

WELLSPRING LIVING, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

With Independent Auditors' Report Thereon



INDEPENDENT AUDITORS' 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, 2013 and 2012, 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, 2013 and 2012, 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.

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

Morrow, Georgia
September 12, 2013

WELLSPRING LIVING, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS		
	2013	2012
CURRENT ASSETS		
Cash	\$ 56,841	\$ 262,961
Inventories	24,911	28,179
Accounts receivable	58,690	4,710
Prepaid expenses	<u>9,769</u>	<u>7,793</u>
TOTAL CURRENT ASSETS	150,211	303,643
FIXED ASSETS		
Land	184,917	184,917
Building and improvements	1,196,356	1,196,356
Leasehold improvements	168,681	174,063
Machinery and equipment	35,045	14,964
Vehicles	85,784	48,040
Construction in progress	509,150	-
Less: accumulated depreciation	<u>(299,264)</u>	<u>(205,124)</u>
TOTAL FIXED ASSETS	1,880,669	1,413,216
OTHER ASSETS		
Other assets	<u>28,247</u>	<u>12,722</u>
TOTAL ASSETS	\$ <u>2,059,127</u>	\$ <u>1,729,581</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 123,480	\$ 94,345
Accrued salaries and wages	74,421	57,686
Notes payable – current portion	36,538	36,769
Line of credit	35,000	5,000
Deferred rent	11,337	26,622
Sales tax payable	3,553	4,082
Accrued interest	2,155	1,693
Deferred revenue	-	7,500
Other accrued expenses	<u>-</u>	<u>5,032</u>
TOTAL CURRENT LIABILITIES	286,484	238,729
Notes payable	<u>669,396</u>	<u>703,219</u>
TOTAL LIABILITIES	955,880	941,948
NET ASSETS		
Unrestricted	1,051,747	599,666
Temporarily restricted	<u>51,500</u>	<u>187,967</u>
TOTAL NET ASSETS	<u>1,103,247</u>	<u>787,633</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>2,059,127</u>	\$ <u>1,729,581</u>

See accompanying notes and accountants' report

WELLSPRING LIVING, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES, GAINS AND OTHER SUPPORTS		
Donations	1,623,698	1,482,273
In-kind donations	312,692	25,608
Fundraisers	280,691	163,144
Less direct benefit to donors	(43,842)	(36,634)
Service income	46,651	-
Other income	47,100	38,253
Investments	371	477
Net assets released from restriction	<u>1,137,424</u>	<u>103,200</u>
Subtotal revenues, gains and other supports	3,404,785	1,776,321
Thrift store sales	778,342	765,472
In-kind contributions - thrift stores	<u>388,417</u>	<u>382,737</u>
Subtotal thrift store revenue	<u>1,166,759</u>	<u>1,148,209</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORTS	4,571,544	2,924,530
EXPENSES		
Program activities	2,388,118	1,396,477
Thrift stores	1,054,448	1,036,755
Management and general	430,042	224,809
Fundraising	<u>246,855</u>	<u>174,754</u>
TOTAL EXPENSES	<u>4,119,463</u>	<u>2,832,795</u>
NET CHANGE IN UNRESTRICTED NET ASSETS	452,081	91,735
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contributions	1,000,957	178,287
Net assets released from restriction	<u>(1,137,424)</u>	<u>(103,200)</u>
NET CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(136,467)</u>	<u>75,087</u>
CHANGE IN NET ASSETS	315,614	166,822
NET ASSETS AT BEGINNING OF YEAR	<u>787,633</u>	<u>620,811</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,103,247</u>	<u>\$ 787,633</u>

See accompanying notes and accountants' report

WELLSPRING LIVING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program activities	Management and general	Thrift stores	Fundraising	Totals
Salaries and wages	\$ 1,188,164	\$ 205,186	\$ 343,570	\$ 197,833	\$ 1,934,753
Cost of sales	77,321	-	392,397	-	469,718
Client assistance	290,192	63,612	-	129	353,933
Rent	81,439	12,794	187,254	-	281,487
Professional fees	161,580	15,850	1,740	3,457	182,627
Payroll taxes	130,700	14,130	31,792	-	176,622
Benefits	81,356	45,629	15,933	-	142,918
Utilities	56,025	12,638	34,869	-	103,532
Depreciation	99,562	1,722	-	-	101,284
Advertising and promotions	65,323	2,792	6,667	2,217	76,999
Fundraising	6,576	-	-	40,392	46,968
Interest	40,029	1,900	-	-	41,929
Bank charges	6,235	11,551	19,063	2,288	39,137
Office expenses	16,475	12,425	8,504	354	37,758
Contract labor	27,165	3,790	632	-	31,587
Insurance	1,414	21,349	4,737	-	27,500
Supplies	25,597	523	824	-	26,944
Travel and transportation	19,164	2,902	750	185	23,001
Repairs and maintenance	12,310	1,121	5,041	-	18,472
Other store expenses	1,349	-	665	-	2,014
Taxes and licenses	142	128	10	-	280
TOTAL EXPENSES	<u>\$ 2,388,118</u>	<u>\$ 430,042</u>	<u>\$ 1,054,448</u>	<u>\$ 246,855</u>	<u>\$ 4,119,463</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	\$ -	\$ 1,284,520
Cost of sales	-	-	382,393	-	382,393
Rent	-	11,971	188,747	76,882	277,600
Client assistance	122,179	-	-	-	122,179
Payroll taxes	80,795	7,128	28,690	-	116,613
Professional fees	-	14,108	-	76,843	90,951
Utilities	24,535	11,363	39,855	-	75,753
Interest	46,277	12,739	-	-	59,016
Supplies	11,120	24,588	21,614	-	57,322
Contract labor	35,252	10,381	-	-	45,633
Depreciation	39,675	-	5,424	-	45,099
Community awareness	44,150	-	-	-	44,150
Training and development	33,675	1,965	602	-	36,242
Advertising and promotions	-	24,065	9,853	-	33,918
Insurance	22,154	1,912	9,425	-	33,491
Repairs and maintenance	14,765	-	16,498	-	31,263
Benefits	26,878	794	2,109	-	29,781
Bank charges	-	9,881	13,850	-	23,731
Fundraising	-	-	-	21,029	21,029
Travel and transportation	-	10,403	-	-	10,403
Office expenses	-	8,421	-	-	8,421
Other store expenses	-	-	2,004	-	2,004
Taxes and licenses	995	288	-	-	1,283
TOTAL EXPENSES	<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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 315,614	\$ 166,822
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	101,284	45,098
Loss on disposal of fixed assets	723	-
Non-cash contributions	(66,932)	(344)
(Increase) decrease in operating assets		
Accounts receivable	(53,980)	13,120
Prepaid expenses	(1,976)	554
Deposits	(325)	(4,554)
Other assets	(15,200)	3,200
Increase (decrease) in operating liabilities		
Accounts payable	29,135	55,842
Accrued salaries and wages	16,735	(37,038)
Deferred rent	(15,285)	720
Deferred revenue	(7,500)	7,500
Other accrued expenses	(4,570)	2,703
Sales tax payable	(529)	410
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>297,194</u>	<u>254,033</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(502,815)	(175,849)
Proceeds from fixed asset disposal	3,555	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(499,260)</u>	<u>(175,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	35,000	50,000
Repayments of loans	(39,054)	(75,805)
NET CASH USED IN FINANCING ACTIVITIES	<u>(4,054)</u>	<u>(25,805)</u>
NET CHANGE IN CASH	(206,120)	52,379
CASH AT BEGINNING OF YEAR	<u>262,961</u>	<u>210,582</u>
CASH AT END OF YEAR	<u>\$ 56,841</u>	<u>\$ 262,961</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 40,029</u>	<u>\$ 60,845</u>
Non-cash receipt of inventory	<u>\$ 388,417</u>	<u>\$ 382,737</u>

See accompanying notes and accountants' report

WELLSPRING LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

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.

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, 2013 and 2012, Wellspring had no cash equivalents.

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

2. Summary of significant accounting policies – continued

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.

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

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.

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. Generally, the Internal Revenue Service (the "IRS") may examine a tax return for three years from the date it is filed. At June

30, 2013, tax years 2012, 2011, and 2010 remained open for possible examination by the IRS.

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

2. Summary of significant accounting policies – continued

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 \$701,109 and \$408,345 for the years ended June 30, 2013 and 2012.

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.

Reclassifications

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

3. Equipment

At June 30, 2013 and 2012 property and equipment, consisted of the following:

	2013	2012
Building and improvements	\$ 1,196,356	\$ 1,196,356
Land	184,917	184,917
Leasehold improvements	168,681	174,063
Machinery and equipment	35,045	14,964
Vehicles	85,784	48,040
Construction in progress	509,150	-
Less: accumulated depreciation	<u>(299,264)</u>	<u>(205,124)</u>
Net property and equipment	<u>\$ 1,880,669</u>	<u>\$ 1,413,216</u>

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

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 3.25%. The line is secured by property, accounts receivable, inventory, and improvements. The line of credit will expire on November 11, 2013. The outstanding balance on this line of credit as of June 30, 2013 was \$35,000.

5. Lease

The Organization leases warehouse and commercial space for the Wellspring stores. These leases expire in various years through 2016. Minimum future rental payments under non-cancelable operating leases have remaining terms in excess of one year as of June 30, 2013. 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>	
2014	\$ 99,493
2015	45,508
2016	<u>9,520</u>
Total	<u>\$ 154,521</u>

Total rent expense incurred for the twelve months ended June 30, 2013 and 2012 was \$206,886 and \$187,338. The Organization had deferred rent on the Duluth and Highland thrift stores.

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

6. Long term debt

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

Holder and Terms	Collateral	Total
United Community Bank, Interest @ 5.50%, 60 months of \$6,135 due 03/10/17	Women's Home	\$ 705,934

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

June 30	
2014	\$ 36,538
2015	37,747
2016	39,876
2017	<u>591,773</u>
	<u>\$ 705,934</u>

7. Subsequent Events

Subsequent events have been evaluated through September 12, 2013, which is the date the financial statements were available to be issued.