

WELLSPRING LIVING, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

With Independent Auditor's Report Thereon

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wellspring Living, Inc.

We have audited the accompanying financial statements of Wellspring Living, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Living, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Morrow, Georgia
September 20, 2018

WELLSPRING LIVING, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS		
	2018	2017
CURRENT ASSETS		
Cash	\$ 226,423	\$ 75,876
Accounts receivable	215,668	113,134
Contributions receivable	-	36,060
Inventories	19,992	25,979
Prepaid expenses	<u>29,261</u>	<u>15,739</u>
TOTAL CURRENT ASSETS	491,344	266,788
FIXED ASSETS		
Land	150,000	150,000
Building and improvements	677,360	677,360
Leasehold improvements	843,106	835,465
Machinery and equipment	42,385	72,838
Vehicles	190,551	145,830
Construction in progress	31,160	-
Less: accumulated depreciation	<u>(669,016)</u>	<u>(695,851)</u>
TOTAL FIXED ASSETS	1,265,546	1,185,642
OTHER ASSETS		
Other assets	<u>12,375</u>	<u>13,776</u>
TOTAL ASSETS	\$ <u>1,769,265</u>	\$ <u>1,466,206</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 63,988	\$ 110,272
Accrued salaries and wages	106,479	63,609
Notes payable – current portion	118,000	512,718
Line of credit	-	35,000
Sales tax payable	2,512	6,424
Accrued interest	-	1,613
Deferred revenue	<u>45,000</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>335,979</u>	<u>729,636</u>
TOTAL LIABILITIES	<u>335,979</u>	<u>729,636</u>
NET ASSETS		
Unrestricted	<u>1,433,286</u>	<u>736,570</u>
TOTAL NET ASSETS	<u>1,433,286</u>	<u>736,570</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,769,265</u>	\$ <u>1,466,206</u>

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

WELLSPRING LIVING, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS AND OTHER SUPPORTS		
Donations	\$ 2,585,312	\$ 2,431,177
Service revenue	1,479,097	611,524
Fundraisers	509,457	276,148
Less direct benefit to donors	(90,559)	(21,711)
In-kind donations	18,002	31,517
Other revenue	2,102	41,156
Interest revenue	435	14
Loss on disposal of fixed asset	(10,825)	(2,583)
Net assets released from restriction	<u>-</u>	<u>85,212</u>
Subtotal revenues, gains and other supports	4,493,021	3,452,454
Thrift store sales	617,169	650,153
In-kind contributions - thrift stores	<u>288,356</u>	<u>312,853</u>
Subtotal thrift store revenue	<u>905,525</u>	<u>963,006</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORTS	5,398,546	4,415,460
EXPENSES		
Program activities	3,310,798	2,784,069
Thrift stores	942,387	970,919
Management and general	248,848	294,104
Fundraising	<u>199,797</u>	<u>220,537</u>
TOTAL EXPENSES	<u>4,701,830</u>	<u>4,269,629</u>
NET CHANGE IN UNRESTRICTED NET ASSETS	696,716	145,831
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restriction	<u>-</u>	<u>(85,212)</u>
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>-</u>	<u>(85,212)</u>
TOTAL CHANGE IN NET ASSETS	696,716	60,619
NET ASSETS AT BEGINNING OF YEARS	<u>736,570</u>	<u>675,951</u>
NET ASSETS AT END OF YEARS	<u>\$ 1,433,286</u>	<u>\$ 736,570</u>

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

WELLSPRING LIVING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program activities	Thrift stores	Management and general	Fundraising	Totals
Salaries and wages	\$ 2,072,260	\$ 331,611	\$ 126,071	\$ 72,590	\$ 2,602,532
Client assistance	305,203	18,899	9,605	4,067	337,774
Cost of sales	-	294,343	-	-	294,343
Rent	-	206,870	44,280	-	251,150
Professional fees	173,008	-	22,635	30,803	226,446
Payroll taxes	185,124	30,334	6,914	669	223,041
Supplies	106,915	2,926	1,045	1,742	112,628
Utilities	68,981	31,573	6,787	-	107,341
Repairs and maintenance	97,682	2,142	-	-	99,824
Insurance	74,428	862	12,391	-	87,681
Depreciation	76,746	-	-	-	76,746
Benefits	56,602	5,468	8,125	4,409	74,604
Advertising and promotions	25,007	1,457	4,300	33,993	64,757
Bank charges	1,985	15,718	1,583	28,157	47,443
Fundraising	7,119	-	-	16,611	23,730
Office expenses	16,919	53	294	3,261	20,527
Travel and transportation	12,992	131	2,559	3,423	19,105
Interest	16,323	-	1,399	49	17,771
Contract labor	13,473	-	860	-	14,333
Other store expenses	31	-	-	23	54
TOTAL EXPENSES	\$ 3,310,798	\$ 942,387	\$ 248,848	\$ 199,797	\$ 4,701,830

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

WELLSPRING LIVING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program activities	Thrift stores	Management and general	Fundraising	Totals
Salaries and wages	\$ 1,786,779	\$ 312,886	\$ 151,626	\$ 105,588	\$ 2,356,879
Client assistance	231,159	20,409	17,921	3,772	273,261
Cost of sales	-	312,478	-	-	312,478
Rent	448	196,495	43,666	-	240,609
Professional fees	166,042	20,033	13,714	16,802	216,591
Payroll taxes	174,464	29,786	-	8,510	212,760
Supplies	15,222	576	3,317	1,799	20,914
Utilities	71,116	51,253	11,433	-	133,802
Repairs and maintenance	31,893	1,750	203	-	33,846
Insurance	73,234	1,113	11,483	-	85,830
Depreciation	75,382	-	5,764	-	81,146
Benefits	92,273	2,980	13,385	4,785	113,423
Advertising and promotions	12,958	2,260	2,222	23,251	40,691
Bank charges	7,089	17,932	2,044	26,770	53,835
Fundraising	11,039	-	-	25,757	36,796
Office expenses	9,913	75	1,717	809	12,514
Travel and transportation	1,680	421	4,364	546	7,011
Interest	19,353	-	7,510	-	26,863
Contract labor	3,175	280	3,735	2,148	9,338
Other store expenses	265	192	-	-	457
Taxes and licenses	585	-	-	-	585
TOTAL EXPENSES	\$ 2,784,069	\$ 970,919	\$ 294,104	\$ 220,537	\$ 4,269,629

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

WELLSPRING LIVING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 696,716	\$ 60,619
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	76,746	81,146
Loss on disposal of fixed assets	10,825	2,583
Non-cash inventory contributions	5,987	(375)
(Increase) Decrease in operating assets		
Accounts receivable	(102,534)	(26,108)
Contributions receivable	36,060	7,938
Prepaid expenses	(13,522)	(1,612)
Deposits	1,401	3,716
(Decrease) Increase in operating liabilities		
Accounts payable	(46,284)	32,920
Accrued salaries and wages	42,870	(127,714)
Other accrued expenses	(1,613)	(3,953)
Sales tax payable	(3,912)	1,190
Deferred revenue	45,000	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>747,740</u>	<u>30,350</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(167,475)</u>	<u>(5,837)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(167,475)</u>	<u>(5,837)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	-	158,000
Repayments of loans	<u>(429,718)</u>	<u>(242,523)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(429,718)</u>	<u>(84,523)</u>
NET CHANGE IN CASH	150,547	(60,010)
CASH AT BEGINNING OF YEARS	<u>75,876</u>	<u>135,886</u>
CASH AT END OF YEARS	<u>\$ 226,423</u>	<u>\$ 75,876</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 17,757</u>	<u>\$ 23,306</u>
Non-cash receipt of inventory	<u>\$ 288,356</u>	<u>\$ 312,853</u>

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

WELLSPRING LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of business

Wellspring Living, Inc. ("Wellspring") was incorporated on March 22, 2001 under the name of Wellspring of Living Water, Inc. and officially changed its name to Wellspring Living, Inc. on May 23, 2005. Wellspring's mission is to transform lives of those at risk or victimized by sexual exploitation and their vision is to have a world where every victim of sexual exploitation has access to transformative care. Wellspring's main sources of revenue are contributions from foundations, individuals and churches, thrift store sales, and fees from operation of facilities designed to fulfill their mission.

2. Summary of significant accounting policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Wellspring Living, Inc. classifies its net assets and revenues and expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Wellspring and changes therein are classified and reported as follows:

Unrestricted net assets – net assets not subject to donor imposed restrictions.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of Wellspring and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are reported.

WELLSPRING LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued

2. Summary of significant accounting policies – continued

Cash and cash equivalents

For financial statement purposes, highly liquid investments with original maturities of three months or less when purchased are reported to be cash equivalents. For years ended June 30, 2018 and 2017, Wellspring had no cash equivalents.

Financial instruments

The financial instruments shown as assets and liabilities on the statements of financial position are traditional in nature. The carrying value of cash and cash equivalents and all other financial instruments, including receivables and payables, approximate their fair value.

Inventory

Inventory represents donated items, carried at estimated fair value at the time of receipt, in the form of clothing, household items, furniture, etc. that are held for resale at Wellspring's thrift stores.

Property and equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Wellspring currently uses a capitalization threshold policy of \$2,500. Substantial betterment to property is capitalized and repairs are expensed as incurred. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the applicable lease term. The estimated fair market values of the various contributions of used furniture and items for the home fall under the capitalization limit and are therefore not capitalized and not recorded as revenue.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ materially from those estimates.

Revenue recognition

Revenues from Wellspring's thrift stores are generated from the sale of donated items. Donated items have been reflected as revenue in the accompanying financial statement at their estimated fair value at date of receipt.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program activities and management and general expenses.

WELLSPRING LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued

2. Summary of significant accounting policies – continued

Income taxes

Wellspring is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “IRC”) whereby only unrelated business income, as defined by Section 512(a)(1) of the IRC is subject to federal income tax. Wellspring is also a nonprivate foundation under 509(a)(1) of the IRC. Wellspring had no income from unrelated activities and has no income taxes due as of June 30, 2018.

Wellspring’s application of ASC 740 regarding uncertain tax positions had no effect on its financial position as management believes Wellspring has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. Wellspring would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. Wellspring is no longer subject to examination by federal, state or local tax authorities for periods before 2015.

Non-cash contributions

Contributed services are reflected on the financial statements at the fair value of the services received. The contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing such skills and would typically be purchased if not provided by the donation.

Contributed services, materials, thrift store inventory and silent auction items are reflected as contributions on the accompanying financial statements at their estimated fair values at the date of receipt. In-kind contributions were \$301,358 and \$338,495 for the years ended June 30, 2018 and 2017, respectively. In-kind services were \$5,000 and \$5,875 for the years ended June 30, 2018 and 2017, respectively.

Upscale thrift stores

Wellspring Living operates four upscale thrift stores in the metro Atlanta area. Wellspring Living operates the thrift stores as an integral part of the mission of the organization. The stores are used to provide employment training and employment for its clients and graduates, to provide clothing and furniture for its clients, as a place to hold therapy and training classes, as an outreach center for the community and finally as a source of income.

Subsequent event

Subsequent events have been evaluated through September 20, 2018, which is the date the financial statements were available to be issued.

WELLSPRING LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued

3. Line of credit

Wellspring Living, Inc. paid off their line of credit with United Community Bank in the amount of \$35,000 during the current year. The outstanding balance on this line of credit as of June 30, 2018 and 2017 was \$0 and \$35,000, respectively.

4. Leases

The Organization leases various properties to fulfill their mission. Minimum future rental payments under non-cancelable operating leases have remaining terms in excess of one year as of June 30, 2018. The minimum future rental payments for each of the next five years and in the aggregate are shown below. The future minimum lease payments under the terms of the agreement are as follows:

<u>June 30</u>	
2019	\$ 144,627
2020	57,448
2121	49,810
2022	10
2023 and thereafter	<u>910</u>
Total	<u>\$ 252,805</u>

Total rent expense incurred for the twelve months ended June 30, 2018 and 2017 was \$251,150 and \$240,609, respectively.

5. Debt

The following is a detail of the notes for the women's home and an unsecured loan with their respective due dates:

<u>Holder and Terms</u>	<u>Collateral</u>	<u>Total</u>
Mary Frances Bowley Non-interest bearing, due 02/01/22	Unsecured	\$ <u>118,000</u>
	Total debt	\$ <u>118,000</u>

WELLSPRING LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued

5. Debt - continued

During the current year, Wellspring was able to pay off the loan on the Women’s Home.

Mary Frances Bowley is a related party. Wellspring Living, Inc. received an unsecured loan of \$158,000, due February 1, 2022, non-interest bearing, from the organization’s founder, Mary Frances Bowley. Management expects to pay the loan in full by fiscal year end 2019, therefore it is not discounted.

Obligations under debt for the next five years are as follows:

<u>June 30</u>	
2019	\$ <u>118,000</u>
	\$ <u>118,000</u>

6. Related Party Transactions

See discussion in debt section, Note 5, regarding the loan from founder Mary Frances Bowley.

During the year, the organization received an unsecured loan of \$50,000, due on demand, from the organization’s Chief Financial Officer. As of the date of these financial statements, the loan was paid in full.