

WELLSPRING LIVING, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

With Independent Auditors' Report Thereon



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Wellspring Living, Inc.

We have audited the accompanying statements of financial position of Wellspring Living, Inc. (a nonprofit organization, the "Organization") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink, appearing to read "J. Kozak".

Morrow, Georgia  
August 9, 2012

WELLSPRING LIVING, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2012 AND 2011

ASSETS		
	2012	2011
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 262,961	\$ 210,582
Inventories	28,179	27,835
Accounts receivable	4,710	17,830
Prepaid expenses	<u>7,793</u>	<u>8,347</u>
<b>TOTAL CURRENT ASSETS</b>	<b>303,643</b>	<b>264,594</b>
<b>FIXED ASSETS</b>		
Land	184,917	184,917
Building and improvements	1,196,356	1,196,356
Leasehold improvements	174,063	29,054
Machinery and equipment	14,964	14,964
Vehicles	48,040	17,200
Less: accumulated depreciation	<u>(205,124)</u>	<u>(160,026)</u>
<b>TOTAL FIXED ASSETS</b>	<b>1,413,216</b>	<b>1,282,465</b>
<b>OTHER ASSETS</b>		
Other assets	<u>12,722</u>	<u>11,368</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,729,581</u></b>	<b>\$ <u>1,558,427</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 94,345	\$ 38,503
Accrued salaries and wages	57,686	94,724
Notes payable – current portion	36,769	40,999
Deferred rent	26,622	25,902
Deferred revenue	7,500	0
Other accrued expenses	6,725	4,022
Line of credit	5,000	0
Sales tax payable	<u>4,082</u>	<u>3,672</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>238,729</b>	<b>207,822</b>
Notes payable	<u>703,219</u>	<u>729,794</u>
<b>TOTAL LIABILITIES</b>	<b>941,948</b>	<b>937,616</b>
<b>NET ASSETS</b>		
Unrestricted	599,666	507,931
Temporarily restricted	<u>187,967</u>	<u>112,880</u>
<b>TOTAL NET ASSETS</b>	<b><u>787,633</u></b>	<b><u>620,811</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>1,729,581</u></b>	<b>\$ <u>1,558,427</u></b>

*See accompanying notes and accountants' report*

WELLSPRING LIVING, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS AND OTHER SUPPORTS		
Contributions	\$ 862,426	\$ 571,348
Foundations	619,847	553,725
Fundraisers	163,144	102,681
Less direct benefit to donors	(36,634)	(50,079)
In-kind contributions	25,608	23,826
Property tax refunds	30,817	0
Counseling and education	5,946	9,056
Rental revenue	1,490	0
Interest income	477	33
Net assets released from restriction	<u>103,200</u>	<u>0</u>
Subtotal revenues, gains and other supports	1,776,321	1,210,590
Thrift store sales	765,472	579,602
In-kind contributions - thrift stores	<u>382,737</u>	<u>289,801</u>
Subtotal thrift store income	<u>1,148,209</u>	<u>869,403</u>
 TOTAL REVENUES, GAINS AND OTHER SUPPORTS	 2,924,530	 2,079,993
 EXPENSES		
Program activities	1,396,477	1,041,496
Management and general	224,809	170,369
Thrift stores	1,036,755	758,161
Fundraising	<u>174,754</u>	<u>81,831</u>
 TOTAL EXPENSES	 <u>2,832,795</u>	 <u>2,051,857</u>
 NET CHANGE IN UNRESTRICTED NET ASSETS	 91,735	 28,136
 INCREASE IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contributions	178,287	112,880
Net assets released from restriction	<u>(103,200)</u>	<u>0</u>
 NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>75,087</u>	 <u>112,880</u>
 CHANGE IN NET ASSETS	 166,822	 141,016
 NET ASSETS AT BEGINNING OF YEAR	 <u>620,811</u>	 <u>479,795</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 787,633</u>	 <u>\$ 620,811</u>

*See accompanying notes and accountants' report*

WELLSPRING LIVING, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012

	Program activities	Management and general	Thrift stores	Fundraising	Totals
Salaries and wages	\$ 894,027	\$ 74,802	\$ 315,691	\$ 0	\$ 1,284,520
Cost of sales	0	0	382,393	0	382,393
Rent	0	11,971	188,747	76,882	277,600
Client assistance	122,179	0	0	0	122,179
Payroll taxes	80,795	7,128	28,690	0	116,613
Professional fees	0	14,108	0	76,843	90,951
Utilities	24,535	11,363	39,855	0	75,753
Interest	46,277	12,739	0	0	59,016
Supplies	11,120	24,588	21,614	0	57,322
Contract labor	35,252	10,381	0	0	45,633
Depreciation	39,675	0	5,424	0	45,099
Community awareness	44,150	0	0	0	44,150
Training and development	33,675	1,965	602	0	36,242
Advertising and promotions	0	24,065	9,853	0	33,918
Insurance	22,154	1,912	9,425	0	33,491
Repairs and maintenance	14,765	0	16,498	0	31,263
Benefits	26,878	794	2,109	0	29,781
Bank charges	0	9,881	13,850	0	23,731
Fundraising	0	0	0	21,029	21,029
Travel and transportation	0	10,403	0	0	10,403
Office expenses	0	8,421	0	0	8,421
Other store expenses	0	0	2,004	0	2,004
Taxes and licenses	995	288	0	0	1,283
<b>TOTAL EXPENSES</b>	<u>\$ 1,396,477</u>	<u>\$ 224,809</u>	<u>\$ 1,036,755</u>	<u>\$ 174,754</u>	<u>\$ 2,832,795</u>

*See accompanying notes and accountants' report*

WELLSPRING LIVING, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011

	Program activities	Management and general	Thrift stores	Fundraising	Totals
Salaries and wages	\$ 635,385	\$ 56,826	\$ 210,040	\$ 0	\$ 911,951
Cost of sales	0	0	281,329	0	281,329
Rent	0	11,092	165,695	0	176,787
Client assistance	106,269	0	0	0	106,269
Fundraising	0	0	0	27,210	27,210
Payroll taxes	51,921	3,416	17,681	0	73,018
Interest	65,776	719	0	0	66,495
Utilities	22,620	7,087	31,696	0	61,403
Depreciation	34,574	0	4,093	0	38,667
Contract labor	8,950	22,522	4,500	0	35,972
Supplies	12,179	10,861	12,627	0	35,667
Insurance	22,855	2,483	6,606	0	31,944
Training and development	18,274	3,030	779	0	22,083
Community awareness	21,806	0	0	0	21,806
Advertising and promotions	0	17,920	934	0	18,854
Benefits	25,411	2,765	6,927	0	25,403
Bank charges	0	6,726	10,581	0	17,307
Professional fees	0	15,448	0	54,621	70,069
Taxes and licenses	10,803	55	0	0	10,858
Repairs and maintenance	4,673	0	4,673	0	9,346
Travel and entertainment	0	5,354	0	0	5,354
Office expenses	0	4,065	0	0	4,065
<b>TOTAL EXPENSES</b>	<b>\$ 1,041,496</b>	<b>\$ 170,369</b>	<b>\$ 758,161</b>	<b>\$ 81,831</b>	<b>\$ 2,051,857</b>

*See accompanying notes and accountants' report*

WELLSPRING LIVING, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 166,822	\$ 141,016
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	45,098	38,667
Non-cash contributions	(344)	(11,672)
Decrease (Increase) in operating assets		
Accounts receivable	13,120	(10,972)
Prepaid expenses	554	6,736
Deposits	(4,554)	1,515
Other assets	3,200	0
(Decrease) Increase in operating liabilities		
Accounts payable	55,842	18,463
Accrued salaries and wages	(37,038)	37,698
Deferred rent	720	25,902
Deferred revenue	7,500	0
Other accrued expenses	2,703	(4,235)
Sales tax payable	410	1,090
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>254,033</u>	<u>244,208</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<u>(175,849)</u>	<u>(22,158)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(175,849)</u>	<u>(22,158)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	50,000	35,000
Repayments of loans	<u>(75,805)</u>	<u>(71,712)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(25,805)</u>	<u>(36,712)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	52,379	185,338
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>210,582</u>	<u>25,244</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 262,961</u>	<u>\$ 210,582</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Cash paid for interest	<u>\$ 60,845</u>	<u>\$ 62,973</u>
Non-cash receipt of inventory	<u>\$ 382,737</u>	<u>\$ 289,801</u>

*See accompanying notes and accountants' report*

WELLSPRING LIVING, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

**1. Nature of business**

Wellspring Living, Inc. ("Wellspring") was incorporated on March 22, 2001 under the name of Wellspring of Living Water, Inc. as a not-for-profit corporation in Georgia dedicated to communicating hope in Jesus Christ, connecting the unchurched with the body of Christ, and celebrating the unity in Christ with the women of Atlanta.

On May 20, 2005, the Organization amended their Articles of Incorporation to change their name to Wellspring Living, Inc. The name change was submitted to the Georgia Secretary of State and was made official as of May 23, 2005.

**2. Summary of significant accounting policies**

- Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and reflect all significant receivables and payables.

- Cash and cash equivalents

For financial statement purposes, highly liquid investments with original maturities of three months or less when purchased are reported as cash and 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 in the form of clothing, household items, furniture, etc. that are held for resale at Wellspring's thrift stores.

WELLSPRING LIVING, INC.  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

**2. Summary of significant accounting policies – continued**

- Property and equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. 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

In accordance with the provisions of FASB ASC 958-605-05, *Contributions Received*, contributions are recognized as revenue when they are receivable or unconditionally pledged.

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 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**

- Net assets

Wellspring's net assets and its revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Wellspring and changes therein are classified as unrestricted and temporarily restricted as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

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.

The Organization has adopted a policy to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

- 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. Accordingly, no provision for income taxes has been recorded.

- 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 \$408,345 and \$313,627 for the years ended June 30, 2012 and 2011.

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

**2. Summary of significant accounting policies – continued**

- Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the current year presentation

**3. Equipment**

At June 30, 2012 and 2011 property and equipment, consisted of the following:

	2012	2011
Building and improvements	\$ 1,196,356	\$ 1,196,356
Land	184,917	184,917
Leasehold improvements	174,063	29,054
Machinery and equipment	14,964	14,964
Vehicles	48,040	17,200
Less: accumulated depreciation	<u>(205,124)</u>	<u>(160,026)</u>
Net property and equipment	<u>\$ 1,413,216</u>	<u>\$ 1,282,465</u>

**4. Line of credit**

Wellspring Living, Inc. has a line of credit United Community Bank in the amount of \$35,000 with an interest rate of 5.50%. The line is secured by property, accounts receivable, inventory, and improvements. The line of credit will expire on November 9, 2012. The outstanding balance on this line of credit as of June 30, 2012 was \$5,000.

**5. Merger**

Pursuant to an Agreement and Plan of Merger, Redeemed, Inc., a Georgia Non-Profit Company merged with and into Wellspring Living, Inc. effective October 1, 2010. Wellspring Living, Inc. is the surviving entity and received assets consisting of cash in an amount of \$3,221 as a result of the merger. Both organization have a shared mission to confront the issue of childhood sexual abuse and exploitation through advocacy, education and treatment programs for girls and women.

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

**6. Lease**

The Organization leases warehouse and commercial space for the Wellspring stores. These leases expire in various years through 2016. The Organization also entered into a 39 month lease agreement during the current year for the Highland Street store. Minimum future rental payments under non-cancelable operating leases have remaining terms in excess of one year as of June 30, 2012. 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>	
2013	202,005
2014	206,951
2015	168,221
2016	<u>98,113</u>
Total	<u>\$ 675,290</u>

Total rent expense incurred for the twelve months ended June 30, 2012 and 2011 was \$277,600 and \$176,787. The Organization had deferred rent on the Duluth, Cobb and Highland thrift stores.

**7. Long term debt**

Following is a detail of notes for buildings and due dates:

<u>Holder and Terms</u>	<u>Collateral</u>	<u>Total</u>
United Community Bank, Interest @ 5.50%, 60 months of \$6,135 due 03/10/17	Women's Home	\$ 739,988

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

<u>June 30</u>	
2013	\$ 36,769
2014	33,823
2015	37,747
2016	39,876
2017	<u>591,773</u>
	<u>\$ 739,988</u>

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

**8. Subsequent Events**

Subsequent events have been evaluated through August 9, 2012, which is the date the financial statements were available to be issued.