WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2016

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 15

Independent Auditor's Report

To the Board of Directors
Wellspring Family Services and Subsidiary
Seattle, Washington

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Wellspring Family Services and Subsidiary (collectively, Wellspring), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wellspring as of December 31, 2016, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the consolidated financial statements, certain conditions are present that impact the long-term sustainability of Wellspring. Management's plans in regard to those matters are also described in Note 9. Our opinion is not modified with respect to that matter.

REPORT ON SUMMARIZED COMPARATIVE INFORMATION

We have previously audited Wellspring's 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated April 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants
April 26, 2017

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 484,071	$ 632,132
Accounts receivable, net of allowance for doubtful accounts of $26,872 ($32,056 - 2015)	1,237,172	1,591,088
Current portion of pledges receivable, net	181,909	323,643
Donated inventory	63,605	95,038
Prepaid expenses and other current assets	67,674	73,362
Total Current Assets	**2,034,431**	**2,715,263**
Property and equipment, net	13,014,164	13,684,481
Other Assets:		
Pledges receivable, net, less current portion	1,227	18,785
Total Assets	**$ 15,049,822**	**$ 16,418,529**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 954,260	$ 894,486
Line of credit	225,000	386,500
Deferred revenue	65,895	77,442
Current portion of capital lease obligations	48,189	56,134
Current portion of notes payable	156,953	152,235
Total Current Liabilities	**1,450,297**	**1,566,797**
Capital lease obligations, less current portion	25,718	73,912
Notes payable, less current portion	5,476,025	5,124,703
Total Liabilities	**6,952,040**	**6,765,412**
Net Assets:		
Unrestricted	7,646,963	9,094,387
Temporarily restricted	402,829	511,240
Permanently restricted	47,990	47,490
Total Net Assets	**8,097,782**	**9,653,117**
Total Liabilities and Net Assets	**$ 15,049,822**	**$ 16,418,529**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Support, Revenue and Reclassifications:					
Program service fees	$ 8,530,771	$ -	$ -	$ 8,530,771	$ 7,756,784
Fees and grants from governmental agencies, including federal assistance of $242,795 ($36,732 - 2015)	2,196,583			2,196,583	2,034,723
Contributions	1,442,044	604,340	500	2,046,884	1,923,430
United Way of King County	719,915			719,915	733,206
In-kind contributions	883,933			883,933	945,107
Training fee revenues	164,710			164,710	196,045
Other	11,082			11,082	17,279
Net assets released from restrictions	712,751	(712,751)			
Total Support, Revenue and Reclassifications	**14,661,789**	**(108,411)**	**500**	**14,553,878**	**13,606,574**
Expenses:					
Program services-					
Children and early learning center	1,435,775			1,435,775	1,286,765
Homeless and at-risk families	3,507,988			3,507,988	3,440,273
Domestic violence intervention and prevention	301,315			301,315	322,237
Clinical and training services	3,823,527			3,823,527	3,735,286
Employee assistance program	3,483,256			3,483,256	3,131,107
Total program services	12,551,861			12,551,861	11,915,668
Supporting services-					
Management and general	1,917,366			1,917,366	1,861,133
Fundraising	855,434			855,434	608,797
Total supporting services	2,772,800			2,772,800	2,469,930
Total Expenses Before Depreciation	**15,324,661**			**15,324,661**	**14,385,598**
Change in Net Assets Before Depreciation and Other Non-Operating Activities	**(662,872)**	**(108,411)**	**500**	**(770,783)**	**(779,024)**
Abandonment loss on ERP system (Note 4)	161,991			161,991	
Depreciation	622,561			622,561	651,540
Total Change in Net Assets	**(1,447,424)**	**(108,411)**	**500**	**(1,555,335)**	**(1,430,564)**
Net assets, beginning of year	9,094,387	511,240	47,490	9,653,117	11,083,681
Net Assets, End of Year	**$ 7,646,963**	**$ 402,829**	**$ 47,990**	**$ 8,097,782**	**$ 9,653,117**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Program Services						Supporting Services			
	Children & Early Learning Center	Homeless & At-Risk Families	Domestic Violence Intervention & Prevention	Clinical & Training Services	Employee Assistance Program	Total Program Services	Management & General	Fund-Raising	2016 Total	2015 Total
Salaries and wages	$ 972,530	$ 1,353,542	$ 191,966	$ 2,728,807	$ 1,102,845	$ 6,349,690	$ 1,029,823	$ 511,619	$ 7,891,132	$ 7,127,152
Payroll taxes	78,025	103,651	14,706	207,331	84,675	488,388	80,159	39,746	608,293	550,735
Employee benefits	118,313	153,288	27,977	212,495	121,956	634,029	90,305	43,295	767,629	789,329
Total salary and related expenses	1,168,868	1,610,481	234,649	3,148,633	1,309,476	7,472,107	1,200,287	594,660	9,267,054	8,467,216
Professional services	213	6,208	33,423	80,891	1,873,771	1,994,506	162,944	129,772	2,287,222	2,061,841
Specific assistance	132,826	1,735,685		334	20	1,868,865			1,868,865	1,993,306
Occupancy	60,690	84,114	13,639	345,487	16,626	520,556	49,926	4,678	575,160	520,073
Office/supplies/other	31,865	21,240	5,878	94,507	96,120	249,610	73,204	22,221	345,035	325,838
Insurance and financial	11,197	14,262	5,703	45,416	14,923	91,501	252,686	19,182	363,369	320,866
Electronic communications	13,485	12,353	2,748	26,639	58,208	113,433	110,119	38,000	261,552	256,086
Bad debt	498	200	395	29,677	48,100	78,870		16,031	94,901	15,739
Marketing/promotion/public relations				14,195	53,827	68,022	19,177		87,199	90,981
Equipment maintenance	5,053	8,131	3,741	6,089	4,814	27,828	12,967	2,017	42,812	67,908
Human resources	4,091	648		599	2,076	7,414	20,879		28,293	60,357
Professional development and training	6,855	11,981	792	1,699	538	21,865	3,746	1,762	27,373	41,171
Volunteer and donor expenses		1,594			63	1,657	7,614	17,685	26,956	99,322
Agency sponsored conferences	120		23	26,191		26,334			26,334	36,481
Postage and shipping	14	1,091	324	3,170	4,694	9,293	3,817	9,426	22,536	28,413
Total expenses before depreciation	1,435,775	3,507,988	301,315	3,823,527	3,483,256	12,551,861	1,917,366	855,434	15,324,661	14,385,598
Depreciation	146,159	145,533	35,236	11,377	44,201	382,506	227,287	12,768	622,561	651,540
Total Expenses	**$ 1,581,934**	**$ 3,653,521**	**$ 336,551**	**$ 3,834,904**	**$ 3,527,457**	**$ 12,934,367**	**$ 2,144,653**	**$ 868,202**	**$ 15,947,222**	**$ 15,037,138**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	$ (1,555,335)	$ (1,430,564)
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation	622,561	651,540
Abandonment loss on ERP system	161,991	
Net loss from the beneficial interest held by The Seattle Foundation		12,834
Decrease (increase) in assets:		
Accounts receivable	353,916	(397,964)
Pledges receivable	153,064	17,120
Donated inventory	31,433	(5,638)
Prepaid expenses and other current assets	5,688	(32,613)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	59,774	123,740
Accrued interest		(13,931)
Deferred revenue	(11,547)	(75,946)
Net Cash Used in Operating Activities	**(178,455)**	**(1,151,422)**
Cash Flows From Investing Activities:		
Purchase of property and equipment	(114,235)	(100,923)
Distribution of beneficial interest in asset held by The Seattle Foundation		60,000
Net Cash Used in Investing Activities	**(114,235)**	**(40,923)**
Cash Flows From Financing Activities:		
Payments on notes payable	(143,960)	(5,538,814)
Proceeds from note payable	500,000	5,404,773
Net change in line of credit	(161,500)	386,500
Payments on capital lease obligations	(56,139)	(32,716)
Payment of financing costs		(86,154)
Proceeds from contributions restricted for the acquisition of long-term assets	6,228	12,778
Net Cash Provided by Financing Activities	**144,629**	**146,367**
Net Change in Cash and Cash Equivalents	**(148,061)**	**(1,045,978)**
Cash and cash equivalents, beginning of year	632,132	1,678,110
Cash and Cash Equivalents, End of Year	**$ 484,071**	**$ 632,132**
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 196,759	$ 148,216
Acquisition of fixed assets through a capital lease	$ -	$ 77,632

See accompanying notes.

Note 1 - Purpose and Programs

Mission Statement - Wellspring Family Services' (Wellspring) mission is to build emotionally healthy, self-sufficient families and a nonviolent community in which they can thrive.

Wellspring has provided the greater Seattle/King County community with a spectrum of social services for over one hundred and twenty years.

Wellspring is located at The Rotary Support Center for Families (the Support Center) in Seattle, Washington. The Support Center houses administration, employee assistance, family stabilization programs and services to children. In addition to the Support Center, Wellspring offers program services at other locations in the greater Seattle area.

Until October 2015, the Support Center was leased from Family Services Property LLC (FSP LLC), a single member LLC, wholly owned by Wellspring Family Services. The Support Center was transferred to Wellspring during the debt refinancing discussed in Note 6. The consolidated financial statements include the accounts of Wellspring Family Services and FSP LLC, collectively referred to as Wellspring. All inter-entity transactions have been eliminated.

Program Services - Wellspring helps children, adults and families who are experiencing crisis take the next step forward, tap into their own resilience and strength, and build community. Wellspring helps people understand and address the root causes of challenges, as well as respond to immediate needs.

Wellspring's programs include three service groups:

Community Services (CS)

- Parent/Child Services
- Early Learning Center
- Baby Boutique
- Housing Services Intervention and Prevention for Homeless and At-Risk Families
- Domestic Violence Intervention and Prevention

Clinical and Training Services (CTS)

- Counseling Services
- New Parents Services
- Training Services
- The Certificate Program in Clinical Theory and Practice and Human Development

Employee Assistance Program (EAP)

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under the accrual basis of accounting, support is recognized when it is awarded, revenue is recognized when it is earned and realizable, and expenses are recognized when they are incurred.

Note 2 - Continued

Basis of Presentation - Net assets and revenues, 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 and reported as follows:

> Unrestricted Net Assets - Net assets that are not subject to externally imposed restrictions.
>
> Temporarily Restricted Net Assets - Net assets subject to externally imposed restrictions that will be met either by actions of Wellspring and/or the passage of time. Temporarily restricted net assets subject to time and program restrictions were $402,828 and $511,240, as of December 31, 2016 and 2015, respectively (Note 5).
>
> Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Wellspring. As of December 31, 2016 and 2015, Wellspring had permanently restricted net assets of $47,990 and $47,490 respectively, whose earnings are available for program purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents - Wellspring considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Credit Risk - Wellspring maintains cash deposits in bank accounts which, at times, exceed federally insured limits during the year.

Accounts Receivable - Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the consolidated financial statements.

Property and Equipment - Assets are recorded at cost or at their fair value when received, if donated. The costs of repairs and maintenance are expensed as incurred.

Wellspring capitalizes all items over $1,000 that provide a future benefit. Depreciation is computed using the straight-line method based on estimated useful lives, which range from three to forty years.

Financing Costs - Financing costs are recorded as a deduction to the related debt liability on the balance sheet. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs are included as a component of interest expense on the statement of operations.

Note 2 - Continued

Change in Accounting Principle - During 2016, Wellspring implemented the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2015-03 - *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 changes the accounting for debt issuance costs (financing costs) by requiring that such costs be reported on the statement of financial position as a direct deduction to the related debt liability. Previously, financing costs were reported as a prepaid asset on the statement of financial position. Wellspring has restated the 2015 financial statements to conform to the 2016 presentation and as a result $84,053 of unamortized financing costs were reclassified from prepaid assets to notes payable on the statement of financial position as of December 31, 2015.

Donated Inventory - Donated inventory consists of goods for Wellspring's Baby Boutique and is valued at its estimated fair value when donated.

Deferred Revenue - Deferred revenue includes grant funding to be used in future periods. The deferred revenue is recognized as earned.

Income Taxes - The IRS has determined that Wellspring Family Services is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). As such, it is subject to income taxes only on unrelated business income. FSP LLC is not subject to income taxes; such are the responsibility of its members. During the years ended December 31, 2016 and 2015, Wellspring had no unrelated business income and accordingly, no provision for federal income taxes has been reported in the accompanying consolidated financial statements.

Contributions - Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received.

In-Kind Contributions - In-kind contributions consisted of the following for the years ended December 31:

	2016	2015
Facilities	$ 95,000	$ 90,000
Baby Boutique goods	788,933	855,107
	$ 883,933	**$ 945,107**

In addition, a substantial number of unpaid volunteers have made significant contributions of time (approximately 9,350 hours and 10,300 hours for the years ended December 31, 2016 and 2015, respectively (unaudited)) to develop and carry out the programs of Wellspring. The value of this contributed time is not reflected in the consolidated statement of activities since it does not meet the requirements of U.S. GAAP.

Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2 - Continued

Use of Estimates - The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations - Wellspring had one customer comprising 15% and 14% of revenues during the years ended December 31, 2016 and 2015, respectively.

Comparative Totals for 2015 - The consolidated 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 U.S. GAAP. Accordingly, such information should be read in conjunction with Wellspring's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Reclassifications of Prior Year Balances - Certain reclassifications have been made to prior year accounts to confirm to the presentation in the current year financial statements. The reclassifications have no effect on the previously reported change in net assets or net asset balances.

Note 3 - Pledges Receivable

Wellspring has received pledges for contributions to be received in future periods. These contributions are receivable as follows at December 31:

	2016	2015
Less than one year	$ 189,999	$ 324,943
One to five years	2,282	19,840
	192,281	344,783
Allowance for uncollectible pledges	(9,012)	(1,300)
Present value discount at 5%	(133)	(1,055)
	$ 183,136	**$ 342,428**

Pledges receivable from three donors represented 71% of total pledges receivable at December 31, 2016 and one donor represented 29% of total pledges receivable at December 31, 2015.

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2016	2015
Land	$ 2,456,349	$ 2,456,349
Building	13,611,580	13,588,083
Furniture and equipment	1,398,576	1,400,528
Vehicles	23,143	23,143
Leasehold improvements	448,967	442,467
Assets not yet placed in service	15,234	91,037
	17,953,849	18,001,607
Less accumulated depreciation	(4,939,685)	(4,317,126)
	$ 13,014,164	**$ 13,684,481**

In September 2016, Wellspring abandoned a software project for the design and installation of comprehensive Enterprise Resource Planning software. The costs for the design and development were being charged to fixed asset accounts in anticipation of the software being placed in service. As a result of the abandonment, the software development costs of $161,991 were written off and are shown on the consolidated statement of activities as “Abandonment loss on ERP system”.

Note 5 - Temporarily Restricted Net Assets

Wellspring’s temporarily restricted net assets consisted of the following at December 31:

	2016	2015
Early Learning Center - 5th classroom	$ 155,000	$ 363,000
Early Learning Center - general	99,732	25,000
CS Initiative	50,000	50,000
Capital Campaign - Program	45,017	45,017
Domestic Violence	30,000	
Baby Boutique	19,000	
Housing - Beds for Families	4,080	
Project Permanency		13,223
Parent-Child Services		15,000
	$ 402,829	**$ 511,240**

Note 5 - Continued

Net assets released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors were as follows for the year ended December 31, 2016:

Purpose restriction-		
Project Permanency	$	13,222
Homeless Children and Parent Services		104,000
Baby Boutique		46,465
Domestic Violence Intervention		17,175
CS Initiative		50,000
Housing services		5,000
Housing - Beds for Families		6,300
Early Learning Center - general		259,589
Early Learning Center - 5th classroom		211,000
	$	**712,751**

Note 6 - Notes Payable

On October 16, 2015, Wellspring entered into a tax exempt bond with the Washington Health Care Facilities Authority (WHCFA) to refinance a New Markets Tax Credit (NMTC) loan that came due in November 2015. Wellspring originally entered into a New Markets Tax Credit transaction to help finance the construction of the Support Center.

The WHCFA bond was issued for $5,404,774, which repaid the NMTC loan of $5,318,620 and issuance costs of $56,154. The term of the bond is 10 years with interest at the tax exempt rate of 2.75% for the first 7 years and a rate reset for the remaining 3 years at the 3 year LIBOR Swap Rate plus a margin of 2.25% multiplied by 65% and rounded to the nearest 1/8th of 1%. The bond is collateralized by the deed to the Support Center building.

At December 31, 2016 and 2015 the balance on the WHCFA bond was $5,208,757 and $5,360,991 respectively.

Under the terms of the WHCFA bond agreement, Wellspring must comply with a debt service covenant ratio and maintain a minimum cash liquidity of $1,000,000. Compliance with such covenants is determined on an annual basis. As of December 31, 2016, Wellspring was not in compliance with the financial covenants. The lending institution has provided a letter of forbearance of the noncompliance through August 31, 2017.

On May 9, 2016, Wellspring entered into a Promissory Note with Equity Trust Company FBO David Hiatt IRA (Equity Trust), a related party, for $500,000. The term of the note is two years, due May 9, 2018, with an interest rate fixed at 8% per annum. Monthly payments are interest only with the total amount of the principal due May 9, 2018. The note is secured by a Second Deed of Trust to the Support Center Building. The WHCFA bond holder, The Commerce Bank of Washington, has agreed to a Subordination Agreement signed by Equity Trust, Wellspring and The Commerce Bank of Washington.

Note 6 - Continued

Future minimum debt payments on long-term debt are as follows:

For the Year Ending December 31,	
2017	$ 156,953
2018	661,385
2019	165,943
2020	170,261
2021	175,438
Thereafter	4,378,777
	5,708,757
Less unamortized financing costs	(75,779)
	$ 5,632,978

Note 7 - Commitments and Contingencies

Operating Line of Credit - Wellspring uses a line of credit facility of $500,000 provided by The Commerce Bank of Washington, to manage cash flow requirements. The line is provided at a variable interest rate of bank prime plus 1% (4.75% at December 31, 2016). The line expires on March 31, 2017. The balance outstanding on the line was $225,000 and $386,500 on December 31, 2016 and 2015, respectively.

Capital Lease Obligation - In 2012, Wellspring entered into a lease for sixteen copiers under a noncancelable capital lease agreement. The lease requires 60 monthly payments of $2,819 through August 2017.

In 2015, Wellspring entered into a lease for 105 computers under a noncancelable capital lease agreement. The lease requires 36 monthly payments of $2,433 through October 2018.

Future minimum lease payments under the capital lease agreements are as follows:

For the Year Ending December 31,	
2017	$ 51,740
2018	26,759
	78,499
Less amounts representing interest at 4.50% - 8%	(4,592)
	$ 73,907

Property and equipment included copiers and computers under capital leases at December 31, 2016 and 2015 of $229,746 both years. Accumulated depreciation on these leases was $163,152 and $109,020 at December 31, 2016 and 2015, respectively.

Note 7 - Continued

Operating Leases - Wellspring leases space for several of its offices in the Seattle area under operating lease agreements expiring through December 2021. Lease expense under these operating leases in 2016 was $221,365. As of December 31, 2016, future minimum lease payments under operating leases with terms in excess of one year are as follows:

For the Year Ending December 31,	
2017	$ 221,004
2018	132,240
2019	137,328
2020	142,404
2021	152,580
	$ 785,556

Malpractice Insurance - Therapists and counselors, while acting within their duties as employees of Wellspring, are insured by Wellspring's professional liability insurance under an occurrence basis policy.

Contingencies - At times, Wellspring is subject to litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to Wellspring's future financial position or results from operations.

Note 8 - Retirement Plan

Wellspring's Tax Deferred Annuity Retirement Plan (the Plan) covers all eligible employees. The benefit formula used to determine Wellspring's contribution to the Plan is based on a stated contribution formula. Contributions to the defined contribution plan amounted to $16,170 and $96,401 for the years ended December 31, 2016 and 2015, respectively. Employer contributions vest incrementally based on years of service up to five years. In January 2016, the Wellspring Board of Directors suspended the match for the savings plan, effective February 25, 2016 until further notice. The suspension remained in effect at December 31, 2016.

Note 9 - Future Operations

In 2015 and 2016, Wellspring's board and management made a decision to continue to fund certain programs despite funding cuts, while continuing to provide services for all programs at the high level of service delivery, which is a hallmark of Wellspring. At the same time, investments were made to expand Wellspring's ability to fund raise in an effort to become more independent from fluctuations in grant funding. During these two years, Wellspring had a negative change in its unrestricted net assets of $2,985,897 and a cash deficit from operations of $1,316,215. Wellspring has been able to cover the cash shortfall through spending down its unrestricted cash reserves and funding cash shortfalls with additional debt secured by its real estate.

Note 9 - Continued

Management began taking cost cutting measures starting in mid-2016 to reduce its vulnerability to fluctuations in funding levels from outside agencies. These measures included staff reductions, senior management pay cuts, and postponing the 403(b) match program. Additional cost cutting measures were taken subsequent to December 31, 2016, with further staff reductions and reducing some program services to further reduce reliance on outside funding. Management believes that these measures will return Wellspring to a positive cash flow during the year ending December 31, 2017. However, should there be an unexpected erosion of funding from grants or donations, management will be required to take further steps to cut spending to match the lower revenues.

As discussed in Note 10, the Bank line of credit is due August 31, 2017. The line of credit is required to manage working capital needs during a period of lower cash receipts in summer and early autumn. Management is in discussions with the Bank about extending the line beyond that date, and the 2017 budget is designed to meet bank covenants. However, should the bank decide not to renew the line of credit at that time, alternative working capital funding sources have been sought. One alternative is to use an asset based lender to fund seasonal cash shortages secured with the substantial accounts receivable balances.

Note 10 - Subsequent Event

Wellspring has evaluated subsequent events through April 26, 2017, the date on which the consolidated financial statements were available to be issued. On March 6, 2017 the Board of Directors authorized an amendment to a working capital loan with one of the directors by $500,000 to $1,000,000. The amendment to the promissory note kept the original maturity date of May 9, 2018, with interest only payments increased to 10% per annum, until the end of the term at which time the principal becomes payable in full. The note is secured by a 2nd deed of trust on the Support Center with the lender.

In March, 2017 Wellspring renewed the noncancelable capital lease agreement for 16 copiers for 60 monthly payments of $2,339 through March 2022. The lease in place is being cancelled early, at no penalty, by the copier company.

As of April 20, 2017, Wellspring's line of credit facility of $500,000 was extended by The Commerce Bank of Washington through August, 31, 2017.