

**WELLSPRING HOUSE, INC.**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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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, 2020, 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, 2020, 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 18, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 18, 2020

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents	\$ 612,773	\$ 404,788
Program services fees receivable	106,858	123,527
Grants receivable and unconditional promises to give	89,743	174,700
Prepaid expenses	31,165	17,536
Total current assets	840,539	720,551
PROPERTY AND EQUIPMENT - At cost	2,166,661	2,039,122
Less accumulated depreciation	1,346,902	1,285,038
Net property and equipment	819,759	754,084
OTHER ASSETS:		
Grants and pledges receivable, net of current portion	66,667	-
Cash and cash equivalents - restricted for capital improvements	1,413	75,000
Board designated endowment		
Cash and cash equivalents	51,001	83,334
Investments	1,330,043	1,224,944
Endowment		
Cash and cash equivalents	1,399	5,261
Investments	149,512	134,836
Total other assets	1,600,035	1,523,375
TOTAL ASSETS	\$ 3,260,333	\$ 2,998,010
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of term loans	\$ 161,494	\$ 14,563
Current portion of capital lease obligations	7,234	-
Accounts payable and accrued expenses	95,278	99,732
Accrued payroll and benefits	93,588	59,214
Total current liabilities	357,594	173,509
LONG-TERM DEBT:		
Term loans	281,733	148,440
Capital lease obligations	10,204	-
Total liabilities	649,531	321,949
NET ASSETS:		
Without donor restrictions:		
Undesignated	941,224	1,039,059
Designated by the Board for endowment	1,354,378	1,272,298
Total net assets without donor restrictions	2,295,602	2,311,357
With donor restrictions	315,200	364,704
TOTAL NET ASSETS	2,610,802	2,676,061
TOTAL LIABILITIES AND NET ASSETS	\$ 3,260,333	\$ 2,998,010

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020  
*(with comparative totals for the year ended June 30, 2019)*

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2020	TOTAL 2019
OPERATING REVENUES AND OTHER SUPPORT:				
Contributions and grants	\$ 579,516	\$ 627,275	\$ 1,206,791	\$ 1,148,456
Fundraising events, net	103,196	-	103,196	200,174
In-kind goods and services	111,842	-	111,842	119,106
Program service fees	742,460	-	742,460	760,896
Rental income	138,534	-	138,534	138,472
Other income	5,517	-	5,517	8,540
Net assets released from restrictions	604,692	(604,692)	-	-
Total operating revenues and other support	2,285,757	22,583	2,308,340	2,375,644
OPERATING EXPENSES:				
Program services:				
Family shelter	832,141	-	832,141	806,025
Affordable housing	142,754	-	142,754	148,414
Mediclerk	209,176	-	209,176	186,327
Community education	660,686	-	660,686	655,439
Total program services	1,844,757	-	1,844,757	1,796,205
Supporting services:				
General and administrative	255,613	-	255,613	263,454
Fundraising	370,180	-	370,180	360,649
Total supporting services	625,793	-	625,793	624,103
Total operating expenses	2,470,550	-	2,470,550	2,420,308
CHANGE IN NET ASSETS FROM OPERATIONS	(184,793)	22,583	(162,210)	(44,664)
NON-OPERATING ACTIVITIES:				
Realized and unrealized gain on investments	55,479	-	55,479	79,243
Interest and dividend income	29,472	-	29,472	25,288
Contributions and grants, non-operating	10,500	1,500	12,000	141,597
Net assets released from restrictions, non-operating	73,587	(73,587)	-	-
Total non-operating activities	169,038	(72,087)	96,951	246,128
TOTAL CHANGE IN NET ASSETS	(15,755)	(49,504)	(65,259)	201,464
NET ASSETS AT BEGINNING OF YEAR	2,311,357	364,704	2,676,061	2,474,597
NET ASSETS AT END OF YEAR	\$ 2,295,602	\$ 315,200	\$ 2,610,802	\$ 2,676,061

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2020  
*(with comparative totals for the year ended June 30, 2019)*

	Family Shelter	Affordable Housing	Mediclerk	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2020	Total 2019
Personnel:									
Salaries	\$ 411,291	\$ 44,261	\$ 168,594	\$ 409,737	\$ 1,033,883	\$ 138,964	\$ 229,928	\$ 1,402,775	\$ 1,285,945
Payroll taxes	38,600	4,154	15,431	38,846	97,031	13,042	21,580	131,653	117,882
Fringe benefits	47,652	531	4,761	40,023	92,967	24,452	28,368	145,787	139,143
Total personnel expenses	497,543	48,946	188,786	488,606	1,223,881	176,458	279,876	1,680,215	1,542,970
Contractual services	234,575	-	2,070	31,716	268,361	13,400	5,182	286,943	320,327
In-kind expenses	9,460	6,151	1,399	46,263	63,273	-	40,325	103,598	119,106
Depreciation and amortization	15,466	15,466	-	15,466	46,398	7,733	7,733	61,864	56,700
Repairs and maintenance	3,460	33,131	-	14,994	51,585	3,460	3,460	58,505	61,428
Insurance	8,470	8,470	-	8,470	25,410	6,509	4,235	36,154	34,955
Professional fees	3,517	940	3,384	3,078	10,919	23,709	879	35,507	33,820
Network expense	6,145	3,840	3,840	7,680	21,505	4,608	4,608	30,721	26,841
Scholarship/client assistance	20,997	-	-	8,098	29,095	-	-	29,095	33,557
Utilities	1,001	17,934	-	4,336	23,271	1,001	1,001	25,273	28,350
Special events costs	-	-	-	-	-	-	21,525	21,525	59,262
Subscriptions/program material	500	-	3,247	10,193	13,940	3,624	1,427	18,991	13,410
Program supplies	7,934	-	3,158	5,232	16,324	-	-	16,324	19,845
Telephone and internet	4,443	3,806	-	3,246	11,495	1,792	1,749	15,036	14,723
Printing	13	-	42	231	286	75	10,287	10,648	15,293
Participant expenses	9,221	-	-	-	9,221	-	-	9,221	15,269
Travel	2,958	-	573	4,559	8,090	-	363	8,453	28,344
Interest expense	966	822	153	3,715	5,656	990	975	7,621	7,547
Equipment	4,650	613	465	1,041	6,769	535	240	7,544	14,195
Food	91	65	234	429	819	5,739	14	6,572	9,695
Office expense	172	83	-	771	1,026	1,869	1,659	4,554	4,888
Household supplies	221	2,442	-	964	3,627	225	574	4,426	4,313
Staff training	-	-	1,400	336	1,736	1,712	23	3,471	3,079
Postage	338	45	193	387	963	297	1,881	3,141	2,822
Bank charges	-	-	-	-	-	56	2,990	3,046	5,487
Miscellaneous	-	-	-	-	-	1,821	699	2,520	2,249
Advertising	-	-	232	875	1,107	-	-	1,107	1,095
Total expenses by function	832,141	142,754	209,176	660,686	1,844,757	255,613	391,705	2,492,075	2,479,570
Less expenses included with revenues on the statement of activities - Special event costs	-	-	-	-	-	-	(21,525)	(21,525)	(59,262)
Total expenses included in the expense section on the statement of activities	\$ 832,141	\$ 142,754	\$ 209,176	\$ 660,686	\$ 1,844,757	\$ 255,613	\$ 370,180	\$ 2,470,550	\$ 2,420,308

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (65,259)	\$ 201,464
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	61,864	56,700
Realized and unrealized gains on investments	(55,479)	(79,243)
Contributions and grants restricted for long-term purposes	(1,500)	(127,500)
In-kind securities contributions	(40,605)	(22,131)
Proceeds from sale of securities contributions	40,605	22,131
Cash provided by (used in) changes in:		
Program service fees receivable	16,669	11,251
Grants receivable and unconditional promises to give	18,290	(70,816)
Prepaid expenses	(13,629)	(2,927)
Accounts payable and accrued expenses	(4,454)	(15,727)
Accrued payroll and benefits	34,374	8,881
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(9,124)</b>	<b>(17,917)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(127,539)	(54,206)
Proceeds from sale of investments	382,746	318,299
Purchases of investments	(447,042)	(329,189)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(191,835)</b>	<b>(65,096)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions and grants non-operating	1,500	127,500
Proceeds on term loans	294,900	-
Payments on term loans	(14,676)	(13,995)
Borrowings on capital lease obligations	22,045	-
Payments on capital lease obligations	(4,607)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>299,162</b>	<b>113,505</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>98,203</b>	<b>30,492</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>568,383</b>	<b>537,890</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 666,586</b>	<b>\$ 568,383</b>

(Continued)

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



WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019  
(Continued)

	2020	2019
<b>CASH AND CASH EQUIVALENTS:</b>		
Cash and cash equivalents	\$ 612,773	\$ 404,788
Cash and cash equivalents restricted for capital improvements	1,413	75,000
Cash and cash equivalents - board designated endowment	51,001	83,334
Cash and cash equivalents - endowment	1,399	5,261
	<hr/>	<hr/>
Total cash and cash equivalents at end of year	<u>\$ 666,586</u>	<u>\$ 568,383</u>
 <b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>		
Cash paid during the years for -		
Interest	\$ 7,621	\$ 7,547
 <b><u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING</u></b>		
Various noncash donations -		
Securities	\$ 40,605	\$ 22,131

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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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, 2020 AND 2019

(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). Wellspring offers computer classes (day and evening) which help students learn Word, Excel and PowerPoint skills to update their resumes. Wellspring also offers 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, 2020 AND 2019

(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.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(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. The 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, 2020 AND 2019

(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 18, 2020, the date the financial statements were available to be issued.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with 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, 2019, 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.

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, 2020 and 2019, there were no unconditional promises to give that were considered uncollectible and no bad debts arising from grant commitments.

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WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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

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.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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

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>
Land Improvements	20-30
Buildings	30
Building improvements	10-20
Furniture and equipment	3-7
Software development	5

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, 2020, the Organization has not recognized any reduction in the carrying value of its property.

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, 2020, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2020 and 2019, 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. Total advertising costs were \$1,107 and \$1,095 for the years ending June 30, 2020 and 2019, respectively.

(Continued)



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 612,773	\$ 404,788
Program services receivable	106,858	123,527
Grants and unconditional promises to give	89,743	174,700
Cash and cash equivalents - Board designated endowment	52,400	88,595
Investments - Board designated endowment	1,301,978	1,183,703
	<u>\$ 2,163,752</u>	<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 \$1,354,378 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.

3. GRANTS RECEIVABLE AND UNCONDITIONAL PROMISES TO GIVE:

At June 30, 2020 and 2019, grants receivable and unconditional promises to give were comprised of the following:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 89,743	\$ 174,700
Receivable in one to five years	66,667	-
	<u>\$ 156,410</u>	<u>\$ 174,700</u>

At June 30, 2020 the discounted net present value of long term grants and pledges receivable approximate the realizable value.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019  
(Continued)

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4. BOARD DESIGNATED AND ENDOWMENT INVESTMENTS:

As of June 30, 2020 and 2019, investments cost and unrealized gains and losses consisted of the following:

	June 30, 2020		June 30, 2019	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 52,400	\$ 52,400	\$ 88,595	\$ 88,595
Exchange traded funds	1,506,975	1,479,555	1,133,897	1,359,780
	\$ 1,559,375	\$ 1,531,955	\$ 1,222,492	\$ 1,448,375

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

	June 30, 2020			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 52,400	\$ -	\$ -	\$ 52,400
Exchange traded funds	1,479,555	-	-	1,479,555
	\$ 1,531,955	\$ -	\$ -	\$ 1,531,955

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

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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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, 2020 and 2019 is comprised of the following:

	2020	2019
Interest and dividends, net	\$ 29,472	\$ 25,288
Realized gain on investments	24,589	367
Unrealized gain on investments	30,890	78,876
	<u>\$ 84,951</u>	<u>\$ 104,531</u>

Investment fees of \$7,274 and \$5,622 for the years ended June 30, 2020 and 2019, respectively were offset against interest and dividend income.

5. PROPERTY AND EQUIPMENT:

At June 30, 2020 and 2019, property and equipment was comprised as follows:

	2020	2019
Land	\$ 83,957	\$ 83,957
Land improvements	249,892	249,892
Buildings	764,099	764,099
Building improvements	943,590	872,010
Furniture and equipment	81,451	69,164
Leased assets under capital leases	22,215	-
Software development	21,457	-
	<u>2,166,661</u>	<u>2,039,122</u>
Less accumulated depreciation	<u>1,346,902</u>	<u>1,285,038</u>
Property and equipment - net	<u>\$ 819,759</u>	<u>\$ 754,084</u>

Depreciation of property and equipment was \$61,864 and \$56,700 for the years ended June 30, 2020 and 2019, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019  
(Continued)

6. LONG-TERM DEBT:

At June 30, 2020 and 2019, long-term debt was comprised as follows:

	<u>2020</u>	<u>2019</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	\$ 142,362	\$ 155,914
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	5,965	7,089
Paycheck Protection Program Loan - bank, unsecured, monthly payments of \$16,582 commencing October, 2020 at an annual interest rate of 1%, matures April, 2022	294,900	-
	<u>443,227</u>	<u>163,003</u>
Less - current portion of long-term debt	<u>(161,494)</u>	<u>(14,563)</u>
	<u>\$ 281,733</u>	<u>\$ 148,440</u>

The Organization obtained a SBA Paycheck Protection Program loan on April 14, 2020 through the CARES Act totaling \$294,900. Principal may be forgiven to the extent used in accordance with the provisions of the loan program. Assuming no portion of the loan is forgiven, commencing October 14, 2020, the loan will be due in monthly installments of \$16,582 including interest (1%) through April, 2022.

Assuming no portion of the PPP loan is forgiven, aggregate annual maturities of long-term debt are as follows:

June 30, 2021	\$ 161,494
2022	164,494
2023	16,567
2024	17,281
2025	18,050
Thereafter	65,435

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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6. LONG-TERM DEBT (Continued):

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

The Organization also has a secured line of credit agreement with a bank with a maximum availability of \$300,000. Loans are collateralized by a second mortgage on the Chestnut Street, Essex Avenue and Washington Street properties, as well as all equipment, appliances, furnishings and fixtures therein. The agreement provides that any borrowings are due on demand and bear interest at the prevailing prime lending rate plus 1% (4.25% as of June 30, 2020). There were no amounts outstanding on this agreement at June 30, 2020 and 2019.

7. CAPITAL LEASE OBLIGATIONS:

The Organization has several capital lease obligations for copiers maturing at various dates through fiscal year 2023 and bearing interest rates between 5.22% and 8.05%. Future minimum lease payments under these obligations are as follows:

	June 30, 2021	\$ 8,068
	2022	8,068
	2023	<u>2,564</u>
Total payments under capital lease		18,700
Less interest		<u>(1,262)</u>
		17,438
Less current portion		<u>(7,234)</u>
		<u><u>\$ 10,204</u></u>

The equipment held under capital lease at June 30, 2020 has a cost of \$22,215 and accumulated depreciation totaling \$2,222. Depreciation expense for the year ended June 30, 2020 on the equipment under capital lease was \$2,222.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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8. DESIGNATIONS AND RESTRICTIONS OF NET ASSETS:

Board Designated Endowment Fund:

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

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, 2020 and 2019, the aggregate balance of the Board Designated Endowment Fund was \$1,354,378 (of which \$287,716 represents the Robert Clark Rogers Education Opportunity Fund) and \$1,272,298 (of which \$295,564 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, 2020 AND 2019  
(Continued)

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

Composition of and changes in endowment net assets for the years ended June 30, 2020 and 2019 were as follows:

	Without Donor Restrictions 2020	With Donor Restrictions 2020	Total 2020
Endowment Fund, beginning of year	\$ 1,272,298	\$ 176,077	\$ 1,448,375
Investment return:			
Investment income	52,568	-	52,568
Net appreciation	30,890	-	30,890
Contributions and designations	10,500	1,500	12,000
Amounts appropriated for expenditure	(11,878)	-	(11,878)
Endowment Fund, end of year	<u>\$ 1,354,378</u>	<u>\$ 177,577</u>	<u>\$ 1,531,955</u>
	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>

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, 2020, the endowment fund was not underwater.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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

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, 2020 and 2019:

	2020	2019
Restricted for future use	\$ 168,003	\$ 75,500
Education programs	22,207	90,627
Capital improvements	1,413	75,000
Endowment	123,577	123,577
Total	<u>\$ 315,200</u>	<u>\$ 364,704</u>

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

	2020	2019
Education programs	\$ 299,620	\$ 296,675
Mediclerk	127,500	81,000
Family shelter	124,000	31,500
Capital improvements	73,587	57,539
Time restrictions elapsed	29,000	48,000
Homelessness prevention fund	22,497	102,500
First jobs	2,075	1,902
Board endowment	-	-
Total	<u>\$ 678,279</u>	<u>\$ 619,116</u>

9. 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 \$287,734 and \$279,877 for the years ended June 30, 2020 and 2019, respectively.

(Continued)



WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

9. GOVERNMENT CONTRACTS (Continued):

During the years ended June 30, 2020 and 2019, 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 \$327,766 and \$352,959 for the years ended June 30, 2020 and 2019, respectively.

Total revenues arising from the above contracts amounted to \$615,500 and \$632,836, representing 27% of total support and revenues for the years ended June 30, 2020 and 2019.

10. 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	
			2020	2019
Women Honoring Women Luncheon	\$ 112,030	\$ 11,374	\$ 100,656	\$ 131,094
Concert	-	-	-	67,477
Holiday Store	12,691	10,151	2,540	1,603
Total	<u>\$ 124,721</u>	<u>\$ 21,525</u>	<u>\$ 103,196</u>	<u>\$ 200,174</u>

11. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2020 and 2019, the Organization recognized the following in-kind contributions in its financial statements:

	2020	2019
Volunteer services	\$ 54,513	\$ 85,916
Books and program supplies	49,079	28,070
Special event costs	-	5,120
Capitalized costs	8,250	-
Total	<u>\$ 111,842</u>	<u>\$ 119,106</u>

The Organization received 3,021 hours of donated services that supported program services and fundraising. At \$20 and \$12 per hour, respectively, this amounts to \$44,137 and \$10,376 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(Continued)

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12. 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 \$11,105 and \$8,531 for the years ended June 30, 2020 and 2019, respectively.

13. 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.

14. 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 its 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning accumulated deficit retention fund pool	\$ (3,748,841)	\$ (3,545,484)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(232,466)</u>	<u>(203,357)</u>
Ending accumulated deficit retention fund pool	<u>\$ (3,981,307)</u>	<u>\$ (3,748,841)</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019  
(Continued)

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15. COMPOSITE SCORE:

In accordance with the Department of Education's compliance requirement 34 CFR 668.172, the calculated composite score was 2.6 and 2.9 for the years ended June 30, 2020 and 2019, respectively.

16. RECLASSIFICATION:

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

17. SUBSEQUENT EVENT:

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of multiple businesses and organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closing. The Organization expects this matter to potentially negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

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, 2020, 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 18, 2020.

**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.

Handwritten signature in black ink that reads "BJHC PC".

Topsfield, Massachusetts  
September 18, 2020