

**WELLSPRING HOUSE, INC.**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Wellspring House, Inc.

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Wellspring House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## ***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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Wellspring House, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wellspring House, Inc.'s internal control over financial reporting and compliance.

## ***Report on Summarized Comparative Information***

We have previously audited Wellspring House, Inc.'s 2016 financial statements, and our report dated August 23, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "BJHC PC". The letters are bold and stylized, with some overlapping.

Topsfield, Massachusetts  
September 21, 2017

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$ 703,896	\$ 739,769
Program services receivable	84,074	114,189
Grants and pledges receivable	135,039	110,500
Cash and cash equivalents restricted for capital improvements	608	26,341
Cash and cash equivalents - board designated endowment	61,409	163,768
Investments - board designated endowment	1,080,404	853,915
Prepaid expenses	20,116	17,607
Total current assets	<u>2,085,546</u>	<u>2,026,089</u>
PROPERTY AND EQUIPMENT - At cost	1,955,102	1,808,770
Less accumulated depreciation	<u>1,171,105</u>	<u>1,106,019</u>
Net property and equipment	<u>783,997</u>	<u>702,751</u>
OTHER ASSETS -		
Grants and pledges receivable, net of current portion	<u>33,333</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,902,876</u>	<u>\$ 2,728,840</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 13,620	\$ 13,102
Accounts payable and accrued expenses	104,581	93,421
Accrued payroll and benefits	54,021	83,576
Deferred revenue	-	22,740
Total current liabilities	172,222	212,839
LONG-TERM LIABILITIES -		
Long-term debt less current maturities	<u>176,782</u>	<u>190,265</u>
Total liabilities	<u>349,004</u>	<u>403,104</u>
NET ASSETS:		
Unrestricted:		
Undesignated	1,235,158	1,153,361
Board designated - endowment	<u>1,141,813</u>	<u>1,017,683</u>
Total unrestricted net assets	2,376,971	2,171,044
Temporarily restricted	<u>176,901</u>	<u>154,692</u>
TOTAL NET ASSETS	<u>2,553,872</u>	<u>2,325,736</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,902,876</u>	<u>\$ 2,728,840</u>

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017  
(with comparative totals for the year ended 2016)

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2017	TOTAL 2016
<b>OPERATING REVENUES AND OTHER SUPPORT:</b>				
Contributions and grants	\$ 499,183	\$ 531,882	\$ 1,031,065	\$ 914,023
Fundraising events, net	131,467	-	131,467	138,410
In-kind goods and services	114,199	-	114,199	123,023
Contracted services	1,010,837	-	1,010,837	878,881
Rental income	138,108	-	138,108	131,783
Net assets released from restrictions	483,940	(483,940)	-	-
Total operating revenues, gains and other support	<u>2,377,734</u>	<u>47,942</u>	<u>2,425,676</u>	<u>2,186,120</u>
<b>OPERATING EXPENSES:</b>				
Program services:				
Family shelter	1,087,437	-	1,087,437	856,205
Affordable housing	120,584	-	120,584	120,465
Mediclerk	161,908	-	161,908	157,563
Community education	420,469	-	420,469	437,154
Total program services	<u>1,790,398</u>	<u>-</u>	<u>1,790,398</u>	<u>1,571,387</u>
Supporting services:				
General and administrative	224,162	-	224,162	188,221
Fundraising	253,539	-	253,539	245,641
Total supporting services	<u>477,701</u>	<u>-</u>	<u>477,701</u>	<u>433,862</u>
Depreciation and amortization expense	65,086	-	65,086	72,144
Total operating expenses	<u>2,333,185</u>	<u>-</u>	<u>2,333,185</u>	<u>2,077,393</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>44,549</u>	<u>47,942</u>	<u>92,491</u>	<u>108,727</u>
<b>NON-OPERATING ACTIVITIES:</b>				
Realized and unrealized gain (loss) on investments	113,772	-	113,772	(34,072)
Interest and dividend income	18,813	-	18,813	28,324
Contributions and grants, non-operating	-	3,060	3,060	3,900
Net assets released from restrictions, non-operating	28,793	(28,793)	-	-
Total nonoperating activities	<u>161,378</u>	<u>(25,733)</u>	<u>135,645</u>	<u>(1,848)</u>
TOTAL CHANGE IN NET ASSETS	<u>205,927</u>	<u>22,209</u>	<u>228,136</u>	<u>106,879</u>
NET ASSETS AT BEGINNING OF YEAR	<u>2,171,044</u>	<u>154,692</u>	<u>2,325,736</u>	<u>2,218,857</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,376,971</u>	<u>\$ 176,901</u>	<u>\$ 2,553,872</u>	<u>\$ 2,325,736</u>

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017  
*(with comparative totals for the year ended June 30 2016)*

	Family Shelter	Affordable Housing	Mediclerk	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2017	Total 2016
Personnel:									
Salaries	\$ 472,501	\$ 32,393	\$ 114,656	\$ 224,623	\$ 844,173	\$ 128,207	\$ 149,313	\$ 1,121,693	\$ 1,139,283
Payroll taxes	43,998	3,067	10,712	21,330	79,107	11,475	13,755	104,337	104,842
Fringe benefits	56,337	415	1,322	21,415	79,489	25,845	15,505	120,839	103,111
<b>Total personnel expenses</b>	<b>572,836</b>	<b>35,875</b>	<b>126,690</b>	<b>267,368</b>	<b>1,002,769</b>	<b>165,527</b>	<b>178,573</b>	<b>1,346,869</b>	<b>1,347,236</b>
In-kind expenses	13,123	614	2,740	69,427	85,904	-	28,295	114,199	122,326
Contractual services	309,071	-	3,242	1,837	314,150	8,899	1,220	324,269	211,791
Repairs and maintenance	4,983	37,184	-	19,737	61,904	4,548	4,549	71,001	49,961
Professional fees	1,721	1,359	7,543	1,484	12,107	22,388	424	34,919	27,417
Utilities	1,331	20,016	-	4,044	25,391	1,331	1,329	28,051	26,420
Insurance	6,948	6,948	-	6,948	20,844	5,053	3,335	29,232	29,955
Network expense	6,022	3,660	3,649	7,456	20,787	4,541	4,474	29,802	28,444
Scholarship/client assistance	134,821	-	-	7,065	141,886	-	-	141,886	17,714
Printing	-	-	33	668	701	204	15,856	16,761	13,837
Travel	6,918	29	205	3,481	10,633	15	-	10,648	21,764
Equipment	2,948	2,749	1,888	2,176	9,761	1,202	502	11,465	15,948
Real estate taxes	1,300	1,300	-	5,632	8,232	1,300	1,300	10,832	10,273
Program supplies	902	867	13,224	12,049	27,042	-	-	27,042	12,530
Telephone and internet	4,118	3,734	-	2,502	10,354	1,259	2,033	13,646	14,439
Interest expense	547	4,150	-	2,372	7,069	946	547	8,562	8,691
Postage	639	91	392	941	2,063	670	2,350	5,083	6,721
Office expense	1,819	88	1,239	966	4,112	2,071	831	7,014	8,459
Food	9,891	67	213	117	10,288	102	356	10,746	9,222
Subscriptions/program material	1,738	-	425	617	2,780	2,154	1,684	6,618	6,961
Household supplies	3,072	1,853	-	2,118	7,043	480	480	8,003	6,569
Advertising	374	-	295	930	1,599	906	769	3,274	2,304
Bank charges	80	-	-	-	80	300	2,255	2,635	2,239
Miscellaneous	275	-	130	-	405	266	2,377	3,048	1,983
Staff training	1,875	-	-	534	2,409	-	-	2,409	1,379
Participant expenses	85	-	-	-	85	-	-	85	666
<b>Total expenses before depreciation</b>	<b>1,087,437</b>	<b>120,584</b>	<b>161,908</b>	<b>420,469</b>	<b>1,790,398</b>	<b>224,162</b>	<b>253,539</b>	<b>2,268,099</b>	<b>2,005,249</b>
Depreciation and amortization	16,271	16,271	-	16,271	48,813	8,137	8,136	65,086	72,144
<b>Total expenses</b>	<b>\$ 1,103,708</b>	<b>\$ 136,855</b>	<b>\$ 161,908</b>	<b>\$ 436,740</b>	<b>\$ 1,839,211</b>	<b>\$ 232,299</b>	<b>\$ 261,675</b>	<b>\$ 2,333,185</b>	<b>\$ 2,077,393</b>

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 228,136	\$ 106,879
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	65,086	72,144
Realized and unrealized loss on investments	(113,772)	34,072
Contributions and grants restricted for long-term purposes	(3,060)	(3,900)
In-kind goods and services, capitalized	(614)	(697)
In-kind securities contributions	(32,994)	(33,832)
Proceeds from sale of securities contributions	33,270	34,622
Cash provided by (used in) changes in:		
Program services receivable	30,115	(35,988)
Grants and pledges receivable	(57,872)	(6,166)
Prepaid expenses	(2,509)	(6,104)
Accounts payable and accrued expenses	11,160	25,834
Accrued payroll and benefits	(29,555)	180
Deferred revenue	(22,740)	22,740
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>104,651</b>	<b>209,784</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(146,332)	(198,690)
Decrease (increase) in cash and cash equivalents - board designated endowment	102,359	(63,509)
Decrease in cash and cash equivalents restricted for capital improvements	25,733	189,309
Proceeds from sale of investments	887,096	49,326
Purchases of investments	(999,475)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(130,619)</b>	<b>(23,564)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions and grants non-operating	3,060	3,900
Payments on long-term debt	(12,965)	(12,453)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(9,905)</b>	<b>(8,553)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(35,873)</b>	<b>177,667</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>739,769</b>	<b>562,102</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 703,896</b>	<b>\$ 739,769</b>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>		
Cash paid during the years for -		
Interest	\$ 8,569	\$ 8,691
<b><u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</u></b>		
Various noncash donations:		
Securities	\$ 32,994	\$ 33,832
Goods and services capitalized	614	697

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



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

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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 accounting principles generally accepted in the United States of America. 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 5.
2. Temporarily Restricted Net Assets - use of resources is limited by donors for a specific purpose 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 nature of any donor restrictions.

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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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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:

Family Shelter:

Since 1981, Wellspring's emergency shelter program has housed more than 769 homeless families. In fiscal year 2017, 14 families were sheltered (14 parents and 15 children). Case management services were provided to each family to help them secure permanent, affordable housing; ensure that children were enrolled in school or daycare; and that basic needs such as food, clothing, and healthcare were met. Horizons for Homeless Children, a community partner, provided two volunteer childcare sessions every week while parents participated in workshops and meetings relevant to the health and well-being of the family. Other volunteers and community groups provided additional services including celebrating special occasions such as birthdays and providing household items as families moved out of shelter into their new homes.

In a motel shelter site in Danvers, Wellspring was a contractor for the Department of Housing and Community Development (DHCD) and with the Lynn Housing Authority and Neighborhood Development (LHAND) to provide case management and housing search services to 56 homeless families (representing 176 individuals, parents and children combined). Wellspring partnered with other social service agencies, local faith communities, and community volunteers to ensure basic needs were met for food, clothing, and health care. The motel shelter site was phased out by DHCD beginning July 2016 through February 2017; with operations ceasing on February 28, 2017.

As a result of the motel shelter phase-out, Wellspring launched a Homelessness Prevention and Stabilization team, with three case managers, in March 2017. The purpose of this team is to provide support, financial coaching, and linkages to community resources during the 12-months following a period of homelessness or other housing crisis. Stabilization services ensure that children are enrolled in school; families are connected with primary health care providers; parents have adequate resources in place to pursue a successful job search, and families' basic needs for transportation, food, clothing, and other supplies are met. This team provided case management to 34 families (representing 102 individuals, parents and children combined).

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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

Statements of Functional Expenses (Continued)

In fiscal year 2017, Wellspring continued to be a contractor for DHCD and sub-contracted to LHAND to provide “Front Door Diversion” crisis services to families facing the threat of homelessness. Services were provided through the access point of the Department of Transitional Assistance (DTA) in Salem, MA where families are deemed eligible for “Emergency Assistance” (EA) from the state. As a result of the Diversion program, 42 families remained safely housed in rental units in their home communities instead of experiencing homelessness and entering the state family shelter system.

Wellspring also provided homelessness prevention and advocacy services. During fiscal year 2017, Wellspring’s Homeless Prevention Fund received 312 calls from Cape Ann residents seeking counseling and financial assistance. Sixteen one-time grants were provided to families (representing 49 individuals, parents and children combined) for rent arrearages or utility payments to prevent these families from becoming homeless. These one-time grants were made possible in part due to partnerships with Small Can Be Big and other community grant programs. Wellspring is a co-convenor of the North Shore Housing Action Group (a regional network that addresses issues related to homelessness) and also the Cape Ann Resource Exchange (a group of service providers that meets to share information and assist struggling families).

In August 2016, a local law firm provided Back-to-School backpacks filled with school supplies to 56 children in the shelter and motel. Wellspring’s 20<sup>th</sup> annual Holiday Store made it possible for parents from 344 families to make a limited contribution to purchase gifts to celebrate the holidays with their children; a total of 804 children received gifts through the fiscal 2017 Holiday Store.

**Affordable Housing:**

Since 1987 Wellspring has owned and operated a multi-unit Single Room Occupancy property in downtown Gloucester that provides long-term housing for 11 low-income individuals. A part-time Resident Services Coordinator works with these tenants to assist them in connecting with community resources and maintain a safe, supportive residential setting.

**Mediclerk:**

The MediClerk program offers job training in partnership with North Shore Medical Center and prepares students for medical administrative positions. Thirty-one students participated in fiscal year 2017. MediClerk celebrated its 14<sup>th</sup> anniversary in fiscal year 2017, and to date has trained 441 students. The program has an impressive 85% job placement rate. Wellspring is in the formal process of seeking national accreditation for this program. During the year ended June 30, 2017, the program received grants and contract income totaling \$99,943. The program also recognized \$2,740 for in-kind goods and services during the year ended June 30, 2017. Annual program expenses totaled \$161,908. The additional funding of \$61,965 to cover the remaining program expenses is provided by the Organization’s fund raising events and unrestricted contributions.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

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

Statements of Functional Expenses (Continued)

Wellspring Community Education:

The Wellspring Education Resource Collaborative (WERC) is an educational advising and mentoring service that helps low-income adult students to develop informed and achievable educational plans linked to living wage jobs. Ninety-three participants received counseling through the WERC model in fiscal year 2017. Professional WERC career and educational counselors, in conjunction with volunteer mentors, continue to support students for a minimum of 18 months.

The Organization's English Language Learning (ELL) program is offered in partnership with the Sawyer Free Library in Gloucester. Adult students are matched with a one-on-one tutor and come to the program to build English proficiency in comprehension, verbal expression, reading, and writing. Eighty-five students participated in the Gloucester-based ELL Program in fiscal year 2017.

The Adult Learning Initiative (ALI) is an adult basic education and college preparatory program that helps students attain important foundational skills for employment and/or higher education. If they have not yet earned a High School Diploma, the course prepare them to take the High School Equivalency Test (HiSET). Students study math, English, computer skills, and career development. Graduates who successfully complete the computer skill course are eligible to receive 3 college credits from North Shore Community College. Graduates of the college preparatory math course are prepared to take the Accuplacer® placement exam for North Shore Community College for direct entry into college credit mathematics coursework. In fiscal year 2017, 51 students participated in ALI courses.

This fiscal year Wellspring's Robert Clark Rogers Educational Opportunity Fund ("Bob Rogers Fund") made 6 awards totaling \$8,700 to graduates from Wellspring's education programs who have gone on to post-secondary educational opportunities. Since the first awards were made in 2006, the Bob Rogers Fund has provided 75 awards totaling \$79,190. The Organization also sponsored one student in the One Family Scholars program; One Family Scholars provides ongoing financial support throughout the duration of a student's academic experience, until completion and achievement of a terminal degree.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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

Statements of Functional Expenses (Continued)

The Organization allocates expenses on a functional basis among its programs and supporting services. 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:

*General and 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.

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 21, 2017, the date the financial statements were available to be issued.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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

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, 2016, from which the summarized information was derived.

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 generally accepted accounting principles and established a framework for measuring fair value and provided expanded disclosures about fair value measurements. Under generally accepted accounting principles 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, generally accepted accounting principles establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under generally accepted accounting principles, 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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

Investments (Continued)

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

Program Services Receivable

Program services receivable 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 are charged as an expense when that determination is made.

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. These amounts are considered fully collectible by management, and 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, 2017 and 2016, there were no pledges that were considered uncollectible and no bad debts arising from grant commitments.

Cash and Cash Equivalents Restricted for Capital Improvements

Restricted cash represents capital campaign fund contributions restricted for long-term property improvements.

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 \$2,500 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.

Impairment of Long-Lived Assets

In accordance with generally accepted accounting principles, the Organization has given consideration to the impairment of long-lived assets, in its presentation of these financial statements. As of June 30, 2017, the Organization has not recognized any reduction in the carrying value of its property.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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

Deferred Revenue

The Organization recognizes program service revenue when earned. Deferred revenue represents prepayments for rental subsidies for the following fiscal year and not earned as of June 30, 2016. There was no deferred revenue at June 30, 2017.

In-Kind Goods and Services

The Organization 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.

Income Taxes and Uncertainty of 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, if the Organization had unrelated business income it would be taxable.

The Organization is required to report uncertain tax positions, related interest and penalties. As of June 30, 2017, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2017 and 2016, no provision for income taxes has been made. The Organization is subject to audit by tax authorities generally for three years after its returns were filed. Information returns filed for the years ended 2016, 2015 and 2014 remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Organization believes that it has appropriate support for the positions taken on its tax returns.

Advertising

Wellspring House, Inc. expenses advertising costs as incurred.

(Continued)



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

2. GRANTS AND PLEDGES RECEIVABLE:

At June 30, 2017 and 2016 grants and pledges receivable were comprised of unconditional promises to give and were as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 135,039	\$ 110,500
Receivable in one to five years	33,333	-
Total pledges receivable	<u>\$ 168,372</u>	<u>\$ 110,500</u>

3. BOARD DESIGNATED ENDOWMENT INVESTMENTS:

As of June 30, 2017 and 2016 investments cost and unrealized gains and losses consisted of the following:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 61,409	\$ 61,409	\$ 163,768	\$ 163,768
Exchange traded funds	937,994	1,080,404	727,878	853,915
	<u>\$ 999,403</u>	<u>\$ 1,141,813</u>	<u>\$ 891,646</u>	<u>\$ 1,017,683</u>

Based on the fair value hierarchy levels, fair value measurements are classified as follows:

	June 30, 2017			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 61,409	\$ -	\$ -	\$ 61,409
Exchange traded funds	1,080,404	-	-	1,080,404
	<u>\$ 1,141,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,141,813</u>
	June 30, 2016			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 163,768	\$ -	\$ -	\$ 163,768
Exchange traded funds	853,915	-	-	853,915
	<u>\$ 1,017,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,017,683</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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3. BOARD DESIGNATED ENDOWMENT INVESTMENTS (Continued):

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

Investment income for the years ended June 30, 2017 and 2016 is comprised of the following:

	2017	2016
Interest and dividends, net	\$ 18,813	\$ 28,324
Realized gain (loss) on investments	153,720	(2,132)
Unrealized gain (loss) on investments	(39,948)	(31,940)
	<u>\$ 132,585</u>	<u>\$ (5,748)</u>

Investment fees of \$3,889 for the year ended June 30, 2017 were offset against interest and dividend income. There were no investments fees for the year ended June 30, 2016.

4. PROPERTY AND EQUIPMENT:

At June 30, 2017 and 2016, property and equipment was comprised as follows:

	2017	2016
Land	\$ 83,957	\$ 83,957
Land improvements	249,892	236,242
Buildings	764,099	685,779
Building Improvements	798,290	727,993
Furniture and equipment	58,864	58,864
Construction in progress	-	15,935
	<u>1,955,102</u>	<u>1,808,770</u>
Less accumulated depreciation	<u>1,171,105</u>	<u>1,106,019</u>
Property and equipment - net	<u>\$ 783,997</u>	<u>\$ 702,751</u>

Depreciation of property and equipment was \$65,086 and \$72,144 for the years ended June 30, 2017 and 2016, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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5. LONG-TERM DEBT:

At June 30, 2017 and 2016 long-term debt was comprised as follows:

	<u>2017</u>	<u>2016</u>
Real estate mortgage payable - bank, secured by real estate at Essex Avenue, Washington Street and Chestnut Street, Gloucester, Massachusetts, monthly payments of \$1,663, including interest at 4.20%, matures November, 2018	\$ 181,287	\$ 193,239
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	9,115	10,128
	<u>190,402</u>	<u>203,367</u>
Less - current portion of long-term debt	<u>(13,620)</u>	<u>(13,102)</u>
	<u>\$ 176,782</u>	<u>\$ 190,265</u>

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

June 2018	\$ 13,620
2019	169,693
2020	1,013
2021	1,013
2022	1,013
Thereafter	4,050

The Organization's mortgage loan agreement with its lender provides for restrictive covenants relating to compliance with certain administrative and financial matters. In September, 2017 the Organization refinanced its real estate mortgage payable with the bank. The mortgage was refinanced at 4.5% with monthly payments of \$1,700 including interest and matures in December, 2028. The refinanced mortgage is secured by the real estate at Essex Avenue, Gloucester, Massachusetts.

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% (5.25% as of June 30, 2017). There were no amounts outstanding on this agreement at June 30, 2017 and 2016.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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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.

To satisfy its rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). All investments in the Endowment will be invested in securities that are traded on one of the major world exchanges. The Organization maintains a diversified portfolio of funds across both equity-based and fixed income investments to achieve its long-term objectives within prudent risk constraints.

As of June 30, 2017 and 2016, the aggregate balance of the board designated Endowment Fund was \$1,141,813 (of which \$246,542 represents the Rogers Education Opportunity Fund) and \$1,017,683 (of which \$225,935 represents the Rogers Education Opportunity Fund), respectively, which is held in exchange traded funds and cash equivalents. Composition of and changes in endowment net assets for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Board designated Endowment Fund, beginning of year	\$ 1,017,683	\$ 1,038,362
Investment return:		
Investment income	171,749	26,728
Net depreciation	(39,948)	(34,862)
Contributions and designations	1,750	2,850
Transfers from board designated Endowment Fund	(1,521)	(7,800)
Amounts appropriated for expenditure	<u>(7,900)</u>	<u>(7,595)</u>
Board designated Endowment Fund, end of year	<u>\$ 1,141,813</u>	<u>\$ 1,017,683</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Restricted for future use	\$ 128,569	\$ 110,500
Education programs	40,759	2,340
Homelessness prevention fund	6,300	4,009
Family shelter	665	8,826
Capital improvements	608	26,341
Mediclerk	-	2,676
	<hr/>	<hr/>
Total	\$ 176,901	\$ 154,692

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

	<u>2017</u>	<u>2016</u>
Education programs	\$ 197,062	\$ 198,901
Time restrictions elapsed	143,833	103,334
Mediclerk	75,763	49,087
Homelessness prevention fund	40,458	3,051
Capital improvements	27,043	190,610
Family shelter	25,095	4,674
Board endowment	1,750	2,850
First jobs	1,729	-
	<hr/>	<hr/>
Total	\$ 512,733	\$ 552,507

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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7. GOVERNMENT CONTRACTS:

Wellspring House, Inc. is a party to the purchase of service contracts with the Massachusetts Department of Housing and Community Development (DHCD) 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 \$275,429 and \$276,184 for the years ended June 30, 2017 and 2016, respectively.

During the years ended June 30, 2017 and 2016, Wellspring received a second component to its shelter contract to fund rehousing and social service case management work. Funds received under this cost reimbursement contract amounted to \$622,503 and \$439,377 for the years ended June 30, 2017 and 2016, respectively.

Total revenues arising from the above contracts amounted to \$897,932 and \$715,561, representing 37% and 33% of total support and revenues for the years ended June 30, 2017 and 2016, respectively.

8. 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	
			2017	2016
Women Honoring Women Luncheon	\$ 130,541	\$ 20,246	\$ 110,295	\$ 130,277
Concert	32,050	16,060	15,990	-
Holiday Store	22,942	17,760	5,182	8,133
	<hr/>			
Total	\$ 185,533	\$ 54,066	\$ 131,467	\$ 138,410

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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9. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2017 and 2016, the Organization recognized the following in-kind contributions in its financial statements:

	<u>2017</u>	<u>2016</u>
Volunteer services	\$ 76,386	\$ 59,435
Special event costs	27,794	27,402
Books and program supplies	9,405	35,489
Capitalized costs	614	697
	<u>          </u>	<u>          </u>
Total	<u>\$ 114,199</u>	<u>\$ 123,023</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.

10. 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. The Organization matched \$2,569 and \$3,442 for the years ended June 30, 2017 and 2016, respectively.

11. 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 balances 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(Continued)

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12. 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (3,149,526)	\$ (3,062,182)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(162,390)</u>	<u>(87,344)</u>
Ending accumulated surplus (deficit) retention fund pool	<u>\$ (3,311,916)</u>	<u>\$ (3,149,526)</u>

13. RELASSIFICATION:

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.



INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of Wellspring House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Wellspring House, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.



### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Wellspring House, Inc.'s financial statements are free from 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*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "BJHC PC". The letters are bold and stylized, with some overlapping.

Topsfield, Massachusetts  
September 21, 2017