

**WELLSPRING HOUSE, INC.**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**JUNE 30, 2019 AND 2018**

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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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, 2019, 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, 2019, 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 September 19, 2019 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 2018 financial statements, and our report dated November 14, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Topsfield, Massachusetts  
September 19, 2019

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018

ASSETS	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	\$ 404,788	\$ 450,075
Program services fees receivable	123,527	134,778
Grants receivable and unconditional promises to give	174,700	103,884
Prepaid expenses	17,536	14,609
Total current assets	720,551	703,346
PROPERTY AND EQUIPMENT - At cost	2,039,122	1,984,916
Less accumulated depreciation	1,285,038	1,228,338
Net property and equipment	754,084	756,578
OTHER ASSETS:		
Cash and cash equivalents - restricted for capital improvements	75,000	37,539
Board designated endowment		
Cash and cash equivalents	83,334	63,647
Investments	1,224,944	1,140,636
Endowment		
Cash and cash equivalents	5,261	24,519
Investments	134,836	91,122
Total other assets	1,523,375	1,357,463
TOTAL ASSETS	\$ 2,998,010	\$ 2,817,387
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 14,563	\$ 14,014
Accounts payable and accrued expenses	99,732	115,459
Accrued payroll and benefits	59,214	50,333
Total current liabilities	173,509	179,806
LONG-TERM DEBT - less current maturities	148,440	162,984
Total liabilities	321,949	342,790
NET ASSETS:		
Without donor restrictions:		
Undesignated	1,039,059	1,044,672
Designated by the Board for endowment	1,272,298	1,204,283
Total net assets without donor restrictions	2,311,357	2,248,955
With donor restrictions	364,704	225,642
TOTAL NET ASSETS	2,676,061	2,474,597
TOTAL LIABILITIES AND NET ASSETS	\$ 2,998,010	\$ 2,817,387

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019  
*(with comparative totals for the year ended June 30, 2018)*

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2019	TOTAL 2018
<b>OPERATING REVENUES AND OTHER SUPPORT:</b>				
Contributions and grants	\$ 525,714	\$ 622,742	\$ 1,148,456	\$ 865,895
Fundraising events, net	200,174	-	200,174	152,000
In-kind goods and services	119,106	-	119,106	111,511
Program service fees	760,896	-	760,896	742,076
Rental income	138,472	-	138,472	142,377
Other income	8,540	-	8,540	-
Net assets released from restrictions	561,577	(561,577)	-	-
Total operating revenues and other support	2,314,479	61,165	2,375,644	2,013,859
<b>OPERATING EXPENSES:</b>				
Program services:				
Family shelter	806,025	-	806,025	855,717
Affordable housing	148,414	-	148,414	153,774
Mediclerk	186,327	-	186,327	182,469
Community education	655,439	-	655,439	588,874
Total program services	1,796,205	-	1,796,205	1,780,834
Supporting services:				
General and administrative	263,454	-	263,454	250,325
Fundraising	360,649	-	360,649	300,824
Total supporting services	624,103	-	624,103	551,149
Total operating expenses	2,420,308	-	2,420,308	2,331,983
CHANGE IN NET ASSETS FROM OPERATIONS	(105,829)	61,165	(44,665)	(318,124)
<b>NON-OPERATING ACTIVITIES:</b>				
Realized and unrealized gain on investments	71,307	7,936	79,243	39,037
Interest and dividend income	25,288	-	25,288	20,838
Contributions and grants, non-operating	14,097	127,500	141,597	178,974
Net assets released from restrictions, non-operating	57,539	(57,539)	-	-
Total non-operating activities	168,231	77,897	246,128	238,849
TOTAL CHANGE IN NET ASSETS	62,402	139,062	201,464	(79,275)
NET ASSETS AT BEGINNING OF YEAR	2,248,955	225,642	2,474,597	2,553,872
NET ASSETS AT END OF YEAR	\$ 2,311,357	\$ 364,704	\$ 2,676,061	\$ 2,474,597

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019  
*(with comparative totals for the year ended June 30, 2018)*

	Family Shelter	Affordable Housing	Mediclerk	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2019	Total 2018
<b>Personnel:</b>									
Salaries	\$ 378,396	\$ 42,843	\$ 154,370	\$ 360,484	\$ 936,093	\$ 122,219	\$ 227,633	\$ 1,285,945	\$ 1,207,879
Payroll taxes	34,687	3,927	14,151	33,045	85,810	11,205	20,867	117,882	111,322
Fringe benefits	48,314	576	1,389	50,196	100,475	15,623	23,045	139,143	144,083
<b>Total personnel expenses</b>	<b>461,397</b>	<b>47,346</b>	<b>169,910</b>	<b>443,725</b>	<b>1,122,378</b>	<b>149,047</b>	<b>271,545</b>	<b>1,542,970</b>	<b>1,463,284</b>
Contractual services	249,732	3,915	-	12,956	266,603	45,831	7,893	320,327	302,448
In-kind expenses	6,934	2,748	2,360	75,337	87,379	-	31,727	119,106	111,511
Repairs and maintenance	3,187	38,055	-	13,812	55,054	3,187	3,187	61,428	72,788
Special events costs	-	-	-	-	-	-	59,262	59,262	55,696
Depreciation and amortization	14,175	14,175	-	14,175	42,525	7,371	6,804	56,700	57,233
Insurance	8,231	8,231	-	8,231	24,693	6,311	3,951	34,955	31,408
Professional fees	2,469	909	102	2,160	5,640	27,563	617	33,820	48,474
Scholarship/client assistance	14,999	-	-	18,558	33,557	-	-	33,557	39,382
Utilities	1,199	19,553	-	5,200	25,952	1,199	1,199	28,350	29,681
Travel	5,848	-	698	21,739	28,285	-	59	28,344	17,311
Network expense	5,369	3,355	3,355	6,710	18,789	4,026	4,026	26,841	28,099
Program supplies	3,831	168	5,565	10,281	19,845	-	-	19,845	14,061
Participant expenses	15,269	-	-	-	15,269	-	-	15,269	-
Printing	272	-	322	694	1,288	385	13,620	15,293	15,801
Telephone and internet	4,140	3,760	-	3,546	11,446	1,377	1,900	14,723	15,583
Equipment	5,804	3,364	651	2,338	12,157	769	1,269	14,195	7,317
Subscriptions/program material	845	-	1,698	7,864	10,407	1,301	1,702	13,410	14,325
Food	38	50	584	887	1,559	7,323	813	9,695	11,178
Interest expense	893	1,002	-	3,868	5,763	892	892	7,547	8,605
Bank charges	-	-	-	-	-	12	5,475	5,487	4,636
Office expense	58	257	825	704	1,844	1,863	1,181	4,888	8,225
Household supplies	278	1,460	-	918	2,656	212	1,445	4,313	8,607
Staff training	319	-	-	863	1,182	1,770	127	3,079	1,881
Postage	423	66	257	528	1,274	504	1,044	2,822	5,662
Miscellaneous	-	-	-	105	105	1,971	173	2,249	380
Advertising	315	-	-	240	555	540	-	1,095	2,957
Real estate taxes	-	-	-	-	-	-	-	-	11,146
<b>Total expenses by function</b>	<b>806,025</b>	<b>148,414</b>	<b>186,327</b>	<b>655,439</b>	<b>1,796,205</b>	<b>263,454</b>	<b>419,911</b>	<b>2,479,570</b>	<b>2,387,679</b>
Less expenses included with revenues on the statement of activities - Special event costs	-	-	-	-	-	-	(59,262)	(59,262)	(55,696)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 806,025</b>	<b>\$ 148,414</b>	<b>\$ 186,327</b>	<b>\$ 655,439</b>	<b>\$ 1,796,205</b>	<b>\$ 263,454</b>	<b>\$ 360,649</b>	<b>\$ 2,420,308</b>	<b>\$ 2,331,983</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, 2019 AND 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 201,464	\$ (79,275)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	56,700	57,233
Realized and unrealized gains on investments	(79,243)	(39,037)
Contributions and grants restricted for long-term purposes	(127,500)	(178,974)
In-kind securities contributions	(22,131)	(27,912)
Proceeds from sale of securities contributions	22,131	27,909
Cash provided by (used in) changes in:		
Program service fees receivable	11,251	(48,954)
Grants receivable and unconditional promises to give	(70,816)	64,488
Prepaid expenses	(2,927)	5,507
Accounts payable and accrued expenses	(15,727)	10,878
Accrued payroll and benefits	8,881	(3,688)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(17,918)</b>	<b>(211,825)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(54,206)	(29,814)
Decrease (increase) in cash and cash equivalents - board designated endowment	19,258	(2,238)
Increase in cash and cash equivalents - endowment	(19,687)	(24,519)
Increase in cash and cash equivalents restricted for capital improvements	(37,461)	(36,931)
Proceeds from sale of investments	318,299	258,643
Purchases of investments	(329,188)	(309,019)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(102,985)</b>	<b>(143,878)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions and grants non-operating	127,500	178,974
Payments on long-term debt	(13,995)	(13,404)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>113,505</b>	<b>165,570</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(7,398)</b>	<b>(190,133)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>575,780</b>	<b>765,913</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 568,383</b>	<b>\$ 575,780</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	\$ 404,788	\$ 450,075
Cash and cash equivalents restricted for capital improvements	75,000	37,539
Cash and cash equivalents - board designated endowment	83,334	63,647
Cash and cash equivalents - endowment	5,261	24,519
<b>Total cash and cash equivalents at end of year</b>	<b>\$ 568,383</b>	<b>\$ 575,780</b>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>		
Cash paid during the years for -		
Interest	\$ 7,547	\$ 8,605
<b><u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</u></b>		
Various noncash donations -		
Securities	\$ 22,131	\$ 27,912

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



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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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.

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.

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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(Continued)

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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 its 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.

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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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

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.

Classification and Reporting 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. 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.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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

Revenue Recognition (Continued)

Program services fees are associated with its Family Shelter, Affordable Housing, Mediclerk, and Community Education programs. Majority of the funding for these programs comes from The Commonwealth of Massachusetts contractual funding.

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 amongst its programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly to those programs. The cost of providing for the programs and other activities has been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. 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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 19, 2019, 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 2016-14, 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 restated into the 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. At June 30, 2019 the endowment fund was not underwater. At June 30, 2018, the Organization's endowment fund was underwater by \$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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, 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.

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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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

Grants Receivable and Unconditional Promises to Give

Grants receivable and unconditional promises to give 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 unconditional promises to give. Therefore, if unconditional promises to give become uncollectible, they will be charged as an expense when that determination is made. For the years ended June 30, 2019 and 2018, there were no unconditional promises to give 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.

Investments

The Organization has adopted accounting principles generally accepted in the United States of America and established a framework for measuring fair value and provided expanded disclosures about fair value measurements. Under accounting principles generally accepted in the United States of America, 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, generally accepted accounting principles in the United States of America 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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

Investments (Continued)

All investments include listed cash and cash equivalents and 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.

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.

<u>Assets</u>	<u>Estimated Useful Lives in Years</u>
Buildings	30
Building improvements	10-20
Furniture and equipment	3-7

Impairment of Long-Lived Assets

In accordance with accounting principles generally accepted in the United States of America, the Organization has given consideration to the impairment or of long-lived assets, in its presentation of these financial statements. As of June 30, 2019, the Organization has not recognized any reduction in the carrying value of its property.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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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, 2019, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2019 and 2018, 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	\$ 404,788
Program services receivable	123,527
Grants and unconditional promises to give	174,700
Cash and cash equivalents - Board designated endowment	88,595
Investments - Board designated endowment	1,183,703
	<u>\$ 1,975,313</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 \$1,272,298 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.

The Organization has available a \$300,000 line of credit to assist operationally as needed.

(Continued)



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

3. GRANTS RECEIVABLE AND UNCONDITIONAL PROMISES TO GIVE:

At June 30, 2019 and 2018, grants receivable and unconditional promises to give were comprised of the following:

	2019	2018
Receivable in less than one year	\$ 174,700	\$ 103,884
Receivable in one to five years	-	-
Total grants and unconditional promises to give	\$ 174,700	\$ 103,884

4. BOARD DESIGNATED AND ENDOWMENT INVESTMENTS:

As of June 30, 2019 and 2018, investments cost and unrealized gains and losses consisted of the following:

	June 30, 2019		June 30, 2018	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 88,595	\$ 88,595	\$ 88,166	\$ 88,166
Certificate of deposit	-	-	30,763	30,763
Exchange traded funds	1,133,897	1,359,780	963,622	1,200,995
	\$ 1,222,492	\$ 1,448,375	\$ 1,082,551	\$ 1,319,924

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

	June 30, 2019			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 88,595	\$ -	\$ -	\$ 88,595
Certificate of deposit	-	-	-	-
Exchange traded funds	1,359,780	-	-	1,359,780
	\$ 1,448,375	\$ -	\$ -	\$ 1,448,375

  

	June 30, 2018			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 88,166	\$ -	\$ -	\$ 88,166
Certificate of deposit	-	30,763	-	30,763
Exchange traded funds	1,200,995	-	-	1,200,995
	\$ 1,289,161	\$ 30,763	\$ -	\$ 1,319,924

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(Continued)

4. BOARD DESIGNATED AND 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, 2019 and 2018 is comprised of the following:

	2019	2018
Interest and dividends, net	\$ 25,288	\$ 20,838
Realized gain (loss) on investments	367	(1,048)
Unrealized gain on investments	78,876	40,085
	<u>\$ 104,531</u>	<u>\$ 59,875</u>

Investment fees of \$5,622 and \$3,889 for the years ended June 30, 2019 and 2018, respectively were offset against interest and dividend income.

5. PROPERTY AND EQUIPMENT:

At June 30, 2019 and 2018, property and equipment was comprised as follows:

	2019	2018
Land	\$ 83,957	\$ 83,957
Land improvements	249,892	249,892
Buildings	764,099	764,099
Building improvements	872,010	828,104
Furniture and equipment	69,164	58,864
	<u>2,039,122</u>	<u>1,984,916</u>
Less accumulated depreciation	<u>1,285,038</u>	<u>1,228,338</u>
Property and equipment - net	<u>\$ 754,084</u>	<u>\$ 756,578</u>

Depreciation of property and equipment was \$56,700 and \$57,233 for the years ended June 30, 2019 and 2018, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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6. LONG-TERM DEBT:

At June 30, 2019 and 2018, long-term debt was comprised as follows:

	<u>2019</u>	<u>2018</u>
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	\$ 155,914	\$ 168,896
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	7,089	8,102
	<u>163,003</u>	<u>176,998</u>
Less - current portion of long-term debt	<u>(14,563)</u>	<u>(14,014)</u>
	<u>\$ 148,440</u>	<u>\$ 162,984</u>

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

June 2020	\$ 14,563
2021	15,214
2022	15,874
2023	16,567
2024	17,281
Thereafter	83,504

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, 2019). There were no amounts outstanding on this agreement at June 30, 2019 and 2018.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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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.

As of June 30, 2019 and 2018, the aggregate balance of the Board Designated Endowment Fund was \$1,272,298 (of which \$295,564 represents the Robert Clark Rogers Education Opportunity Fund) and \$1,204,283 (of which \$253,319 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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

Composition of and changes in endowment net assets for the years ended June 30, 2019 and 2018 were as follows:

	Without Donor Restrictions 2019	With Donor Restrictions 2019	Total 2019
Endowment Fund, beginning of year	\$ 1,204,283	\$ 115,641	\$ 1,319,924
Investment return:			
Investment income	24,577	-	24,577
Net appreciation	69,599	7,936	77,535
Contributions and designations	14,097	52,500	66,597
Amounts appropriated for expenditure	(40,258)	-	(40,258)
Endowment Fund, end of year	<u>\$ 1,272,298</u>	<u>\$ 176,077</u>	<u>\$ 1,448,375</u>
	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 depreciation	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	7936	(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, 2019 AND 2018  
(Continued)

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

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 at June 30, 2019 and 2018:

	2019	2018
Restricted for future use	\$ 75,500	\$ 56,334
Education programs	90,627	16,128
Capital improvements	75,000	37,539
Endowment	123,577	115,641
	<hr/>	<hr/>
Total	\$ 364,704	\$ 225,642

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

	2019	2018
Education programs	\$ 296,675	\$ 271,905
Homelessness prevention fund	102,500	111,200
Mediclerk	81,000	115,831
Capital improvements	57,539	10,254
Time restrictions elapsed	48,000	5,227
Family shelter	31,500	20,700
Board endowment	-	9,200
First jobs	1,902	1,902
	<hr/>	<hr/>
Total	\$ 619,115	\$ 546,219

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 \$279,877 and \$278,969 for the years ended June 30, 2019 and 2018, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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8. GOVERNMENT CONTRACTS (Continued):

During the years ended June 30, 2019 and 2018, 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 \$352,959 and \$363,974 for the years ended June 30, 2019 and 2018, respectively.

Total revenues arising from the above contracts amounted to \$632,836 and \$642,943, representing 27% and 32% of total support and revenues for the years ended June 30, 2019 and 2018, 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.

The results of fundraising events are summarized below:

	Gross Proceeds	Direct Costs	Net Event Revenues	
			2019	2018
Women Honoring Women Luncheon	\$ 153,575	\$ 22,481	\$ 131,094	\$ 114,803
Concert	92,221	24,744	67,477	36,160
Holiday Store	13,640	12,037	1,603	1,037
Total	<u>\$ 259,436</u>	<u>\$ 59,262</u>	<u>\$ 200,174</u>	<u>\$ 152,000</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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10. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2019 and 2018, the Organization recognized the following in-kind contributions in its financial statements:

	2019	2018
Volunteer services	\$ 85,916	\$ 83,496
Books and program supplies	28,070	24,953
Special event costs	5,120	802
Capitalized costs	-	2,260
	<hr/>	<hr/>
Total	\$ 119,106	\$ 111,511

The Organization received 4,905 hours of donated services that supported program services and fundraising. At \$20 and \$12 per hour, respectively, this amounts to \$74,356 and \$11,560 of additional contributions and expenses for program services and fundraising. These hourly rates are the estimated value per volunteer time based upon teacher and staff rates. 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 \$8,531 and \$1,823 for the years ended June 30, 2019 and 2018, respectively.

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.

(Continued)



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018  
(Continued)

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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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Beginning accumulated surplus (deficit) retention fund pool	\$ (3,545,484)	\$ (3,311,916)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(203,357)</u>	<u>(233,568)</u>
Ending accumulated surplus (deficit) retention fund pool	<u>\$ (3,748,841)</u>	<u>\$ (3,545,484)</u>

14. COMPOSITE SCORE:

In accordance with the Department of Education's compliance requirement 34 CFR 668.172, the calculated composite score was 2.9 and 2.3 for the years ended June 30, 2019 and 2018, respectively.

15. RELASSIFICATION:

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 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, 2019, 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 September 19, 2019.

***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, appearing to read "BJHC PC". The letters are bold and stylized, with some overlapping.

Topsfield, Massachusetts  
September 19, 2019