as follows:

	<u>2012</u>	<u>2011</u>
Real estate mortgage payable - bank, secured by real estate at Essex Avenue, Washington Street and Chestnut Street, Gloucester, Massachusetts, monthly payments of \$1,782, including interest at 5.16%, matures November, 2016	\$ 235,216	\$ 244,014
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	<u>13,980</u>	<u>14,992</u>
	249,196	259,006
Less - current portion of long-term debt	<u>(10,485)</u>	<u>(11,645)</u>
	<u>\$ 238,711</u>	<u>\$ 247,361</u>

Principal payments on the Organization's obligations with terms in excess of one year mature as follows:

June 2013	\$ 10,485
2014	10,986
2015	11,512
2016	12,067
2017	195,231
Thereafter	8,915

The Organization's mortgage loan agreement with its lender provides for restrictive covenants relating to compliance with certain administrative and financial matters.

The Organization also has a secured line of credit agreement with a bank with a maximum availability of \$300,000. Loans are collateralized by a second mortgage on the Chestnut Street, Essex Avenue and Washington Street properties, as well as all equipment, appliances, furnishings and fixtures therein. The agreement provides that any borrowings are due on demand and bear interest at the prevailing prime lending rate plus 1.0% (4.25% as of June 30, 2012 and 2011). There were no loans outstanding at June 30, 2012 and 2011.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

6. 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, 2012 and 2011, the aggregate balance for the board designated Endowment Fund was \$707,065 (of which \$199,354 represents the Rogers Education Opportunity Fund) and \$648,731 (of which \$192,807 represents the Rogers Education Opportunity Fund), respectively, which is held in exchange traded funds, certificates of deposit and cash equivalents and is reported as board designated endowment investments in the accompanying statements of financial position. During fiscal year 2011, the board voted to transfer \$50,000 from the board designated Endowment Fund to the operating funds. Composition of and changes in endowment net assets for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Board designated Endowment Fund, beginning of year	\$648,731	\$593,286
Investment return:		
Investment income	8,601	8,324
Net appreciation (depreciation)	(5,328)	41,351
Contributions and designations	63,205	60,000
Transfers to (from) board designated Endowment Fund	(2,431)	(50,000)
Amounts appropriated for expenditure	(5,569)	(3,861)
Administrative expenses	(144)	(369)
Board designated Endowment Fund, end of year	<u>\$707,065</u>	<u>\$648,731</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

6. DESIGNATIONS AND RESTRICTIONS OF NET ASSETS (Continued):

Temporarily Restricted Net Assets:

Temporarily restricted net assets include unexpended contributions and grants restricted by donors for the following purposes as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Restricted for future use	\$ 77,750	\$100,000
Shelter renovations	25,660	85,160
Education program	12,500	25,000
Medi-Clerk	12,500	25,000
Total	<u>\$128,410</u>	<u>\$235,160</u>

Net assets released from temporary donor restrictions were as follows for the years presented:

	<u>2012</u>	<u>2011</u>
Education program	\$105,050	\$ 62,467
Foundations/adult learning initiative	86,117	28,750
Shelter renovations	59,500	895
Time restrictions elapsed	50,000	50,000
Medi-clerk	26,900	44,538
Housing stabilization	16,072	43,381
Other	4,905	-
Affordable housing	-	6,887
Wellspring Cape Ann families	-	8,333
Holiday store	-	26,552
Wellspring exchange program	-	8,000
Total	<u>\$348,544</u>	<u>\$279,803</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

7. GOVERNMENT CONTRACTS:

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 and accordingly, the funding source is billed as services are provided. Unrestricted program service fees, and 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 \$260,975 and \$260,225 for the years ended June 30, 2012 and 2011, respectively.

During the years ended June 30, 2012 and 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 years ended June 30, 2012 and 2011.

During the year ended June 30, 2011 Wellspring House, Inc. was also a party to two additional contracts with DHCD to provide housing placements and direct assistance in the form of rental subsidies. The total amount received was \$150,577 of which \$98,605 was expended in 2011 and the balance deferred until 2012 and 2013.

Total revenues arising from the above contracts amounted to \$312,975 and \$410,831, representing 24% and 31% of total support and revenues for the years ended June 30, 2012 and 2011, respectively.

8. OPERATING LEASE AGREEMENTS:

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

9. FUNDRAISING 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 fundraising 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 fundraising expenses in the statements of functional expenses.

The results of fundraising events are summarized below:

	Gross Proceeds	Direct Costs	Net Event Revenues	
			2012	2011
Women Honoring Women Luncheon	\$ 109,161	\$ 17,259	\$ 91,902	\$ 98,011
Concert	68,225	23,755	44,470	-
Giggles Comedy Night	11,480	-	11,480	19,110
Holiday Store	12,649	4,541	8,108	10,853
Other	3,375	2,788	587	3,929
Total	<u>\$ 204,890</u>	<u>\$ 48,343</u>	<u>\$ 156,547</u>	<u>\$ 131,903</u>

10. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2012 and 2011, the Organization recognized the following in-kind contributions in its financial statements:

	2012	2011
Client Assistance:		
Volunteer services	\$ 83,792	\$65,910
Special event costs	26,013	-
Printing	3,701	6,144
Books and program supplies	11,917	13,049
Total	<u>\$125,423</u>	<u>\$85,103</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.

11. 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, 2012 and 2011, the Organization's contributions to the plan were \$697 and \$13,186, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

12. 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 Organizations cash balance may exceed federally insured limits; however, the Organization's cash balances are held at high credit quality financial institutions and management considers credit risk on cash balances 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.

13. SURPLUS REVENUE RETENTION:

In accordance with Massachusetts regulation 808 CMR 1.19(3), if a non-profit provider realizes an annual net surplus from the revenues and expenses associated with services provided to purchasing agencies which are subject to 808 CMR 1.00, the provider may retain, for future use, a portion of that surplus not to exceed 5% of said revenues. The cumulative amount of a provider's surplus account may not exceed 20% of the prior years' revenues from purchasing agencies. Surpluses may be used by the provider for any of its established charitable purposes, provided that no portion of the surplus is used for any non-reimbursable cost set forth in 808 CMR 1.15.

As required by the Commonwealth of Massachusetts Department of Procurement and General Services, summarized below is the accumulated surplus (deficit) revenue retention fund pool as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (2,269,757)	\$ (2,127,090)
Current year increase in accumulated surplus revenue retention fund pool	<u>(175,493)</u>	<u>(142,667)</u>
Ending accumulated surplus retention fund pool	<u>\$ (2,445,250)</u>	<u>\$ (2,269,757)</u>



Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Wellspring House, Inc.

We have audited the financial statements of Wellspring House, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated September 13, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wellspring House, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wellspring House, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wellspring House, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Wellspring House, Inc. in a separate letter dated September 13, 2012.

This report is intended solely for the information and use of the board of directors, management and the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

Bernard, Johnson & Co., P.C.

Topsfield, Massachusetts
September 13, 2012