WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2018

Table of Contents

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, 2018, 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, 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, Wellspring adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Wellspring's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 2, 2018. As part of our audit of the 2018 consolidated financial statements, we also audited the adjustments described in Note 2 that were applied to retroactively apply the requirements of ASU 2016-14 to the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2016-14.

Clark Nuber P.S.

Certified Public Accountants
April 29, 2019

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 746,526	$ 855,738
Accounts receivable, net of allowance for doubtful accounts of $14,000 ($16,100 - 2017)	1,187,128	1,376,993
Current portion of pledges receivable, net	114,472	260,208
Donated inventory	73,372	57,717
Prepaid expenses and other current assets	84,760	77,322
Total Current Assets	**2,206,258**	**2,627,978**
Other Assets:		
Pledges receivable, net, less current portion		238
Property and equipment, net	12,069,351	12,613,254
Total Assets	**$ 14,275,609**	**$ 15,241,470**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,201,146	$ 1,236,725
Deferred revenue	7,281	70,937
Current portion of abandoned lease obligations	99,685	
Current portion of capital lease obligations	28,068	47,980
Current portion of notes payable	165,943	161,365
Total Current Liabilities	**1,502,123**	**1,517,007**
Abandoned lease obligations, less current portion	84,947	
Capital lease obligations, less current portion	55,009	82,866
Notes payable, less current portion	5,678,247	5,830,518
Total Liabilities	**7,320,326**	**7,430,391**
Net Assets:		
Without donor restriction	6,518,235	7,376,903
With donor restriction	437,048	434,176
Total Net Assets	**6,955,283**	**7,811,079**
Total Liabilities and Net Assets	**$ 14,275,609**	**$ 15,241,470**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restriction	With Donor Restriction	2018 Total	2017 Total
Support, Revenue and Reclassifications:				
Program service fees	$ 8,185,109	$ -	$ 8,185,109	$ 7,530,751
Fees and grants from governmental agencies, including federal assistance of $406,040 ($366,431 - 2017)	1,833,735		1,833,735	2,142,050
Contributions	1,026,287	361,028	1,387,315	2,061,855
Special event revenue, net (Note 9)	420,719		420,719	462,753
United Way of King County	351,811		351,811	553,457
In-kind contributions	501,950		501,950	574,750
Training fee revenues	6,310		6,310	77,275
Other	9,962		9,962	33,978
Net assets released from restrictions	358,156	(358,156)		
Total Support, Revenue and Reclassifications	**12,694,039**	**2,872**	**12,696,911**	**13,436,869**
Expenses:				
Program services-				
Children and early learning center	1,711,725		1,711,725	1,251,190
Homeless and at-risk families	1,665,885		1,665,885	2,945,291
Domestic violence intervention and prevention	209,688		209,688	302,592
Clinical and training services	2,267,600		2,267,600	2,580,732
Employee assistance program	4,056,663		4,056,663	3,685,110
Total program services	9,911,561		9,911,561	10,764,915
Supporting services-				
Management and general	1,940,362		1,940,362	1,836,950
Fundraising	621,629		621,629	749,971
Total supporting services	2,561,991		2,561,991	2,586,921
Total Expenses Before Depreciation	**12,473,552**		**12,473,552**	**13,351,836**
Change in Net Assets from Continuing Operations Before Depreciation and Discontinued Operations	**220,487**	**2,872**	**223,359**	**85,033**
Loss on fixed asset disposal				(5,170)
Depreciation	(589,092)		(589,092)	(585,891)
Total Change in Net Assets from Continuing Operations	**(368,605)**	**2,872**	**(365,733)**	**(506,028)**
(Loss) gain from discontinued operations (Note 11)	(490,063)		(490,063)	219,325
Total Change in Net Assets	**(858,668)**	**2,872**	**(855,796)**	**(286,703)**
Net assets, beginning of year	7,376,903	434,176	7,811,079	8,097,782
Net Assets, End of Year	**$ 6,518,235**	**$ 437,048**	**$ 6,955,283**	**$ 7,811,079**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Program Services						Supporting Services			
	Children & Early Learning Center	Homeless and At-Risk Families	Domestic Violence Intervention and Prevention	Clinical & Training Services	Employee Assistance Program	Total Program Services	Management & General	Fund-Raising	2018 Total	2017 Total
Salaries and wages	$ 909,841	$ 778,497	$ 134,842	$ 1,641,380	$ 959,050	$ 4,423,610	$ 747,972	$ 318,978	$ 5,490,560	$ 6,376,827
Payroll taxes	75,736	62,967	10,468	129,338	77,993	356,502	59,014	25,217	440,733	514,728
Employee benefits	111,401	73,919	22,371	120,740	100,218	428,649	64,133	28,009	520,791	677,586
Total salary and related expenses	1,096,978	915,383	167,681	1,891,458	1,137,261	5,208,761	871,119	372,204	6,452,084	7,569,141
Professional services	462	3,756	11,278	15,643	2,612,338	2,643,477	372,589	119,977	3,136,043	2,603,013
Specific assistance	463,369	701,394		77		1,164,840	73		1,164,913	1,402,687
Occupancy	95,488	7,780	11,406	232,701	13,899	361,274	85,367	19,550	466,191	408,562
Electronic communications	7,501	9,101	4,131	6,559	132,769	160,061	155,516	35,491	351,068	297,194
Office/supplies/other	21,980	14,419	5,100	54,601	105,793	201,893	44,638	22,060	268,591	285,968
Interest							263,907		263,907	272,460
Insurance and financial	7,088	4,288	3,544	20,933	8,385	44,238	34,028	13,834	92,100	150,784
Equipment maintenance	4,004	8,767	5,567	2,941	5,493	26,772	51,063	3,065	80,900	39,135
Marketing/promotion/public relations				3,120	38,106	41,226	7,940	8,500	57,666	64,552
Human resources	5,826	378	36	991	307	7,538	47,604		55,142	19,697
Bad debt				34,439	544	34,983		9,606	44,589	172,710
Postage and shipping	13	229	158	1,562	1,524	3,486	3,424	6,007	12,917	17,535
Volunteer and donor expenses	1,537					1,537	1,762	9,536	12,835	18,307
Professional development and training	7,409	390	787		244	8,830	932	1,799	11,561	16,512
Agency sponsored conferences	70			2,575		2,645	400		3,045	13,579
Total expenses before depreciation	1,711,725	1,665,885	209,688	2,267,600	4,056,663	9,911,561	1,940,362	621,629	12,473,552	13,351,836
Depreciation	184,798	190,512	46,126	8,954	56,023	486,413	86,832	15,847	589,092	585,891
Total Expenses	**$ 1,896,523**	**$ 1,856,397**	**$ 255,814**	**$ 2,276,554**	**$ 4,112,686**	**$ 10,397,974**	**$ 2,027,194**	**$ 637,476**	**$ 13,062,644**	**$ 13,937,727**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ (855,796)	$ (286,703)
Adjustments to reconcile change in net assets to		
net cash provided by operating activities-		
Depreciation	589,092	585,891
Financing cost amortization	15,858	15,858
Loss on fixed asset disposal		5,170
Decrease (increase) in assets:		
Accounts receivable	189,865	(139,821)
Pledges receivable	144,724	(78,560)
Donated inventory	(15,655)	5,888
Prepaid expenses and other current assets	(7,438)	(9,648)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(35,579)	282,465
Abandoned lease obligations	184,632	
Deferred revenue	(63,656)	5,042
Net Cash Provided by Operating Activities	**146,047**	**385,582**
Cash Flows From Investing Activities:		
Proceeds from sale of property and equipment		6,621
Purchase of property and equipment	(45,189)	(75,784)
Net Cash Used in Investing Activities	**(45,189)**	**(69,163)**
Cash Flows From Financing Activities:		
Payments on notes payable	(163,551)	(156,953)
Proceeds from note payable		500,000
Net change in line of credit		(225,000)
Payments on capital lease obligations	(47,769)	(64,049)
Proceeds from contributions restricted for the acquisition of long-term assets	1,250	1,250
Net Cash (Used) Provided by Financing Activities	**(210,070)**	**55,248**
Net Change in Cash and Cash Equivalents	**(109,212)**	**371,667**
Cash and cash equivalents, beginning of year	855,738	484,071
Cash and Cash Equivalents, End of Year	**$ 746,526**	**$ 855,738**
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 232,588	$ 256,602
Acquisition of fixed assets through a capital lease	$ -	$ 120,988

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.

The consolidated financial statements include the accounts of Wellspring Family Services and Family Services Property LLC (a single member 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 consolidated 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:

Net Assets Without Donor Restriction - Net assets that are not subject to externally imposed restrictions.

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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 consolidated statement of financial position. 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 consolidated statement of operations.

Note 2 - Continued

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, 2018 and 2017, 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:

	2018	2017
Facilities	$ 82,800	$ 104,147
Baby Boutique goods	398,512	470,603
Miscellaneous	20,638	
	$ 501,950	**$ 574,750**

In addition, a substantial number of unpaid volunteers have made significant contributions of time (approximately 7,139 hours and 4,312 hours for the years ended December 31, 2018 and 2017, 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. Costs are directly charged to the functions they benefit. Costs for occupancy and other costs are allocated to each function based on square footage of space used by each program.

Legal matters - Wellspring is involved from time to time in claims, proceedings and litigation arising in the ordinary course of business. In management's opinion, the outcome from these matters will not materially impact Wellspring's financial position.

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.

Note 2 - Continued

Concentrations - Wellspring had one client comprising 21% and 16% of revenues during the years ended December 31, 2018 and 2017, respectively.

New Accounting Pronouncement - During the year ended December 31, 2018, Wellspring adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for fiscal years beginning after December 15, 2017. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability of financial assets has also been added (Note 10).

The accompanying summarized information from the 2017 consolidated financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14. As a result, previously reported net assets without donor restrictions (unrestricted net assets) have remained unchanged. Temporarily and permanently restricted net assets have been combined and are now reported as net assets with donor restrictions.

Comparative Totals for 2017 - 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, 2017, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets, or change in net assets for 2017.

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:

	2018	2017
Less than one year	$ 129,772	$ 266,529
One to five years		250
	129,772	266,779
Allowance for uncollectible pledges	(15,300)	(6,321)
Present value discount at 5%		(12)
	$ 114,472	**$ 260,446**

Note 3 - Continued

Pledges receivable from three donors represented 50% of total pledges receivable at December 31, 2018 and two donors represented 54% of total pledges receivable at December 31, 2017.

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2018	2017
Land	$ 2,456,349	$ 2,456,349
Building	13,611,580	13,611,580
Furniture and equipment	1,490,896	1,445,712
Leasehold improvements	448,967	448,967
Assets not yet placed in service	10,590	10,590
	18,018,382	17,973,198
Less accumulated depreciation	(5,949,031)	(5,359,944)
	$ 12,069,351	**$ 12,613,254**

Note 5 - Net Assets With Donor Restriction

Wellspring's net assets with donor restriction consisted of the following at December 31:

	2018	2017
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Parent-Child services	$ 170,000	$ 190,000
Housing services	96,825	108,490
Early Learning Center - general	68,738	14,738
CS Initiative	25,000	25,000
Administration	23,250	33,250
Housing - Beds for Families	5,245	14,150
Domestic Violence Intervention		558
Total Subject to the Passage of Time or Expenditure for Specified Purpose	**389,058**	**386,186**
Endowment Corpus:		
Endowment corpus - capital campaign	47,990	47,990
Total Endowment Corpus	**47,990**	**47,990**
Total Net Assets with Donor Restrictions	**$ 437,048**	**$ 434,176**
	$ -	$ -

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, 2018:

Purpose restriction-	
Early Learning Center	$ 196,965
Housing services	92,665
Parent-Child services	28,000
Domestic Violence Intervention	16,561
Housing - Beds for Families	13,355
Administration - Consultants	10,000
Baby Boutique	610
	$ 358,156

Note 6 - Notes Payable

On October 16, 2015, Wellspring entered into a $5.4 million tax exempt bond with the Washington Health Care Facilities Authority (WHCFA). 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, 2018 and 2017 the balance on the WHCFA bond was $4,890,419 and $5,051,804 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, 2018, Wellspring was in compliance with the financial covenants.

On May 9, 2016, Wellspring entered into a Promissory Note with Equity Trust Company FBO David Hiatt IRA (Equity Trust) for $500,000. Monthly payments are interest only with the total amount of the principal originally 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. On March 8, 2017, Wellspring amended the Promissory Note to increase the outstanding principal to $1,000,000 at a fixed interest rate of 10%. During the year ended December 31, 2018, Wellspring signed an additional amendment to extend the maturity date of the note to October 16, 2025.
Future minimum debt payments on long-term debt are as follows:

For the Year Ending December 31,	
2019	$ 165,943
2020	170,261
2021	175,438
2022	181,049
2023	187,077
Thereafter	5,010,651
	5,890,419
Less unamortized financing costs	(46,229)
	$ 5,844,190

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% (6.50% at December 31, 2018). The line expired on February 28, 2019 and was renewed subsequent to year end (Note 12). The balance outstanding on the line was $0 on December 31, 2018 and 2017.

Note 7 - Continued

Capital Lease Obligation - In 2017, Wellspring entered into a lease for eighteen copiers under a noncancelable capital lease agreement requiring 60 monthly payments of $2,339 through May 2022.

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

For the Year Ending December 31,		
2019	$	28,068
2020		28,068
2021		28,068
2022		9,087
		93,291
Less amounts representing interest at 6.0%		(10,214)
	$	**83,077**

Property and equipment included copiers and computers under capital leases at December 31, 2018 and 2017 of $120,987 and $199,191, respectively. Accumulated depreciation on these leases was $40,329 and $69,845 at December 31, 2018 and 2017, respectively.

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 2018 was $150,356. As of December 31, 2018, future minimum lease payments under operating leases with terms in excess of one year are as follows:

For the Year Ending December 31,		
2019	$	137,328
2020		142,404
2021		152,580
	$	**432,312**

In connection with closing the Bellevue branch during the year ended December 31, 2018, according to the Financial Accounting Standards Board's Accounting Standards Codification Topic 420, *Exit or Disposal Cost Obligations*, Wellspring incurred a one-time charge to recognize the loss of the remaining lease rental payments net of the future sublease rentals in the amount of $184,632. See Note 11.

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.

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 $0 and $3,203 for the years ended December 31, 2018 and 2017, 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, 2018.

Note 9 - Special Events

Wellspring holds an annual fundraising luncheon. Gross revenues and related direct expenses for this event for the years ended December 31 were as follows:

	2018	2017
Gross revenues	$ 420,719	$ 462,753
Direct expenses	(104,166)	(89,243)
Excess of Special Event Revenue Over Expenses	**$ 316,553**	**$ 373,510**

Gross revenue for special events is included in special event revenue in the consolidated statement of activities. Direct expenses are reflected in fundraising expenses in the consolidated statement of functional expenses.

Note 10 - Available Resources and Liquidity

Wellspring regularly monitors liquidity required to meet its operating needs and other contractual commitments. Wellspring has several sources of liquidity at its disposal, including cash and cash equivalents and the line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Wellspring considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, Wellspring operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 10 - Continued

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year as of December 31, comprise the following:

	2018	2017
Cash and cash equivalents	$ 746,526	$ 855,738
Accounts receivable, net of allowance for doubtful accounts	1,187,128	1,376,993
Current portion of pledges receivable, net	114,472	260,208
Total financial assets, excluding noncurrent receivables	2,048,126	2,492,939
Contractual or donor-imposed restrictions-		
Endowment fund cash	(47,990)	(47,990)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	**$ 2,000,136**	**$ 2,444,949**

Note 11 - Discontinued Operations

Wellspring discontinued two operations during the year ended December 31, 2018: the Bellevue Counseling and Training Services office, and its psychiatry practice.

Wellspring provides therapy and psychiatry services at several branch locations in the Puget Sound area. Management turnover in the Bellevue branch caused clinicians to believe that the site would be closed, and resulted in the resignation of the majority of the on-site clinicians. In May 2018, management decided that with the loss of the clinicians, keeping the office open was no longer a viable option. The branch was subsequently closed, and all remaining personnel were transitioned out of Wellspring or into other branch offices. In connection with the closure, Wellspring incurred a loss from discontinued operations of $431,191 during the year ended December 31, 2018.

Wellspring began offering psychiatry services in 2016. However, the operation struggled with financial viability due to the high payroll and insurance costs and relatively low reimbursement rates. Effective January 2018, Wellspring began closing the psychiatry practice and transitioning physicians and patients to other healthcare providers. Costs associated with the closing of this practice resulted in a loss of $58,872 during the year ended December 31, 2018.

Note 12 - Subsequent Event

Wellspring has evaluated subsequent events through April 29, 2019, the date on which the consolidated financial statements were available to be issued. As of March 11, 2019, Wellspring’s line of credit facility of $500,000 was extended by The Commerce Bank of Washington through May 31, 2019.