

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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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, 2018, 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, 2018, 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 November 14, 2018, 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 2017 financial statements, and our report dated September 21, 2017, 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, 2017, 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
November 14, 2018

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	\$ 450,075	\$ 703,896
Program services fees receivable	134,778	84,074
Grants and pledges receivable	103,884	135,039
Prepaid expenses	14,609	20,116
Total current assets	703,346	943,125
PROPERTY AND EQUIPMENT - At cost	1,984,916	1,955,102
Less accumulated depreciation	1,228,338	1,171,105
Net property and equipment	756,578	783,997
OTHER ASSETS :		
Grants and pledges receivable, net of current portion	-	33,333
Cash and cash equivalents - restricted for capital improvements	37,539	608
Investments - Board designated endowment	1,204,283	1,141,813
Investments - endowment	115,641	-
Total other assets	1,357,463	1,175,754
TOTAL ASSETS	\$ 2,817,387	\$ 2,902,876
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 14,014	\$ 13,620
Accounts payable and accrued expenses	115,459	104,581
Accrued payroll and benefits	50,333	54,021
Total current liabilities	179,806	172,222
LONG-TERM DEBT - less current maturities	162,984	176,782
Total liabilities	342,790	349,004
NET ASSETS:		
Without donor restrictions:		
Undesignated	1,044,672	1,235,158
Designated by the Board for endowment	1,204,283	1,141,813
Total net assets without donor restrictions	2,248,955	2,376,971
With donor restrictions	225,642	176,901
TOTAL NET ASSETS	2,474,597	2,553,872
TOTAL LIABILITIES AND NET ASSETS	\$ 2,817,387	\$ 2,902,876

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

WELLSPRING HOUSE, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(with comparative totals for the year ended 2017)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2018	TOTAL 2017
OPERATING REVENUES AND OTHER SUPPORT:				
Contributions and grants	\$ 441,973	\$ 423,922	\$ 865,895	\$ 1,031,065
Fundraising events, net	152,000	-	152,000	131,467
In-kind goods and services	111,511	-	111,511	114,199
Program service fees	742,076	-	742,076	1,010,837
Rental income	142,377	-	142,377	138,108
Net assets released from restrictions	526,765	(526,765)	-	-
Total operating revenues and other support	<u>2,116,702</u>	<u>(102,843)</u>	<u>2,013,859</u>	<u>2,425,676</u>
OPERATING EXPENSES:				
Program services:				
Family shelter	840,251	-	840,251	1,087,437
Affordable housing	138,308	-	138,308	120,584
Mediclerk	182,469	-	182,469	161,908
Community education	573,408	-	573,408	420,469
Total program services	<u>1,734,436</u>	<u>-</u>	<u>1,734,436</u>	<u>1,790,398</u>
Supporting services:				
General and administrative	247,411	-	247,411	224,162
Fundraising	292,903	-	292,903	253,539
Total supporting services	<u>540,314</u>	<u>-</u>	<u>540,314</u>	<u>477,701</u>
Depreciation and amortization expense	57,233	-	57,233	65,086
Total operating expenses	<u>2,331,983</u>	<u>-</u>	<u>2,331,983</u>	<u>2,333,185</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(215,281)</u>	<u>(102,843)</u>	<u>(318,124)</u>	<u>92,491</u>
NON-OPERATING ACTIVITIES:				
Realized and unrealized gain (loss) on investments	46,973	(7,936)	39,037	113,772
Interest and dividend income	20,838	-	20,838	18,813
Contributions and grants, non-operating	-	178,974	178,974	3,060
Net assets released from restrictions, non-operating	19,454	(19,454)	-	-
Total non-operating activities	<u>87,265</u>	<u>151,584</u>	<u>238,849</u>	<u>135,645</u>
TOTAL CHANGE IN NET ASSETS	<u>(128,016)</u>	<u>48,741</u>	<u>(79,275)</u>	<u>228,136</u>
NET ASSETS AT BEGINNING OF YEAR	<u>2,376,971</u>	<u>176,901</u>	<u>2,553,872</u>	<u>2,325,736</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,248,955</u>	<u>\$ 225,642</u>	<u>\$ 2,474,597</u>	<u>\$ 2,553,872</u>

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

WELLSPRING HOUSE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(with comparative totals for the year ended June 30 2017)

	Family Shelter	Affordable Housing	Mediclerk	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2018	Total 2017
Personnel:									
Salaries	\$ 394,782	\$ 51,142	\$ 140,267	\$ 323,794	\$ 909,985	\$ 124,300	\$ 173,594	\$ 1,207,879	\$ 1,121,693
Payroll taxes	35,743	4,723	13,698	27,949	82,113	13,949	15,260	111,322	104,337
Fringe benefits	55,556	508	1,072	41,445	98,581	25,906	19,596	144,083	120,839
Total personnel expenses	486,081	56,373	155,037	393,188	1,090,679	164,155	208,450	1,463,284	1,346,869
Participant expenses	274,470	-	-	-	274,470	-	-	274,470	85
In-kind expenses	7,996	2,260	455	70,086	80,797	-	30,714	111,511	114,199
Repairs and maintenance	5,172	35,773	-	21,787	62,732	5,028	5,028	72,788	71,001
Professional fees	2,469	1,059	11,152	2,160	16,840	27,517	4,117	48,474	34,919
Scholarship/client assistance	26,487	-	-	12,895	39,382	-	-	39,382	141,886
Insurance	7,492	7,492	-	7,492	22,476	5,336	3,596	31,408	29,232
Utilities	1,350	19,783	-	5,848	26,981	1,350	1,350	29,681	28,051
Network expense	5,412	3,326	3,383	7,225	19,346	4,473	4,280	28,099	29,802
Contractual services	965	-	2,622	3,994	7,581	18,747	1,650	27,978	324,269
Travel	6,334	-	234	10,724	17,292	19	-	17,311	10,648
Printing	-	-	-	192	192	180	15,429	15,801	16,761
Telephone and internet	4,371	4,608	-	3,125	12,104	1,733	1,746	15,583	13,646
Subscriptions/program material	1,705	-	1,289	7,449	10,443	1,318	2,564	14,325	6,618
Program supplies	2,451	624	3,695	7,291	14,061	-	-	14,061	27,042
Food	375	47	126	591	1,139	9,591	448	11,178	10,746
Real estate taxes	1,476	321	-	6,397	8,194	1,476	1,476	11,146	10,832
Household supplies	1,150	2,440	-	2,146	5,736	640	2,231	8,607	8,003
Interest expense	843	1,856	-	3,655	6,354	1,408	843	8,605	8,562
Office expense	1,736	120	1,002	1,931	4,789	2,645	791	8,225	7,014
Equipment	475	2,108	1,925	1,853	6,361	528	428	7,317	11,465
Postage	548	73	340	767	1,728	804	3,130	5,662	5,083
Bank charges	-	-	-	-	-	318	4,318	4,636	2,635
Advertising	225	45	1,209	1,448	2,927	-	30	2,957	3,274
Staff training	668	-	-	1,164	1,832	49	-	1,881	2,409
Miscellaneous	-	-	-	-	-	96	284	380	3,048
Total expenses before depreciation	840,251	138,308	182,469	573,408	1,734,436	247,411	292,903	2,274,750	2,268,099
Depreciation and amortization	15,466	15,466	-	15,466	46,398	2,914	7,921	57,233	65,086
Total expenses	\$ 855,717	\$ 153,774	\$ 182,469	\$ 588,874	\$ 1,780,834	\$ 250,325	\$ 300,824	\$ 2,331,983	\$ 2,333,185

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (79,275)	\$ 228,136
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,233	65,086
Realized and unrealized gains on investments	(39,037)	(113,772)
Contributions and grants restricted for long-term purposes	(178,974)	(3,060)
In-kind goods and services, capitalized	-	(614)
In-kind securities contributions	(27,912)	(32,994)
Proceeds from sale of securities contributions	27,909	33,270
Cash provided by (used in) changes in:		
Program service fees receivable	(50,704)	30,115
Grants and pledges receivable	64,488	(57,872)
Prepaid expenses	5,507	(2,509)
Accounts payable and accrued expenses	10,878	11,160
Accrued payroll and benefits	(3,688)	(29,555)
Deferred revenue	-	(22,740)
	<u>(213,575)</u>	<u>104,651</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(29,814)	(146,332)
Decrease (increase) in cash and cash equivalents - board designated endowment	(2,238)	102,359
Increase in cash and cash equivalents - endowment	(24,519)	-
Decrease in cash and cash equivalents restricted for capital improvements	(36,931)	87,750
Proceeds from sale of investments	258,643	887,096
Purchases of investments	(309,019)	(999,475)
	<u>(143,878)</u>	<u>(68,602)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions and grants non-operating	178,974	3,060
Payments on long-term debt	(13,404)	(12,965)
	<u>165,570</u>	<u>(9,905)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(191,883)	26,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	765,913	739,769
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 574,030	\$ 765,913
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 450,075	\$ 703,896
Cash and cash equivalents restricted for capital improvements	37,539	608
Cash and cash equivalents - board designated endowment	61,897	61,409
Cash and cash equivalents - endowment	24,519	-
	<u>\$ 574,030</u>	<u>\$ 765,913</u>
Total cash and cash equivalents at end of year	<u>\$ 574,030</u>	<u>\$ 765,913</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the years for -		
Interest	\$ 8,605	\$ 8,569

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

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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.

Wellspring’s activities are summarized within the following programs:

Family Shelter:

Since 1981, Wellspring’s emergency shelter program has housed nearly 800 homeless families. Case management services are provided to each family to help them secure permanent, affordable housing; ensure that children are enrolled in school or daycare; and that basic needs such as food, clothing, and healthcare are met. Horizons for Homeless Children, a community partner, provides two volunteer childcare sessions every week while parents participate in workshops and meetings relevant to the health and well-being of the family. Other volunteers and community groups provide additional services including celebrating special occasions such as birthdays and providing household items as families move out of shelter into their new homes.

Previous housing and case management services provided to homeless families in a hotel shelter site in Danvers ceased in February 2017. As a result of the motel shelter phase-out, Wellspring launched a Homelessness Prevention and Stabilization team in March 2017. The purpose of this team is to provide support, financial coaching, and linkages to community resources during the 12-24 months following a period of homelessness or other housing crisis. Stabilization services ensure that housing remains stable, key social and health services are in place for the family, and parents are working on strengthening the financial health of the family, primarily by increasing earned income. Case managers help to connect parents with education and job search resources in order to pursue employment with higher wages.

In addition to case management, Wellspring continued to operate its Homelessness Prevention Line and Homelessness Prevention Fund, providing resources and referrals to families on Cape Ann who are experiencing a potential housing crisis. Each year Wellspring fields hundreds of calls to the Homelessness Prevention Line and awards one-time grants to assist with housing or utility costs.

Wellspring continues to be a contractor to DHCD and sub-contracted to LHAND to provide “Front Door Diversion” crisis services to families facing the threat of homelessness. Services are 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, eligible families remain safely housed in rental units in their home communities instead of experiencing homelessness and entering the state family shelter system.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Continued)

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

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.

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. Professional WERC career and educational counselors, in conjunction with volunteer mentors, continue to support students for a minimum of 18 months. Due to an expanding partnership with Gloucester High School, WERC counselors also provide career advising and counseling during the school day to Gloucester high school seniors throughout the school year.

Wellspring's English for Speakers of Other Languages (ESOL) 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. An evening course for beginning English students runs two evenings a week.

The Adult Learning Initiative (ALI) program enables low-income adults to update math and English skills, and acquire new computer skills, while earning college credits at North Shore Community College (NSCC) and Salem State University (SSU). We offer computer classes (day and evening) which help students learn Word, Excel and PowerPoint skills to update their resumes. We also offer a full College Readiness Program with both math and college writing classes offered two nights per week which helps students prepare for and pass the Accuplacer™ college placement exam. Upon successful completion of these FREE courses, students become eligible to receive credit at NSCC and SSU.

The MediClerk program offers job training in partnership with North Shore Medical Center and prepares students for medical administrative positions. In FY 2018, MediClerk achieved the culminating milestone of national accreditation. As a result, new program funding sources are opening up and Wellspring is strengthening our partnership with North Shore Community College (NSCC). MediClerk graduates are now able to receive up to 19 credits in NSCC's Medical Administrative Assistant Associate's Degree program, moving them further along in an educational path that will lead to higher wages. MediClerk celebrated its 15th anniversary in August 2017.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

Wellspring Community Education (continued):

Each year Wellspring's Robert Clark Rogers Educational Opportunity Fund ("Bob Rogers Fund") makes awards ranging from \$500-\$2,000 to current students and graduates from Wellspring's education programs who have gone on to post-secondary educational opportunities.

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.

Net Assets

The Organization classifies net assets, revenues, gains and losses based on the existence or absence of donor or grantor imposed restrictions. Consequently, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions represent the portion of net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. It is the Organization's policy to report gifts with restrictions that are met in the same fiscal year the contributions are made as unrestricted revenue. Additionally, gains and investment income are treated as unrestricted revenue unless specifically restricted by the donor or by law.
- Net assets with donor restrictions represent the portion of net assets subject to donor-(or certain grantor-) imposed restrictions. Certain donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates resources to be maintained in perpetuity. Donor-imposed restrictions are released and are reclassified to net assets without donor restrictions when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources were restricted has been fulfilled, or both.

Revenue Recognition

Contributions are recorded as net assets without donor restrictions and net assets with donor restrictions 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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Continued)

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

Revenue Recognition (Continued)

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

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction, until the restrictions expire, at which time net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

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.

Functional Expenses

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

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 November 14, 2018, the date the financial statements were available to be issued.

Implementation of Recent Accounting Pronouncement

During the year ended June 30, 2018, the Organization implemented ASU 2016-4, Financial Statements of Non-Profit Entities. Accordingly, the beginning balances of the donor restricted net assets categories (temporarily restricted net assets only) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, with donor restrictions. The ASU requires additional disclosures in the areas of liquidity and endowment funds, modifies the direct method presentation of the Statement of Cash Flows, and requires reclassification of investment expenses which are netted in investment income to also include internal investment expenses. In addition, it requires any underwater portion of endowment funds to be adjusted from net assets without donor restrictions to net assets with donor restrictions. The Organization has underwater endowment funds of \$7,936.

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, 2017, 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

Investments

The Organization has adopted U.S. generally accepted accounting principles and established a framework for measuring fair value and provided expanded disclosures about fair value measurements. Under U.S. 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, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. In support of this principle, U.S. generally accepted accounting principles establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

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.

Purchases and sale of securities are recorded on a trade-date basis. 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

Program Service Fees 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, 2018 and 2017, 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 U.S. generally accepted accounting principles, the Organization has given consideration to the impairment or of long-lived assets, in its presentation of these financial statements. As of June 30, 2018, the Organization has not recognized any reduction in the carrying value of its property.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

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, 2018, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2018 and 2017, 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. 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.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, comprise the following:

Cash and cash equivalents	\$ 450,075
Program services receivable	134,778
Grants and pledges receivable	103,884
Cash and cash equivalents - Board designated endowment	63,647
Investments - Board designated endowment	1,140,636
	<u>\$ 1,893,020</u>

The Organization's endowment funds consist of donor restricted endowments and funds designated by the Board as endowments. Income from donor restricted endowments is unrestricted and available for general use. Donor restricted endowment funds are not available for general expenditure.

The Board designated endowment of \$1,204,283 is subject to a Board of Director's annual spending rate policy. Although the Organization does not intend to spend from their board designated endowment, these amounts could be made available if necessary.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Continued)

3. GRANTS AND PLEDGES RECEIVABLE:

At June 30, 2018 and 2017, grants and pledges receivable were comprised of unconditional promises to give and were as follows:

	2018	2017
Receivable in less than one year	\$ 103,884	\$ 135,039
Receivable in one to five years	-	33,333
Total pledges receivable	\$ 103,884	\$ 168,372

At June 30, 2018 and 2017, the discounted net present value of long-term grants and pledges receivable approximates the realizable value.

4. BOARD DESIGNATED AND ENDOWMENT INVESTMENTS:

As of June 30, 2018 and 2017, investments cost and unrealized gains and losses consisted of the following:

	June 30, 2018		June 30, 2017	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 86,416	\$ 86,416	\$ 61,409	\$ 61,409
Certificate of deposit	30,763	30,763	30,561	30,561
Exchange traded funds	963,622	1,202,745	907,433	1,049,843
	\$ 1,080,801	\$ 1,319,924	\$ 999,403	\$ 1,141,813

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

	June 30, 2018			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 86,416	\$ -	\$ -	\$ 86,416
Certificate of deposit	-	30,763	-	30,763
Exchange traded funds	1,202,745	-	-	1,202,745
	\$ 1,289,161	\$ 30,763	\$ -	\$ 1,319,924

	June 30, 2017			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 61,409	\$ -	\$ -	\$ 61,409
Certificate of deposit	-	30,561	-	30,561
Exchange traded funds	1,049,843	-	-	1,049,843
	\$ 1,111,252	\$ 30,561	\$ -	\$ 1,141,813

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Continued)

4. BOARD DESIGNATED AND ENDOWMENT INVESTMENTS (Continued):

Investment income for the years ended June 30, 2018 and 2017 is comprised of the following:

	2018	2017
Interest and dividends, net	\$ 20,838	\$ 18,813
Realized gain (loss) on investments	(1,048)	153,720
Unrealized gain (loss) on investments	40,085	(39,948)
	<u>\$ 59,875</u>	<u>\$ 132,585</u>

Investment fees of \$6,342 and \$3,889 for the years ended June 30, 2018 and 2017, respectively were offset against interest and dividend income.

5. PROPERTY AND EQUIPMENT:

At June 30, 2018 and 2017, property and equipment was comprised as follows:

	2018	2017
Land	\$ 83,957	\$ 83,957
Land improvements	249,892	249,892
Buildings	764,099	764,099
Building improvements	828,104	798,290
Furniture and equipment	58,864	58,864
	<u>1,984,916</u>	<u>1,955,102</u>
Less accumulated depreciation	<u>1,228,338</u>	<u>1,171,105</u>
Property and equipment - net	<u>\$ 756,578</u>	<u>\$ 783,997</u>

Depreciation of property and equipment was \$57,233 and \$65,086 for the years ended June 30, 2018 and 2017, respectively.

6. LONG-TERM DEBT:

At June 30, 2018 and 2017, long-term debt was comprised as follows:

	2018	2017
Real estate mortgage payable - bank, secured by real estate at Essex Avenue Gloucester, Massachusetts, monthly payments of \$1,700, including interest at 4.5%, matures December 25, 2028	\$ 168,896	\$ 181,287
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	8,102	9,115
	<u>176,998</u>	<u>190,402</u>
Less - current portion of long-term debt	<u>(14,014)</u>	<u>(13,620)</u>
	<u>\$ 162,984</u>	<u>\$ 176,782</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

(Continued)

6. LONG-TERM DEBT (Continued):

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

June 2019	\$	14,014
2020		14,563
2021		15,214
2022		15,874
2023		16,568
Thereafter		100,765

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 a fixed rate of 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% (5% as of June 30, 2018). There were no amounts outstanding on this agreement at June 30, 2018 and 2017.

7. 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 securities in the Endowment will be invested in securities that are traded on a United States exchange. 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. The Organization's Board of Directors will establish its spending policy annually.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

Board Designated Endowment Fund (Continued):

As of June 30, 2018 and 2017, the aggregate balance of the Board Designated Endowment Fund was \$1,204,283 (of which \$253,319 represents the Robert Clark Rogers Education Opportunity Fund) and \$1,141,813 (of which \$246,542 represents the Robert Clark Rogers Education Opportunity Fund), respectively, which is held in exchange traded funds and cash equivalents.

Endowment Fund:

During the year ended June 30, 2018, the Organization received an Endowment contribution from a donor in the amount of \$123,577. The endowment agreement states that all earnings from the gift corpus will be unrestricted and may be used to support the operations of the Organization, including without limitation in programmatic expenses, operational expenses and capital improvements. In the event that Wellspring no longer provides its program services to the community, the donor has specified that the corpus be awarded to a donor designated not-for-profit organization.

The Organization has adopted the same endowment policy as the Board Designated Endowment Fund for this gift.

Composition of and changes in endowment net assets for the years ended June 30, 2018 and 2017 were as follows:

	Without Donor Restrictions 2018	With Donor Restrictions 2018	Total 2018
Endowment Fund, beginning of year	\$ 1,141,813	\$ -	\$ 1,141,813
Investment return:			
Investment income	18,521	-	18,521
Net appreciation	39,413	-	39,413
Contributions and designations	9,200	-	9,200
Amounts appropriated for expenditure	(12,600)	-	(12,600)
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	123,577	123,577
Underwater endowment	7,936	(7,936)	-
Endowment Fund, end of year	<u>\$ 1,204,283</u>	<u>\$ 115,641</u>	<u>\$ 1,319,924</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

	Without Donor Restrictions 2017	With Donor Restrictions 2017	Total 2017
Endowment Fund, beginning of year	\$ 1,017,683	\$ -	\$ 1,017,683
Investment return:			
Investment income	171,749	-	171,749
Net depreciation	(39,948)	-	(39,948)
Contributions and designations	1,750	-	1,750
Transfers from board designated Endowment Fund	(1,521)	-	(1,521)
Amounts appropriated for expenditure	(7,900)	-	(7,900)
Endowment Fund, end of year	<u>\$ 1,141,813</u>	<u>\$ -</u>	<u>\$ 1,141,813</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At June 30, 2018, there were deficiencies in funds with original gift values of \$123,577 and fair values of \$115,641. Deficiencies of \$7,936 were reported in net assets with donor restrictions.

Net Assets with Donor Restrictions:

Net assets with donor restrictions include unexpended contributions and grants restricted by donors for the following purposes as of June 30, 2018 and 2017:

	2018	2017
Restricted for future use	\$ 56,334	\$ 128,569
Education programs	16,128	40,759
Homelessness prevention fund	-	6,300
Family shelter	-	665
Capital improvements	37,539	608
Endowment	115,641	-
Total	<u>\$ 225,642</u>	<u>\$ 176,901</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

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

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

	2018	2017
Education programs	\$ 271,905	\$ 197,062
Mediclerk	115,831	75,763
Homelessness prevention fund	111,200	40,458
Family shelter	20,700	25,095
Time restrictions elapsed	5,227	143,833
Capital improvements	10,254	27,043
Board endowment	9,200	1,750
First jobs	1,902	1,729
Total	<u>\$ 546,219</u>	<u>\$ 512,733</u>

8. 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 \$278,969 and \$275,429 for the years ended June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, 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 \$363,974 and \$622,503 for the years ended June 30, 2018 and 2017, respectively.

Total revenues arising from the above contracts amounted to \$642,943 and \$897,932, representing 37% and 33% of total support and revenues for the years ended June 30, 2018 and 2017, respectively.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Continued)

9. FUNDRAISING ACTIVITIES (Continued):

The results of fundraising events are summarized below:

	Gross Proceeds	Direct Costs	Net Event Revenues	
			2018	2017
Women Honoring Women Luncheon	\$ 139,827	\$ 25,024	\$ 114,803	\$ 110,295
Concert	56,511	20,351	36,160	15,990
Holiday Store	11,358	10,321	1,037	5,182
Total	<u>\$ 207,696</u>	<u>\$ 55,696</u>	<u>\$ 152,000</u>	<u>\$ 131,467</u>

10. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2018 and 2017, the Organization recognized the following in-kind contributions in its financial statements:

	2018	2017
Volunteer services	\$ 83,496	\$ 76,386
Special event costs	802	27,794
Books and program supplies	24,953	9,405
Capitalized costs	2,260	614
Total	<u>\$ 111,511</u>	<u>\$ 114,199</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. The Organization matched \$1,823 and \$2,569 for the years ended June 30, 2018 and 2017, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(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 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.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (3,311,916)	\$ (3,149,526)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(233,568)</u>	<u>(162,390)</u>
Ending accumulated surplus (deficit) retention fund pool	<u>\$ (3,545,484)</u>	<u>\$ (3,311,916)</u>

14. RELASSIFICATION:

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 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, 2018, 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 November 14, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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
November 14, 2018