



302 Essex Avenue
Gloucester, MA 01930

www.wellspringhouse.org

November 1, 2021

Dear Community Members,

I am writing to highlight a few important details about Wellspring's financial operations over these last two years during the time of COVID-19. Our organization is fortunate to have strong financial footing and a safety net of investments. We are also well supported by a diverse range of revenue sources which have collectively provided stability during this time of uncertainty.

In FY 2020, Wellspring ended the year with good support from individual donors and event income, meeting annual goals on both counts. Grant income declined in FY 2020 due to unexpected COVID-19 related changes in grant guidelines between March – June 2020. We ended the year with an operating deficit of \$162,210, representing 6.5% of operations. Wellspring was able to absorb this through existing cash flow and with the support of a federal Paycheck Protection Program loan, without any measurable impacts to programs, staffing, facilities, etc..

In FY 2021, Wellspring again met annual goals for individual donations and event income. Grant income exceeded our goal in large part due to a multi-year grant commitment of \$203,333 to be paid out over seven years. 100% of these funds were recognized in FY 2021 even though payments will be received over time.

Also in FY 2021, a \$294,900 federal Paycheck Protection Program loan was fully forgiven, noted as 'Government grants' on page 4 of the following audited financial statements. Cash was received and recognized as a liability in FY 2020, with the forgiveness recognized in FY 2021. Including the loan forgiveness, Wellspring ended the year with an operating surplus of \$249,352.

FY 2021 realized and unrealized gains in investments were unusually high, totaling \$361,287, also noted on page 4, 'Statement of Activities'. Some of these gains are being used to cover costs in FY 2022.

*Endless
Possibilities*

Thanks to strong staff and Board of Trustees leadership, Wellspring has remained fully operational through the coronavirus pandemic to provide the essential services that are so critical during an economic downturn.

In FY 2022 we have planned for an operating deficit of \$155,094. The Board of Trustees has authorized a \$90,000 withdrawal of investment gains to help cover the gap. Both FY 2021 and FY 2022 are important years for Wellspring's financial planning as we recover from a changed grant and foundation landscape. We continue to have strong and steady relationships with and contributions from local donors. We are also successfully expanding contracts and contract income with local educational and health care institutions and the state of Massachusetts.

Sincerely,

A handwritten signature in cursive script that reads "Melissa A. Dimond". The signature is written in black ink and is positioned above the printed name and title.

Melissa A. Dimond, Sc.M.
President & Executive Director

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

C O N T E N T S

	<u>PAGE(S)</u>
INDEPENDENT AUDITOR'S REPORT	1-2
AUDITED FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statement of Activities <i>(with comparative totals for 2020)</i>	4
Statement of Functional Expenses <i>(with comparative totals for 2020)</i>	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-25
ADDITIONAL INFORMATION -	
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 <i>Government Auditing Standards</i>	26-27



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wellspring House, Inc.

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, 2021, 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, 2021, 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 24, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 slightly slanted, with a casual, professional appearance.

Topsfield, Massachusetts
September 24, 2021

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	2021	2020
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 354,373	\$ 612,773
Program services fees receivable	229,234	106,858
Grants receivable and unconditional promises to give	92,160	89,743
Prepaid expenses	49,394	31,165
Total current assets	<u>725,161</u>	<u>840,539</u>
PROPERTY AND EQUIPMENT - At cost	2,172,888	2,166,661
Less accumulated depreciation	<u>1,413,682</u>	<u>1,346,902</u>
Net property and equipment	<u>759,206</u>	<u>819,759</u>
OTHER ASSETS:		
Grants receivable and unconditional promises to give, net of current portion	210,000	66,667
Cash and cash equivalents - restricted for capital improvements	-	1,413
Board designated endowment:		
Cash and cash equivalents	16,077	51,001
Investments	1,707,427	1,330,043
Endowment:		
Cash and cash equivalents	4,307	1,399
Investments	<u>184,651</u>	<u>149,512</u>
Total other assets	<u>2,122,462</u>	<u>1,600,035</u>
TOTAL ASSETS	<u>\$ 3,606,829</u>	<u>\$ 3,260,333</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of term loans	\$ 15,874	\$ 15,214
Current portion of capital lease obligations	7,670	7,234
Accounts payable and accrued expenses	108,424	95,278
Accrued payroll and benefits	<u>104,106</u>	<u>93,588</u>
Total current liabilities	236,074	211,314
LONG-TERM DEBT:		
Term loans	117,146	428,013
Capital lease obligations	<u>2,532</u>	<u>10,204</u>
Total liabilities	<u>355,752</u>	<u>649,531</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	1,061,183	941,224
Designated by the Board for endowment	<u>1,734,885</u>	<u>1,354,378</u>
Total net assets without donor restrictions	2,796,068	2,295,602
With donor restrictions	<u>455,009</u>	<u>315,200</u>
TOTAL NET ASSETS	<u>3,251,077</u>	<u>2,610,802</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,606,829</u>	<u>\$ 3,260,333</u>

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021
(with comparative totals for the year ended June 30, 2020)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2021	TOTAL 2020
OPERATING REVENUES AND OTHER SUPPORT:				
Contributions and grants	\$ 579,135	\$ 822,328	\$ 1,401,463	\$ 1,206,791
Government grants	294,900	-	294,900	-
Fundraising events, net	104,092	-	104,092	103,196
In-kind goods and services	44,654	-	44,654	111,842
Program service fees	820,829	-	820,829	742,460
Rental income	130,323	-	130,323	138,534
Other income	5,517	-	5,517	5,517
Net assets released from restrictions	681,106	(681,106)	-	-
Total operating revenues and other support	2,660,556	141,222	2,801,778	2,308,340
OPERATING EXPENSES:				
Program services:				
Family shelter	850,056	-	850,056	832,141
Affordable housing	163,304	-	163,304	142,754
Mediclerk	273,500	-	273,500	209,176
Community education	690,309	-	690,309	660,686
Total program services	1,977,169	-	1,977,169	1,844,757
Supporting services:				
General and administrative	252,022	-	252,022	255,613
Fundraising	323,235	-	323,235	370,180
Total supporting services	575,257	-	575,257	625,793
Total operating expenses	2,552,426	-	2,552,426	2,470,550
CHANGE IN NET ASSETS FROM OPERATIONS	108,130	141,222	249,352	(162,210)
NON-OPERATING ACTIVITIES:				
Realized and unrealized gain on investments	361,287	-	361,287	55,479
Interest and dividend income	29,286	-	29,286	29,472
Contributions and grants, non-operating	350	-	350	12,000
Net assets released from restrictions, non-operating	1,413	(1,413)	-	-
Total non-operating activities	392,336	(1,413)	390,923	96,951
TOTAL CHANGE IN NET ASSETS	500,466	139,809	640,275	(65,259)
NET ASSETS AT BEGINNING OF YEAR	2,295,602	315,200	2,610,802	2,676,061
NET ASSETS AT END OF YEAR	\$ 2,796,068	\$ 455,009	\$ 3,251,077	\$ 2,610,802

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021
(with comparative totals for the year ended June 30, 2020)

	Family Shelter	Affordable Housing	Mediclerk	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2021	Total 2020
Personnel:									
Salaries	\$ 406,811	\$ 51,342	\$ 178,856	\$ 472,984	\$ 1,109,993	\$ 131,468	\$ 213,229	\$ 1,454,690	\$ 1,402,775
Fringe benefits	47,358	260	28,334	19,226	95,178	29,208	32,946	157,332	145,787
Payroll taxes	39,929	5,040	17,555	46,424	108,948	12,904	20,929	142,781	131,653
Total personnel expenses	494,098	56,642	224,745	538,634	1,314,119	173,580	267,104	1,754,803	1,680,215
Contractual services	224,401	-	13,008	24,171	261,580	11,003	2,940	275,523	286,943
Repairs and maintenance	3,516	50,379	-	15,239	69,134	3,516	3,526	76,176	58,505
Depreciation	16,695	16,695	-	16,695	50,085	8,347	8,347	66,779	61,864
Scholarship/client assistance	47,836	-	55	6,225	54,116	-	-	54,116	29,095
In-kind expenses	7,450	1,330	210	24,411	33,401	-	11,253	44,654	103,598
Insurance	9,183	9,183	-	9,183	27,549	6,821	4,592	38,962	36,154
Professional fees	3,264	908	4,915	2,856	11,943	23,860	816	36,619	35,507
Subscriptions/program material	1,966	-	9,376	16,578	27,920	3,295	1,291	32,506	18,991
Network expense	7,268	3,645	3,645	7,290	21,848	4,736	4,373	30,957	30,721
Program supplies	2,148	-	13,583	11,358	27,089	-	-	27,089	16,324
Utilities	849	17,994	-	3,682	22,525	849	849	24,223	25,273
Participant expenses	17,934	-	-	-	17,934	-	-	17,934	9,221
Telephone and internet	4,434	4,375	-	2,604	11,413	2,122	1,752	15,287	15,036
Advertising	3,529	-	1,625	3,123	8,277	834	-	9,111	1,107
Staff training	1,447	-	1,301	3,122	5,870	2,312	641	8,823	3,471
Miscellaneous	-	-	-	-	-	6,554	987	7,541	2,520
Interest expense	920	744	141	3,353	5,158	990	885	7,033	7,621
Printing	39	-	20	55	114	-	6,779	6,893	10,648
Special events costs	-	-	-	-	-	-	4,985	4,985	21,525
Postage	306	4	294	857	1,461	292	1,912	3,665	3,141
Travel	2,633	-	450	21	3,104	-	87	3,191	8,453
Bank charges	-	-	-	-	-	211	2,916	3,127	3,046
Household supplies	22	1,128	-	95	1,245	40	1,443	2,728	4,426
Office expense	95	254	132	588	1,069	821	719	2,609	4,554
Equipment	23	23	-	101	147	1,056	23	1,226	7,544
Food	-	-	-	68	68	783	-	851	6,572
Total expenses by function	850,056	163,304	273,500	690,309	1,977,169	252,022	328,220	2,557,411	2,492,075
Less expenses included with revenues on the statement of activities -									
Special event costs	-	-	-	-	-	-	(4,985)	(4,985)	(21,525)
Total expenses included in the expense section on the statement of activities	\$ 850,056	\$ 163,304	\$ 273,500	\$ 690,309	\$ 1,977,169	\$ 252,022	\$ 323,235	\$ 2,552,426	\$ 2,470,550

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 640,275	\$ (65,259)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,779	61,864
Realized and unrealized gains on investments	(361,287)	(55,479)
Contributions and grants restricted for long-term purposes	-	(1,500)
In-kind securities contributions	(17,362)	(40,605)
Proceeds from sale of securities contributions	17,362	40,605
Discharge of note payable - bank	(294,900)	-
Cash provided by (used in) changes in:		
Program service fees receivable	(122,376)	16,669
Grants receivable and unconditional promises to give	(145,750)	18,290
Prepaid expenses	(18,229)	(13,629)
Accounts payable and accrued expenses	13,146	(4,454)
Accrued payroll and benefits	10,518	34,374
NET CASH USED IN OPERATING ACTIVITIES	(211,824)	(9,124)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(6,226)	(127,539)
Proceeds from sale of investments	462,703	382,746
Purchases of investments	(513,939)	(447,042)
NET CASH USED IN INVESTING ACTIVITIES	(57,462)	(191,835)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions and grants non-operating	-	1,500
Proceeds on term loans	-	294,900
Payments on term loans	(15,307)	(14,676)
Borrowings on capital lease obligations	-	22,045
Payments on capital lease obligations	(7,236)	(4,607)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(22,543)	299,162
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(291,829)	98,203
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	666,586	568,383
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 374,757	\$ 666,586

(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, 2021 AND 2020
(Continued)

	2021	2020
<u>CASH AND CASH EQUIVALENTS:</u>		
Cash and cash equivalents	\$ 354,373	\$ 612,773
Cash and cash equivalents restricted for capital improvements	-	1,413
Cash and cash equivalents - board designated endowment	16,077	51,001
Cash and cash equivalents - endowment	4,307	1,399
	<hr/>	<hr/>
Total cash and cash equivalents at end of year	\$ 374,757	\$ 666,586
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the years for -		
Interest	\$ 7,033	\$ 7,621
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</u>		
Various noncash donations -		
Securities	\$ 17,362	\$ 40,605

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

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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

Affordable Housing:

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

MediClerk:

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.

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.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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-) imposed 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.

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 24, 2021, 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, 2020, from which the summarized information was derived.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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

Implementation of Recent Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods and services. The guidance follows a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. There was no cumulative effect of applying ASU 2014-09.

The Organization also adopted Accounting Standards Update (ASU) no. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies guidance on how an entity determines whether a transfer of assets is a contribution or exchange transaction. The amendment also clarifies the determination of conditional contributions based on evaluating whether there is a right of return and a barrier to overcome. The amendment has been applied using the modified prospective method. There was no cumulative effect of applying ASU 2018-08.

The Organization also adopted Accounting Standards Update (ASU) no. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU no. 2020-07 requires entities to present contributed nonfinancial assets as a separate line item in the Statement of Activities and provide additional disclosures about contributions of nonfinancial assets. There was no cumulative effect of applying ASU 2020-07.

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- that is those with a measurable performance or other barrier and a right of return- are not recognized until the conditions on which they depend have been 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.

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

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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

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.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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, 2021 and 2020, 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, 2021 AND 2020

(Continued)

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

Investments (Continued)

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. Corporate and government bonds are actively traded and are determined by the closing bid price on the last business day of the fiscal year and disclosed as Level II. Mutual funds are determined by the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date 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>
Land Improvements	20-30
Buildings	30
Building improvements	10-20
Furniture and equipment	3-7
Leased assets under capital leases	3
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, 2021, 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020
(Continued)

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

Income Taxes and Uncertainty of Income Taxes (Continued)

The Organization is required to report uncertain tax positions, related interest and penalties. As of June 30, 2021, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2021 and 2020, 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 \$9,111 and \$1,107 for the years ending June 30, 2021 and 2020, respectively.

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:

	2021	2020
Cash and cash equivalents	\$ 354,373	\$ 612,773
Program services receivable	229,234	106,858
Grants and unconditional promises to give	92,160	89,743
Cash and cash equivalents - Board designated endowment	16,077	51,001
Investments - Board designated endowment	1,707,427	1,276,043
Cash and cash equivalents - Endowment	4,307	1,399
Investments - Endowment	7,074	25,935
	<u>\$ 2,410,652</u>	<u>\$ 2,163,752</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 \$1,734,885 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, 2021 AND 2020

(Continued)

3. GRANTS RECEIVABLE AND UNCONDITIONAL PROMISES TO GIVE:

At June 30, 2021 and 2020, grants receivable and unconditional promises to give were comprised of the following:

	2021	2020
Receivable in less than one year	\$ 92,160	\$ 89,743
Receivable in one to five years	150,000	66,667
Receivable over five years	60,000	-
Total grants and unconditional promises to give	\$ 302,160	\$ 156,410

At June 30, 2021 the discounted net present value of long term grants and pledges receivable approximate the realizable value.

4. BOARD DESIGNATED AND ENDOWMENT INVESTMENTS:

As of June 30, 2021 and 2020, investments cost and unrealized gains and losses consisted of the following:

	June 30, 2021		June 30, 2020	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 20,384	\$ 20,384	\$ 52,400	\$ 52,400
Exchange traded funds	1,374,367	1,892,078	1,506,975	1,479,555
	\$ 1,394,751	\$ 1,912,462	\$ 1,559,375	\$ 1,531,955

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

	June 30, 2021			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 20,384	\$ -	\$ -	\$ 20,384
Government bonds	-	70,265	-	70,265
Corporate bonds	-	419,537	-	419,537
Bond mutual funds	123,641	-	-	123,641
Exchange traded funds	1,278,635	-	-	1,278,635
	\$ 1,422,660	\$ 489,802	\$ -	\$ 1,912,462

	June 30, 2020			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 52,400	\$ -	\$ -	\$ 52,400
Government bonds	-	67,840	-	67,840
Corporate bonds	-	251,932	-	251,932
Bond mutual funds	143,982	-	-	143,982
Exchange traded funds	1,015,801	-	-	1,015,801
	\$ 1,212,183	\$ 319,772	\$ -	\$ 1,531,955

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(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, 2021 and 2020 is comprised of the following:

	2021	2020
Interest and dividends, net	\$ 29,286	\$ 29,472
Realized gain on investments	84,694	24,589
Unrealized gain on investments	276,593	30,890
	<u>\$ 390,573</u>	<u>\$ 84,951</u>

Investment fees of \$8,575 and \$7,274 for the years ended June 30, 2021 and 2020, respectively were offset against interest and dividend income.

5. PROPERTY AND EQUIPMENT:

At June 30, 2021 and 2020, property and equipment was comprised as follows:

	2021	2020
Land	\$ 83,957	\$ 83,957
Land improvements	248,142	249,892
Buildings	764,099	764,099
Building improvements	942,505	943,590
Furniture and equipment	81,970	81,451
Leased assets under capital leases	22,215	22,215
Software development	30,000	21,457
	<u>2,172,888</u>	<u>2,166,661</u>
Less accumulated depreciation	<u>1,413,682</u>	<u>1,346,902</u>
Property and equipment - net	<u>\$ 759,206</u>	<u>\$ 819,759</u>

Depreciation of property and equipment was \$66,779 and \$61,864 for the years ended June 30, 2021 and 2020, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020
(Continued)

6. TERM LOANS:

At June 30, 2021 and 2020, long-term debt was comprised as follows:

	2021	2020
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	\$ 128,162	\$ 142,362
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	4,858	5,965
Paycheck Protection Program Loan - bank, unsecured, monthly payments of \$16,582 commencing October, 2020 at an annual interest rate of 1%, forgiven February, 2021	-	294,900
	<u>133,020</u>	<u>443,227</u>
Less - current portion of term loans	<u>(15,874)</u>	<u>(161,494)</u>
Term loans, net of current portion	<u>\$ 117,146</u>	<u>\$ 281,733</u>

On April 14, 2020, the Organization received loan proceeds in the amount of \$294,900 under the Paycheck Protection Program (“PPP”). Established as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying organizations in amounts up to 2.5 times average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” as long as the borrower maintains payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. Forgiveness is reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period.

On February 24, 2021, the Organization received a complete discharge of this loan together with accrued interest totaling \$297,453. Discharge of indebtedness income is included as a government grant on the Statement of Activities.

Aggregate annual maturities of long-term debt are as follows:

June 30, 2022	\$ 15,874
2023	16,567
2024	17,281
2025	18,050
2026	18,637
Thereafter	46,611

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

6. TERM LOANS (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% (3.25% as of June 30, 2021). There were no amounts outstanding on this agreement at June 30, 2021 and 2020.

7. CAPITAL LEASE OBLIGATIONS:

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

	June 30, 2022	\$ 8,068
	2023	<u>2,564</u>
Total payments under capital lease		10,632
Less interest		<u>(430)</u>
		10,202
Less current portion		<u>(7,670)</u>
		<u><u>\$ 2,532</u></u>

The equipment held under capital lease at June 30, 2021 has a cost of \$22,216 and accumulated depreciation totaling \$6,665. Depreciation expense for the year ended June 30, 2021 on the equipment under capital lease was \$4,443.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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, 2021 and 2020, the aggregate balance of the Board Designated Endowment Fund was \$1,734,885 (of which \$341,168 represents the Robert Clark Rogers Education Opportunity Fund) and \$1,354,378 (of which \$287,716 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, 2021 AND 2020
(Continued)

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

Composition of and changes in endowment net assets for the years ended June 30, 2021 and 2020 were as follows:

	Without Donor Restrictions 2021	With Donor Restrictions 2021	Total 2021
Endowment Fund, beginning of year	\$ 1,354,378	\$ 177,577	\$ 1,531,955
Investment return:			
Investment income	112,664	-	112,664
Net appreciation	276,593	-	276,593
Contributions and designations	350	-	350
Transfers from board designated Endowment Fund	(47)	-	(47)
Amounts appropriated for expenditure	(9,053)	-	(9,053)
Endowment Fund, end of year	<u>\$ 1,734,885</u>	<u>\$ 177,577</u>	<u>\$ 1,912,462</u>
	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>

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, 2021, the endowment fund was not underwater.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020
(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, 2021 and 2020:

	2021	2020
Restricted for future use	\$ 324,000	\$ 168,003
Endowment	123,577	123,577
Education programs	7,432	22,207
Capital improvements	-	1,413
	<hr/>	<hr/>
Total	\$ 455,009	\$ 315,200

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

	2021	2020
Education programs	\$ 270,700	\$ 299,620
Homelessness prevention fund	176,769	22,497
Mediclerk	172,000	127,500
Time restrictions elapsed	33,333	29,000
Family shelter	28,304	124,000
Capital improvements	1,413	73,587
First jobs	-	2,075
	<hr/>	<hr/>
Total	\$ 682,519	\$ 678,279

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 \$278,969 and \$287,734 for the years ended June 30, 2021 and 2020, respectively.

During the years ended June 30, 2021 and 2020, 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 \$323,334 and \$327,766 for the years ended June 30, 2021 and 2020, respectively.

Total revenues arising from the above contracts amounted to \$602,303 and \$615,500, representing 21% and 27% of total support and revenues for the years ended June 30, 2021 and 2020, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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	
			2021	2020
Women Honoring Women Luncheon	\$ 99,986	\$ 4,922	\$ 95,064	\$ 100,656
Holiday Store	9,091	63	9,028	2,540
Total	<u>\$ 109,077</u>	<u>\$ 4,985</u>	<u>\$ 104,092</u>	<u>\$ 103,196</u>

11. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2021 and 2020, the Organization recognized the following in-kind contributions in its financial statements:

	2021	2020
Volunteer services	\$ 25,798	\$ 54,513
Books and program supplies	18,856	49,079
Capitalized costs	-	8,250
Total	<u>\$ 44,654</u>	<u>\$ 111,842</u>

The Organization received 1,230 hours of donated services that supported program services and fundraising. At \$21 and \$14 per hour, respectively, this amounts to \$25,730 and \$68 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.

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 \$12,274 and \$11,105 for the years ended June 30, 2021 and 2020, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

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 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beginning accumulated deficit retention fund pool	\$ (3,981,307)	\$ (3,748,841)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(237,277)</u>	<u>(232,466)</u>
Ending accumulated deficit retention fund pool	<u>\$ (4,218,584)</u>	<u>\$ (3,981,307)</u>

15. COMPOSITE SCORE:

In accordance with the Department of Education's compliance requirement 34 CFR 668.172, the calculated composite score was 2.9 and 2.6 for the years ended June 30, 2021 and 2020, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020
(Continued)

16. RELASSIFICATION:

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

17. COVID-19:

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its liquidity and actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's employees, volunteers, and vendors, all of which at present, cannot be determined. The widespread launch of mass COVID-19 vaccinations has begun in Massachusetts, however, the ultimate success of the vaccine and the length of time to complete the vaccination process is also unknown at this time. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

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, 2021, 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 24, 2021.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Topsfield, Massachusetts
September 24, 2021