

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

WELLSPRING HOUSE, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wellspring House, Inc.

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Wellspring House, Inc. as of June 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent Wellspring House, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Wellspring House, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Wellspring House, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wellspring House, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022, 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BJHC PC

Topsfield, Massachusetts
November 18, 2022

WELLSPRING HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 304,165	\$ 354,373
Program services fees receivable	246,665	229,234
Grants receivable and unconditional promises to give	221,631	92,160
Prepaid expenses	37,682	49,394
Total current assets	<u>810,143</u>	<u>725,161</u>
PROPERTY AND EQUIPMENT - At cost	2,205,488	2,172,888
Less accumulated depreciation	1,481,687	1,413,682
Net property and equipment	<u>723,801</u>	<u>759,206</u>
OTHER ASSETS:		
Grants receivable and unconditional promises to give, net of current portion	180,000	210,000
Board designated endowment:		
Cash and cash equivalents	64,627	16,077
Investments	1,466,107	1,707,427
Endowment:		
Cash and cash equivalents	41,832	4,307
Investments	127,996	184,651
Total other assets	<u>1,880,562</u>	<u>2,122,462</u>
TOTAL ASSETS	<u>\$ 3,414,506</u>	<u>\$ 3,606,829</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Line of credit	\$ 150,000	\$ -
Current portion of term loans	16,567	15,874
Current portion of capital lease obligations	1,872	7,670
Accounts payable and accrued expenses	119,896	108,424
Accrued payroll and benefits	94,354	104,106
Total current liabilities	<u>382,689</u>	<u>236,074</u>
LONG-TERM DEBT:		
Term loans	100,487	117,146
Capital lease obligations	-	2,532
Total liabilities	<u>483,176</u>	<u>355,752</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	860,889	1,061,183
Designated by the Board for endowment	1,522,985	1,734,885
Total net assets without donor restrictions	<u>2,383,874</u>	<u>2,796,068</u>
With donor restrictions	547,456	455,009
TOTAL NET ASSETS	<u>2,931,330</u>	<u>3,251,077</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,414,506</u>	<u>\$ 3,606,829</u>

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

WELLSPRING HOUSE, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(with comparative totals for the year ended June 30, 2021)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL 2022	TOTAL 2021
OPERATING REVENUES AND OTHER SUPPORT:				
Contributions and grants	\$ 679,020	\$ 728,221	\$ 1,407,241	\$ 1,401,463
Government grants	-	-	-	294,900
Fundraising events, net	83,504	-	83,504	104,092
In-kind goods and services	40,799	-	40,799	44,654
Program service fees	844,731	-	844,731	820,829
Rental income	117,247	-	117,247	130,323
Other income	5,670	-	5,670	5,517
Net assets released from restrictions	635,774	(635,774)	-	-
Total operating revenues and other support	2,406,745	92,447	2,499,192	2,801,778
OPERATING EXPENSES:				
Program services:				
Family shelter	818,046	-	818,046	850,056
Affordable housing	176,573	-	176,573	163,304
Mediclerk	333,062	-	333,062	273,500
Community education	741,332	-	741,332	690,309
Total program services	2,069,013	-	2,069,013	1,977,169
Supporting services:				
General and administrative	252,763	-	252,763	252,022
Fundraising	286,862	-	286,862	323,235
Total supporting services	539,625	-	539,625	575,257
Total operating expenses	2,608,638	-	2,608,638	2,552,426
CHANGE IN NET ASSETS FROM OPERATIONS	(201,893)	92,447	(109,446)	249,352
NON-OPERATING ACTIVITIES:				
Realized and unrealized gain (loss) on investments	(242,060)	-	(242,060)	361,287
Interest and dividend income	31,509	-	31,509	29,286
Contributions and grants, non-operating	250	-	250	350
Total non-operating activities	(210,301)	-	(210,301)	390,923
TOTAL CHANGE IN NET ASSETS	(412,194)	92,447	(319,747)	640,275
NET ASSETS AT BEGINNING OF YEAR	2,796,068	455,009	3,251,077	2,610,802
NET ASSETS AT END OF YEAR	\$ 2,383,874	\$ 547,456	\$ 2,931,330	\$ 3,251,077

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

WELLSPRING HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(with comparative totals for the year ended June 30, 2021)

	Family Shelter	Affordable Housing	Mediclerk	Community Education	Total Program Services	General and Administrative	Fundraising	Total 2022	Total 2021
Personnel:									
Salaries	\$ 445,040	\$ 55,095	\$ 203,983	\$ 514,712	\$ 1,218,830	\$ 126,046	\$ 172,751	\$ 1,517,627	\$ 1,454,690
Fringe benefits	49,624	270	29,496	31,952	111,342	30,228	16,603	158,173	157,332
Payroll taxes	40,548	4,982	18,987	47,033	111,550	13,636	16,080	141,266	142,781
Total personnel expenses	535,212	60,347	252,466	593,697	1,441,722	169,910	205,434	1,817,066	1,754,803
Contractual services	187,324	50	49,957	13,719	251,050	12,250	29,191	292,491	275,523
Repairs and maintenance	3,450	53,534	-	15,322	72,306	3,536	3,536	79,378	76,176
Depreciation	17,001	17,001	-	17,001	51,003	8,501	8,501	68,005	66,779
Insurance	9,923	9,923	-	9,923	29,769	7,181	4,961	41,911	38,962
In-kind expenses	4,035	1,175	3,061	21,416	29,687	-	11,112	40,799	44,654
Professional fees	3,409	936	3,533	2,982	10,860	25,396	852	37,108	36,619
Subscriptions/program material	603	-	11,004	19,279	30,886	4,344	1,120	36,350	32,506
Scholarship/client assistance	21,179	-	-	15,033	36,212	-	-	36,212	54,116
Network expense	6,362	3,976	3,976	7,952	22,266	4,772	4,772	31,810	30,957
Special events costs	-	-	-	-	-	-	31,139	31,139	4,985
Utilities	557	20,517	-	3,951	25,025	911	911	26,847	24,223
Program supplies	4,849	49	1,573	11,848	18,319	-	-	18,319	27,089
Telephone and internet	3,631	3,501	-	2,876	10,008	2,016	1,730	13,754	15,287
Participant expenses	13,338	-	-	-	13,338	-	-	13,338	17,934
Interest expense	754	663	66	2,941	4,424	5,343	729	10,496	7,033
Staff training	2,691	-	2,458	256	5,405	2,130	14	7,549	8,823
Equipment	116	3,304	2,241	126	5,787	29	29	5,845	1,226
Bank charges	-	-	-	-	-	985	4,698	5,683	3,127
Office expense	301	47	153	376	877	2,172	1,701	4,750	2,609
Printing	-	-	30	88	118	71	4,252	4,441	6,893
Postage	463	18	406	526	1,413	377	1,646	3,436	3,665
Travel	2,447	-	875	3	3,325	-	-	3,325	3,191
Food	119	386	457	851	1,813	1,229	120	3,162	851
Advertising	-	-	806	345	1,151	280	867	2,298	9,111
Miscellaneous	-	-	-	476	476	1,250	449	2,175	7,541
Household supplies	282	1,146	-	345	1,773	80	237	2,090	2,728
Total expenses by function	818,046	176,573	333,062	741,332	2,069,013	252,763	318,001	2,639,777	2,557,411
Less expenses included with revenues on the statement of activities - Special event costs	-	-	-	-	-	-	(31,139)	(31,139)	(4,985)
Total expenses included in the expense section on the statement of activities	\$ 818,046	\$ 176,573	\$ 333,062	\$ 741,332	\$ 2,069,013	\$ 252,763	\$ 286,862	\$ 2,608,638	\$ 2,552,426

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

WELLSPRING HOUSE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (319,747)	\$ 640,275
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,005	66,779
Realized and unrealized (gains) losses on investments	242,060	(361,287)
In-kind securities contributions	(14,822)	(17,362)
Proceeds from sale of securities contributions	14,822	17,362
Discharge of note payable - bank	-	(294,900)
Cash provided by (used in) changes in:		
Program service fees receivable	(17,431)	(122,376)
Grants receivable and unconditional promises to give	(99,471)	(145,750)
Prepaid expenses	11,712	(18,229)
Accounts payable and accrued expenses	11,472	13,146
Accrued payroll and benefits	(9,752)	10,518
NET CASH USED IN OPERATING ACTIVITIES	(113,152)	(211,824)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(32,600)	(6,226)
Proceeds from sale of investments	331,797	462,703
Purchases of investments	(275,882)	(513,939)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	23,315	(57,462)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on term loans	(15,966)	(15,307)
Payments on capital lease obligations	(8,330)	(7,236)
Advances on line of credit	150,000	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	125,704	(22,543)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,867	(291,829)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	374,757	666,586
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 410,624	\$ 374,757

(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, 2022 AND 2021
(Continued)

	2022	2021
<u>CASH AND CASH EQUIVALENTS:</u>		
Cash and cash equivalents	\$ 304,165	\$ 354,373
Cash and cash equivalents - board designated endowment	64,627	16,077
Cash and cash equivalents - endowment	41,832	4,307
Total cash and cash equivalents at end of year	<u>\$ 410,624</u>	<u>\$ 374,757</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the years for -		
Interest	\$ 10,496	\$ 7,033
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</u>		
Various noncash donations -		
Securities	\$ 14,822	\$ 17,362

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

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 850 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. Volunteers and community groups provide additional resources including celebrating special occasions such as birthdays and providing household items as families move out of shelter into their new homes.

Homelessness Prevention:

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 families remain safely housed, with key social and health services in place, 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 workforce opportunities 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, as well as for any North Shore families currently participating in a Wellspring program. Each year Wellspring fields more than 800 calls to the Homelessness Prevention Line and awards one-time grants to assist with housing or utility costs.

Wellspring continues to be a contractor for DHCD with partial services sub-contracted to Lynn Housing and Neighborhood Development (LHAND) to provide “Front Door Diversion” crisis services to families facing the threat of homelessness. Services are provided through the access point of the state of Massachusetts’ centralized Emergency Assistance Shelter phone line, where families are deemed eligible for “Emergency Assistance” (EA). 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, 2022 AND 2021

(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 / Health Care Office Support Training:

The Health Care Office Support Training program (known as MediClerk) offers job training in partnership with Salem Hospital and prepares students for medical administrative positions. Wellspring has strong partnerships with North Shore Community College (NSCC), MassHire, and the Department of Transitional Assistance to attract interested candidates to the program, and provide higher education opportunities following the completion of MediClerk. Graduates of the program are 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 20th anniversary in August 2022. Also in 2022, the Job Training Initiatives Team (of which MediClerk is a part), expanded with the addition of a health care career advisor. This has expanded our capacity to provide intensive career and educational advising to North Shore residents who are pursuing employment in any aspect of healthcare – whether through administrative or clinical roles.

Wellspring Community Education:

Wellspring's Career Pathways program is an educational advising and mentoring service that helps low-income young adult and adult students to develop informed and achievable educational plans linked to living wage jobs. Professional career and educational counselors, in conjunction with volunteer mentors, continue to support students for a minimum of 18 months. Through a close partnership with Gloucester High School, Wellspring Career Pathways staff provide career advising and counseling during the school day to Gloucester high school seniors and juniors 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 participate in a combination of online and in-person classes at the Beginner, Advanced Beginner or Intermediate Levels to build English proficiency in comprehension, verbal expression, reading, and writing. Volunteer tutors and class assistants help to round-out the ESOL offerings to supplement the learning that takes place within formal class sessions.

The College Readiness (Adult Learning) program enables low-income young adults and adults to update math and English skills, and acquire new computer skills, while earning college credits at North Shore Community College (NSCC). Wellspring offers computer classes 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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

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

Wellspring Community Education (Continued):

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

Method of Accounting

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

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 November 18, 2022, the date the financial statements were available to be issued.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with 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, 2021, from which the summarized information was derived.

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.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

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

Revenue Recognition (Continued)

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, 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.

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less to be cash or cash equivalents.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

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

Program Service Fees Receivable

Program services receivable represent amounts which are due from state and municipal agencies. These amounts are considered fully collectible. Accordingly, these financial statements do not contain a provision for uncollectible contracts receivable. If amounts owed become uncollectible, they are charged as an expense when that determination is made.

Grants 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, 2022 and 2021, 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 Board Designated and Endowment

Restricted board designated and endowment cash represents cash restricted for expenditures as outlined in the Endowment policies.

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, 2022 AND 2021

(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, 2022, 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, 2022 AND 2021
(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, 2022, the Organization determined that there were no material uncertain tax positions to report.

For the years ended June 30, 2022 and 2021, 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 \$2,298 and \$9,111 for the years ending June 30, 2022 and 2021, 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:

	2022	2021
Cash and cash equivalents	\$ 304,165	\$ 354,373
Program services receivable	246,665	229,234
Grants and unconditional promises to give	221,631	92,160
Cash and cash equivalents - Board designated endowment	64,627	16,077
Investments - Board designated endowment	1,412,107	1,653,427
Cash and cash equivalents - Endowment	41,832	4,307
Investments - Endowment	4,419	61,074
	<u>\$ 2,295,446</u>	<u>\$ 2,410,652</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 \$1,522,985 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. There is \$150,000 available on the line of credit at June 30, 2022 to assist in the operations of the Organization as needed.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

3. GRANTS RECEIVABLE AND UNCONDITIONAL PROMISES TO GIVE:

At June 30, 2022 and 2021, grants receivable and unconditional promises to give were comprised of the following:

	2022	2021
Receivable in less than one year	\$ 221,631	\$ 92,160
Receivable in one to five years	150,000	150,000
Receivable over five years	30,000	60,000
Total grants and unconditional promises to give	<u>\$ 401,631</u>	<u>\$ 302,160</u>

At June 30, 2022 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, 2022 and 2021, investments cost and unrealized gains and losses consisted of the following:

	June 30, 2022		June 30, 2021	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 106,459	\$ 106,459	\$ 20,384	\$ 20,384
Exchange traded funds	1,446,288	1,594,103	1,374,367	1,892,078
	<u>\$ 1,552,747</u>	<u>\$ 1,700,562</u>	<u>\$ 1,394,751</u>	<u>\$ 1,912,462</u>

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

	June 30, 2022			
	Level I	Level II	Level III	Total
Cash and cash equivalents	\$ 106,459	\$ -	\$ -	\$ 106,459
Government bonds	-	79,631	-	79,631
Corporate bonds	-	421,654	-	421,654
Bond mutual funds	31,305	-	-	31,305
Exchange traded funds	1,061,513	-	-	1,061,513
	<u>\$ 1,199,277</u>	<u>\$ 501,285</u>	<u>\$ -</u>	<u>\$ 1,700,562</u>

	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
	<u>\$ 1,422,660</u>	<u>\$ 489,802</u>	<u>\$ -</u>	<u>\$ 1,912,462</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(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, 2022 and 2021 is comprised of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends, net	\$ 31,509	\$ 29,286
Realized gain on investments	26,592	84,694
Unrealized gain (loss) on investments	<u>(268,652)</u>	<u>276,593</u>
	<u>\$ (210,551)</u>	<u>\$ 390,573</u>

Investment fees of \$9,745 and \$8,575 for the years ended June 30, 2022 and 2021, respectively were offset against interest and dividend income.

5. PROPERTY AND EQUIPMENT:

At June 30, 2022 and 2021, property and equipment was comprised as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 83,957	\$ 83,957
Land improvements	248,142	248,142
Buildings	764,099	764,099
Building improvements	974,381	942,505
Furniture and equipment	82,694	81,970
Leased assets under capital leases	22,215	22,215
Software development	<u>30,000</u>	<u>30,000</u>
	2,205,488	2,172,888
Less accumulated depreciation	<u>1,481,687</u>	<u>1,413,682</u>
Property and equipment - net	<u>\$ 723,801</u>	<u>\$ 759,206</u>

Depreciation of property and equipment was \$68,005 and \$66,779 for the years ended June 30, 2022 and 2021, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021
(Continued)

6. TERM LOANS:

At June 30, 2022 and 2021, long-term debt was comprised as follows:

	<u>2022</u>	<u>2021</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	\$ 113,288	\$ 128,162
Assessment for sewer betterment - City of Gloucester, annual payments of \$1,013 at an annual interest rate of 1.56%, matures May, 2026	3,766	4,858
	<u>117,054</u>	<u>133,020</u>
Less - current portion of term loans	<u>(16,567)</u>	<u>(15,874)</u>
Term loans, net of current portion	<u>\$ 100,487</u>	<u>\$ 117,146</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, 2023	\$ 16,567
2024	17,281
2025	18,050
2026	18,844
2027	19,388
Thereafter	26,924

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

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

6. TERM LOANS (Continued):

The Organization also has a secured line of credit agreement with a bank with a maximum availability of \$300,000. Loans are collateralized by a second mortgage on the Chestnut Street, Essex Avenue and Washington Street properties, as well as all equipment, appliances, furnishings and fixtures therein. The agreement provides that any borrowings are due on demand and bear interest at the prevailing prime lending rate plus 1% (5% as of June 30, 2022). \$150,000 was outstanding on this agreement at June 30, 2022. There was no amount outstanding on this agreement at June 30, 2021.

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, 2023	\$ 1,892
Less interest	<u>(20)</u>
	<u><u>\$ 1,872</u></u>

The equipment held under capital lease at June 30, 2022 has a cost of \$22,216 and accumulated depreciation totaling \$11,705. Depreciation expense for the year ended June 30, 2022 on the equipment under capital lease was \$4,443.

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, 2022 and 2021, the aggregate balance of the Board Designated Endowment Fund was \$1,522,985 (of which \$301,295 represents the Robert Clark Rogers Education Opportunity Fund) and \$1,734,885 (of which \$341,168 represents the Robert Clark Rogers Education Opportunity Fund), respectively, which is held in, government and corporate bonds, mutual funds, exchange traded funds and cash equivalents.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

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

Endowment Fund:

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

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

Composition of and changes in endowment net assets for the years ended June 30, 2022 and 2021 were as follows:

	Without Donor Restrictions 2022	With Donor Restrictions 2022	Total 2022
Endowment Fund, beginning of year	\$ 1,734,885	\$ 177,577	\$ 1,912,462
Investment return:			
Investment income	57,255	-	57,255
Net depreciation	(268,652)	-	(268,652)
Contributions and designations	-	-	-
Transfers from board designated Endowment Fund	(503)	-	(503)
Amounts appropriated for expenditure	-	-	-
Endowment Fund, end of year	<u>\$ 1,522,985</u>	<u>\$ 177,577</u>	<u>\$ 1,700,562</u>
	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>

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, 2022, the Endowment fund was not underwater.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021
(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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Restricted for future use	\$ 374,000	\$ 324,000
Endowment	123,577	123,577
Education programs	30,233	7,432
Freeman Family	7,925	-
Homelessness Prevention Fund	11,721	-
	<u>547,456</u>	<u>455,009</u>
Total	<u>\$ 547,456</u>	<u>\$ 455,009</u>

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

	<u>2022</u>	<u>2021</u>
Education programs	\$ 221,213	\$ 270,700
Homelessness prevention fund	177,880	176,769
Mediclerk	178,081	172,000
Time restrictions elapsed	30,000	33,333
Family shelter	28,600	28,304
Capital improvements	-	1,413
	<u>635,774</u>	<u>682,519</u>
Total	<u>\$ 635,774</u>	<u>\$ 682,519</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 \$283,660 and \$278,969 for the years ended June 30, 2022 and 2021, respectively.

During the years ended June 30, 2022 and 2021, 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 \$301,649 and \$323,334 for the years ended June 30, 2022 and 2021, respectively.

Total revenues arising from the above contracts amounted to \$585,309 and \$602,303, representing 24% and 21% of total support and revenues for the years ended June 30, 2022 and 2021, respectively.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(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	
			2022	2021
Wellspring's 40 Years Celebration	\$ 111,925	\$ 31,129	\$ 80,796	\$ -
Holiday Store	2,718	10	2,708	9,028
Women Honoring Women Luncheon	-	-	-	95,064
Total	<u>\$ 114,643</u>	<u>\$ 31,139</u>	<u>\$ 83,504</u>	<u>\$ 104,092</u>

11. IN-KIND GOODS AND SERVICES:

For the years ended June 30, 2022 and 2021, the Organization recognized the following in-kind contributions in its financial statements:

	2022	2021
Volunteer services	\$ 28,689	\$ 25,798
Books and program supplies	12,110	18,856
Total	<u>\$ 40,799</u>	<u>\$ 44,654</u>

The Organization received 1,374 hours of donated services that supported program services and fundraising. At \$21 and \$14.25 per hour, respectively, this amounts to \$22,276 and \$6,413 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.

Contributed educational services are provided by specifically trained educators and counselors who assist in helping clients develop and enhance their skills through group workshops and webinars. Contributed educational services are used in program services and are recognized at fair value based on current rates for similar educational services.

Contributed books, program supplies, and printing are valued using estimated U.S. wholesale prices (principal market) of identical or similar products using pricing date under a "like-kind" methodology considering the goods' condition and utility for use at the time of contribution. Contributed books and program supplies are used in the program services and printing is used for fundraising and development.

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

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 \$18,938 and \$12,274 for the years ended June 30, 2022 and 2021, 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 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Beginning accumulated deficit retention fund pool	\$ (4,218,584)	\$ (3,981,307)
Current year decrease in accumulated surplus revenue retention fund pool	<u>(218,647)</u>	<u>(237,277)</u>
Ending accumulated deficit retention fund pool	<u>\$ (4,437,231)</u>	<u>\$ (4,218,584)</u>

(Continued)

WELLSPRING HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021
(Continued)

15. COMPOSITE SCORE:

In accordance with the Department of Education's compliance requirement 34 CFR 668.172, the calculated composite score was 2.2 and 2.9 for the years ended June 30, 2022 and 2021, respectively.

16. RECLASSIFICATION:

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 presentation.



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Wellspring House, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Wellspring House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2022.

Report on 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.



Report on 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.

Handwritten signature in black ink, appearing to read "BJHC PC".

Topsfield, Massachusetts
November 18, 2022