

***WELLSPRING FAMILY SERVICES
AND SUBSIDIARY***

Consolidated Financial Statements

For the Year Ended December 31, 2010

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Independent Auditors' Report***Board of Directors
Wellspring Family Services and Subsidiary
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying consolidated statement of financial position of Wellspring Family Services and its subsidiary (collectively, the Agency) as of December 31, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information had been derived from the Agency's December 31, 2009, consolidated financial statements and, in our report dated May 20, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2010, 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities on pages 14 through 15 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CLARK NUBER

Certified Public
Accountants
and Consultants

In accordance with *Government Auditing Standards*, we have issued a report dated May 25, 2011, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Certified Public Accountants
May 25, 2011

CONSOLIDATED FINANCIAL STATEMENTS

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Financial Position
December 31, 2010
(With Comparative Totals for 2009)**

	<i>2010</i>	<i>2009</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,432,711	\$ 450,728
Accounts receivable, net of allowance for doubtful accounts of \$4,879 (\$3,815 - 2009)	1,308,826	1,404,700
Current portion of pledges receivable, net	82,911	109,014
Current portion of capital campaign pledges receivable, net	634,162	1,175,656
Contributed facility receivable	75,600	99,750
Prepaid expenses and other current assets	443,706	395,380
	3,977,916	3,635,228
Total Current Assets		
Property and equipment, net	15,626,020	16,118,668
Other Assets:		
Cash and cash equivalents intended for capital campaign purposes	460,217	749,681
Capital campaign pledges receivable, less current portion	44,614	262,976
Beneficial interest in assets held by The Seattle Foundation	250,728	226,046
	\$ 20,359,495	\$ 20,992,599
Total Assets		
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,004,225	\$ 885,487
Current portion of notes payable	193,127	188,232
	1,197,352	1,073,719
Total Current Liabilities		
Accrued interest payable	13,931	
Notes payable, less current portion	6,101,690	6,293,752
	7,312,973	7,367,471
Total Liabilities		
Net Assets:		
Unrestricted	12,109,302	12,140,276
Temporarily restricted	894,720	1,442,352
Permanently restricted	42,500	42,500
	13,046,522	13,625,128
Total Net Assets		
Total Liabilities and Net Assets	\$ 20,359,495	\$ 20,992,599

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Activities
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Operating Activities					
Support, Revenue and Reclassifications:					
Program service fees	\$ 7,715,699	-	-	\$ 7,715,699	\$ 7,859,080
United Way of King County	846,599			846,599	848,977
Fees and grants from governmental agencies, including federal assistance of \$1,033,880 (\$637,022 - 2009)	2,656,113			2,656,113	1,877,733
Contributions	1,238,683	49,682		1,288,365	928,336
Capital campaign program contributions	44,512			44,512	191,583
In-kind contributions	266,357	75,600		341,957	302,789
Training fee revenues	33,159			33,159	22,519
Investment return	30,817			30,817	62,913
Other	60,054			60,054	31,269
Net assets released from restrictions	672,914	(672,914)			
Total Support, Revenue and Reclassifications	13,564,907	(547,632)		13,017,275	12,125,199
Expenses:					
Program Services:					
Clinical and training services	3,360,546			3,360,546	3,109,290
Employee assistance program	2,861,644			2,861,644	3,052,261
Homeless children's services	1,275,105			1,275,105	981,043
Homeless and at-risk families	3,584,819			3,584,819	2,807,744
Domestic violence intervention and prevention	368,108			368,108	415,922
Total Program Services	11,450,222			11,450,222	10,366,260
Supporting Services:					
Management and general	1,653,557			1,653,557	1,520,749
Fundraising	492,102			492,102	361,438
Total Supporting Services	2,145,659			2,145,659	1,882,187
Total Operating Expenses	13,595,881			13,595,881	12,248,447
Change in Net Assets from Operations	(30,974)	(547,632)		(578,606)	(123,248)
Non-Operating Activities					
Capital campaign contributions, net					5,598,772
Capital campaign expenses					(219,786)
Change in Net Assets from Non-Operating Activities					5,378,986
Change in Net Assets	(30,974)	(547,632)		(578,606)	5,255,738
Net assets, beginning of year	12,140,276	1,442,352	42,500	13,625,128	8,369,390
Net Assets, End of Year	\$12,109,302	\$ 894,720	\$ 42,500	\$13,046,522	\$13,625,128

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)**

	<i>Program Services</i>					<i>Supporting Services</i>			<i>2010 Consolidated Total</i>	<i>2009 Consolidated Total</i>
	<i>Clinical & Training Services</i>	<i>Employee Assistance Program</i>	<i>Homeless Children's Services</i>	<i>Homeless & At-Risk Families</i>	<i>Domestic Violence Intervention & Prevention</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Fund Raising</i>		
Salaries and wages	\$ 1,992,519	\$ 812,583	\$ 505,608	\$ 1,621,115	\$ 202,093	\$ 5,133,918	\$ 843,992	\$ 261,280	\$ 6,239,190	\$ 5,713,625
Payroll taxes	167,557	67,946	44,448	133,702	16,894	430,547	60,042	21,715	512,304	449,246
Employee benefits	290,121	126,427	89,627	229,940	33,041	769,156	99,721	26,124	895,001	857,813
Total salary and related expenses	2,450,197	1,006,956	639,683	1,984,757	252,028	6,333,621	1,003,755	309,119	7,646,495	7,020,684
Professional services	38,945	1,535,458	1,373	115,876	23,422	1,715,074	136,906	2,214	1,854,194	2,063,327
Human resources	2,013	403	943	2,118	182	5,659	59,024		64,683	56,807
Professional development and training	16,273	6,383	1,470	20,467	1,294	45,887	28,330	782	74,999	50,584
Occupancy	378,414	17,078	60,522	143,890	16,082	615,986	49,040	4,845	669,871	877,596
Electronic communications	18,491	58,777	5,387	24,001	2,190	108,846	16,491	1,463	126,800	137,198
Equipment maintenance	15,291	21,627	9,555	22,351	3,890	72,714	43,811	30,457	146,982	154,245
Agency sponsored conferences		730	110	283	124	1,247			1,247	17,591
Office/supplies/other	92,817	95,603	44,145	77,165	14,997	324,727	60,823	15,321	400,871	583,248
Postage and shipping	2,078	2,512	133	4,263	443	9,429	6,986	2,778	19,193	31,479
Insurance and financial	20,358	24,527	61,580	68,535	15,981	190,981	52,444	19,798	263,223	99,126
Volunteer and donor expenses		39	1,835	673		2,547	20,211	85,770	108,528	101,231
Marketing/promotion/public relations	3,161	46,066		4,391		53,618	44,239	2,540	100,397	89,946
Specific assistance	286,747		297,609	971,234		1,555,590	520		1,556,110	794,796
Total expenses before depreciation and amortization	3,324,785	2,816,159	1,124,345	3,440,004	330,633	11,035,926	1,522,580	475,087	13,033,593	12,077,858
Depreciation and amortization	35,761	45,485	150,760	144,815	37,475	414,296	130,977	17,015	562,288	390,375
Total Expenses	\$ 3,360,546	\$ 2,861,644	\$ 1,275,105	\$ 3,584,819	\$ 368,108	\$ 11,450,222	\$ 1,653,557	\$ 492,102	\$ 13,595,881	\$ 12,468,233

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Cash Flows
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)**

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (578,606)	\$ 5,255,738
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities -		
Depreciation and amortization	562,288	390,375
Net gain from the beneficial interest held by The Seattle Foundation	(24,682)	(46,814)
Contributions restricted for the acquisition of long-term assets		(5,598,772)
(Increase) decrease in assets:		
Accounts receivable	95,874	(556,366)
Pledges receivable	365,313	455,616
Contributed facility receivable	24,150	(16,890)
Prepaid expenses and other current assets	(76,859)	(265,871)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	132,740	80,285
Net Cash Provided by (Used in) Operating Activities	<u>500,218</u>	<u>(302,699)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(41,178)	(11,521,139)
Beneficial interest in asset held by The Seattle Foundation		82,319
Net Cash Used in Investing Activities	<u>(41,178)</u>	<u>(11,438,820)</u>
Cash Flows from Financing Activities:		
Payments on notes payable	(187,167)	(5,424,643)
Proceeds from long-term debt		9,400,617
Proceeds from contributions restricted for the acquisition of long-term assets	420,646	6,036,801
Net Cash Provided by Financing Activities	<u>233,479</u>	<u>10,012,775</u>
Net Change in Cash and Cash Equivalents	<u>692,519</u>	<u>(1,728,744)</u>
Cash and cash equivalents, beginning of year	1,200,409	2,929,153
Cash and Cash Equivalents, End of Year	<u>\$ 1,892,928</u>	<u>\$ 1,200,409</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 1,432,711	\$ 450,728
Cash and cash equivalents intended for capital campaign purposes	460,217	749,681
	<u>\$ 1,892,928</u>	<u>\$ 1,200,409</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 166,670	\$ 71,550
Fixed assets acquired through accounts payable	\$ 5,178	\$ 5,249

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 1 - Purpose and Programs

Mission Statement

Wellspring Family Services' mission is to build emotionally healthy, self-sufficient families and a non-violent community in which they can thrive.

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

Wellspring Family Services moved into The Rotary Support Center for Families (the Support Center) during June 2009. The Support Center consolidated administration, employee assistance, and family stabilization programs, formerly in leased space, and has expanded services to children.

Real estate for the project was acquired and Family Services Property LLC (FSP LLC) was formed to own and operate the Support Center. FSP LLC has one member, Wellspring Family Services.

Program Services

Wellspring Family Services helps families and individuals who are dealing with issues such as depression and anxiety, problems in the workplace, aging, parenting and family issues, homelessness and domestic violence. By providing therapeutically focused services, the Agency helps people address underlying root causes of the problems, as well as respond to immediate needs.

Wellspring Family Services' programs include three service groups:

Clinical and Training Services (CTS)

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

Employee Assistance Program (EAP)

Family Stabilization Services (FSS)

- Homeless Children's Services
- Morningsong Early Learning Center
- Baby Boutique
- Housing Services Intervention and Prevention for Homeless and At-Risk Families
- Domestic Violence Intervention and Prevention

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements of Wellspring Family Services include the accounts of Family Services Property LLC, collectively referred to as the Agency. All inter-company transactions have been eliminated.

Basis of Presentation - Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to externally imposed restrictions. Restricted contributions for which restrictions are met in the same reporting period are reported through unrestricted net assets.

Temporarily Restricted Net Assets - Net assets subject to externally imposed restrictions that will be met either by actions of the Agency and/or the passage of time. Temporarily restricted net assets subject to time and program restrictions were \$894,720 and \$1,442,352, as of December 31, 2010 and 2009, respectively (Note 4).

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Agency. As of December 31, 2010 and 2009, the Agency had \$42,500 of permanently restricted net assets 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 and are not met either by actions of the Agency and/or the passage of time in the same reporting period. 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. It is the Agency's policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year that they were received.

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

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

Accounts Receivable - Trade accounts receivables 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.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 2 - Continued

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.

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

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, 2010 and 2009, the Agency had no unrelated business income and accordingly, no provision for federal income taxes has been reported in the accompanying consolidated financial statements. The Agency is subject to income tax examination for the current year and certain prior years based on the applicable laws and regulations.

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

In-Kind Contributions - The Agency receives free use of several facilities under annual renewals. In-kind contributions consist of the following for the years ending December 31:

	<u>2010</u>	<u>2009</u>
Facilities	\$ 105,750	\$ 140,400
Supplies	195,139	96,858
Services	<u>41,068</u>	<u>65,531</u>
	<u>\$ 341,957</u>	<u>\$ 302,789</u>

In addition, a substantial number of unpaid volunteers have made significant contributions of time (approximately 8,031 hours and 7,868 hours for 2010 and 2009, respectively) to develop and carry out the programs of the Agency. The value of this contributed time is not reflected in the consolidated statement of activities since it does not meet the requirements of current accounting standards.

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

Use of Estimates - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications - Certain reclassifications were made to the December 31, 2009, consolidated financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 2 - Continued

Comparative Totals for 2009 - 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's consolidated financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Subsequent Events - The Agency has evaluated subsequent events through May 11, 2011, the date on which the consolidated financial statements were available to be issued.

Note 3 - Pledges Receivable

The Agency has received pledges for contributions to be received in future periods. Such pledges have been discounted at a 5% discount rate. These contributions are receivable as follows at December 31:

	<u>Capital Campaign</u>					
	<u>Program</u>					
	<u>and</u>					
	<u>Building</u>	<u>Endowment</u>	<u>Other</u>	<u>Operation</u>	<u>2010 Total</u>	<u>2009 Total</u>
Less than one year	\$ 300,019	\$ 149,419	\$ 218,079	\$ 87,297	\$ 754,814	\$ 1,352,284
One to five years			<u>52,645</u>		<u>52,645</u>	<u>286,540</u>
	300,019	149,419	270,724	87,297	807,459	1,638,824
Allowance for uncollectible pledges (approximately 5%)	(15,001)	(7,471)	(13,515)	(4,386)	(40,373)	(83,192)
Present value discount			<u>(5,399)</u>		<u>(5,399)</u>	<u>(7,986)</u>
	<u>\$ 285,018</u>	<u>\$ 141,948</u>	<u>\$ 251,810</u>	<u>\$ 82,911</u>	<u>\$ 761,687</u>	<u>\$ 1,547,646</u>

Other capital campaign pledges can be directed to building or programs at the discretion of the Board of Directors. Pledges receivable from one donor represents 17% of total pledges receivable at December 31, 2010.

Note 4 - Temporarily Restricted Net Assets

The Agency's temporarily restricted net assets consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Capital campaign - program and other	\$ 566,144	\$ 922,258
Project Permanency	190,728	226,046
Contributed facilities	75,600	99,750
Infant mental health program	37,248	97,248
Homeless program		72,050
Operating programs	<u>25,000</u>	<u>25,000</u>
	<u>\$ 894,720</u>	<u>\$ 1,442,352</u>

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 4 - Continued

Net assets released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors are as follows:

	<u>2010</u>	<u>2009</u>
Purpose restriction:		
Capital campaign - program and other	\$ 356,114	\$ 1,525,586
Project Permanency	60,000	82,319
Infant mental health program	60,000	27,605
Homeless program	72,050	72,050
Time restriction:		
Pledges for future periods	25,000	25,000
Contributed rent for future periods	99,750	109,110
	<u>\$ 672,914</u>	<u>\$ 1,841,670</u>

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 2,456,349	\$ 2,456,349
Building	13,588,083	13,586,885
Furniture and equipment	687,352	673,781
Leasehold improvements	422,232	395,895
	17,154,016	17,112,910
Less accumulated depreciation	<u>(1,527,996)</u>	<u>(994,242)</u>
	<u>\$ 15,626,020</u>	<u>\$ 16,118,668</u>

Note 6 - Beneficial Interest in Asset Held by The Seattle Foundation

The Agency transferred \$330,000 to The Seattle Foundation in 2003. The agreement permits the Agency's Board of Directors to transfer funds back to the Agency and stipulates that the timing and amount of distributions will be on an as needed basis. Under generally accepted accounting principles these funds are to be recorded as a contribution and a beneficial interest in assets held by others. At December 31, 2010 and 2009, the balance of \$250,728 and \$226,046, respectively, is recorded as an asset.

Note 7 - Fair Value Measurements

Generally accepted accounting principles (GAAP) define fair value, establish a framework for measuring fair value, and require disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 7 - Continued

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for asset measured at fair value. There have been no changes in methodologies used at December 31, 2010 and 2009.

Beneficial Interest in Asset Held by The Seattle Foundation - Valued using the net asset value (NAV) provided by The Seattle Foundation. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date.

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made at December 31, 2010, using significant unobservable inputs (Level 3) is as follows:

Beginning balance	\$	226,046
Net investment return		28,138
Fees		<u>(3,456)</u>
	\$	<u>250,728</u>

Note 8 - Notes Payable

On November 13, 2008, the Agency entered into a New Markets Tax Credit transaction to help finance the construction of the real estate located at 1900 Rainier Avenue South, Seattle, Washington named the Rotary Support Center for Families (the Support Center).

The New Markets Tax Credit Program was designed to stimulate investment and economic growth in specially designated Low-Income Communities (LICs) by offering a seven-year, 39% federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (CDE). CDEs use capital derived from tax credits to make loans to or investments in Qualified Active Low Income Community Businesses (QALICBs) located in LICs. The Support Center is identified as a QALICB for this purpose.

The construction loan shall not exceed \$9.6 million and is due within one year of the loan date. The loan bears fees of 0.5% and accrues interest at 1% per annum. Fees and interest on the outstanding principal balance are due monthly. The principal balance of the loan was required to be paid down to \$6.5 million by November 2009.

At anytime during the term of the construction loan, the Agency may request that the loan be converted into a permanent loan, with a maximum outstanding principal balance of \$6.5 million. Interest accrues at 2.57% per annum and the rate lock fees are 2%. The balance of the loan is due in 2015. During 2009, the loan was converted into a permanent loan. At December 31, 2010 and 2009, the balance of the permanent loan is \$6,294,817 and \$6,481,984, respectively.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 8 - Continued

As of December 31, 2010, future minimum payments on the notes are as follows:

2011	\$ 193,127
2012	198,149
2013	203,302
2014	208,588
2015	214,013
Thereafter	<u>5,277,638</u>
	<u>\$ 6,294,817</u>

Note 9 - Commitments and Contingencies

Leases - The Agency leases space for several of its offices in the Seattle area under operating lease agreements expiring through December 2015. Lease expense under these operating leases in 2010 was \$874,245. As of December 31, 2010, future minimum lease payments under operating leases with terms in excess of one year are as follows:

Year Ended December 31,

2011	\$ 758,232
2012	762,813
2013	768,893
2014	633,544
2015	<u>480,000</u>
	<u>\$ 3,403,482</u>

Note 10 - Retirement Plan

The Agency's Tax Deferred Annuity Retirement Plan (the Plan) covers all eligible employees. The benefit formula used to determine the Agency's contribution to the Plan is based on a stated contribution formula. Contributions to the defined contribution plan amounted to \$220,198 and \$219,906 for the years ended December 31, 2010 and 2009, respectively. Employer contributions vest incrementally based on years of service up to five years.

Note 11 - Line of Credit

The Agency had available a \$750,000 line of credit with a bank. There was no outstanding balance on the line at December 31, 2010. The line bears interest at the greater of prime rate plus 0.875% or 5% (5% at December 31, 2010). The line is collateralized with assets owned by the Agency.

In February 2011, the existing line of credit matured and the Agency obtained a new line of credit of \$800,000 with a new bank.

SUPPLEMENTARY INFORMATION

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidating Statement of Financial Position

December 31, 2010

(With Comparative Totals for 2009)

	<i>Wellspring Family Services</i>	<i>Family Services Property LLC</i>	<i>Eliminations</i>	<i>2010</i>	<i>2009</i>
Assets					
Current Assets:					
Cash and cash equivalents	\$ 1,286,372	\$ 146,339	\$ -	\$ 1,432,711	\$ 450,728
Accounts receivable, net of allowance for doubtful accounts of \$4,879 (\$3,815 - 2009)	11,057,114		(9,748,288)	1,308,826	1,404,700
Current portion of pledges receivable, net	82,911			82,911	109,014
Current portion of capital campaign pledges receivable, net	634,162			634,162	1,175,656
Contributed facility receivable	75,600			75,600	99,750
Prepaid expenses and other current assets	343,415	140,291	(40,000)	443,706	395,380
Total Current Assets	13,479,574	286,630	(9,788,288)	3,977,916	3,635,228
Property and equipment, net	253,956	15,372,064		15,626,020	16,118,668
Other Assets:					
Cash and cash equivalents intended for capital campaign purposes	460,217			460,217	749,681
Capital campaign pledges receivable, net, less current portion	44,614			44,614	262,976
Beneficial interest in assets held by The Seattle Foundation	250,728			250,728	226,046
Total Assets	\$ 14,489,089	\$ 15,658,694	\$ (9,788,288)	\$ 20,359,495	\$ 20,992,599
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 1,004,225	\$ 9,748,288	\$ (9,748,288)	\$ 1,004,225	\$ 885,487
Current portion of notes payable		193,127		193,127	188,232
Total Current Liabilities	1,004,225	9,941,415	(9,748,288)	1,197,352	1,073,719
Accrued interest payable		13,931		13,931	
Deferred revenue		40,000	(40,000)		
Notes payable, less current portion		6,101,690		6,101,690	6,293,752
Total Liabilities	1,004,225	16,097,036	(9,788,288)	7,312,973	7,367,471
Net Assets:					
Unrestricted	12,547,644	(438,342)		12,109,302	12,140,276
Temporarily restricted	894,720			894,720	1,442,352
Permanently restricted	42,500			42,500	42,500
Total Net Assets	13,484,864	(438,342)		13,046,522	13,625,128
Total Liabilities and Net Assets	\$ 14,489,089	\$ 15,658,694	\$ (9,788,288)	\$ 20,359,495	\$ 20,992,599

See independent auditors' report.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidating Statement of Activities
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Wellspring Family Services Total</i>	<i>Family Services Property LLC Unrestricted</i>	<i>Eliminations</i>	<i>2010 Total</i>	<i>2009 Total</i>
Operating Activities								
Support, Revenue and Reclassifications:								
Program service fees	\$ 7,715,699	\$ -	\$ -	\$ 7,715,699	\$ -	\$ -	\$ 7,715,699	\$ 7,859,080
United Way of King County	846,599			846,599			846,599	848,977
Fees and grants from governmental agencies, including federal assistance of \$1,033,880 (\$637,022 - 2009)	2,656,113			2,656,113			2,656,113	1,877,733
Contributions	1,238,683	49,682		1,288,365			1,288,365	928,336
Capital campaign program contributions	44,512			44,512			44,512	191,583
In-kind contributions	266,357	75,600		341,957			341,957	302,789
Training fee revenues	33,159			33,159			33,159	22,519
Investment return	30,817			30,817			30,817	62,913
Rental income					440,000	(440,000)		
Other	60,054			60,054			60,054	31,269
Net assets released from restrictions	672,914	(672,914)						
Total Support, Revenue and Reclassifications	13,564,907	(547,632)		13,017,275	440,000	(440,000)	13,017,275	12,125,199
Expenses:								
Program Services:								
Clinical and training services	3,357,179			3,357,179	10,058	(6,691)	3,360,546	3,109,290
Employee assistance program	2,840,753			2,840,753	62,714	(41,823)	2,861,644	3,052,261
Homeless children's services	1,205,804			1,205,804	207,866	(138,565)	1,275,105	981,043
Homeless and at-risk families	3,520,634			3,520,634	192,549	(128,364)	3,584,819	2,807,744
Domestic violence intervention and prevention	350,870			350,870	51,670	(34,432)	368,108	415,922
Total Program Services	11,275,240			11,275,240	524,857	(349,875)	11,450,222	10,366,260
Supporting Services:								
Management and general	1,614,483			1,614,483	117,383	(78,309)	1,653,557	1,520,749
Fundraising	486,169			486,169	17,749	(11,816)	492,102	361,438
Total Supporting Services	2,100,652			2,100,652	135,132	(90,125)	2,145,659	1,882,187
Total Operating Expenses	13,375,892			13,375,892	659,989	(440,000)	13,595,881	12,248,447
Change in Net Assets from Operations	189,015	(547,632)		(358,617)	(219,989)		(578,606)	(123,248)
Non-Operating Activities								
Capital campaign contributions, net								5,598,772
Capital campaign expenses								(219,786)
Change in Net Assets from Non-Operating Activities								5,378,986
Change in Net Assets	189,015	(547,632)		(358,617)	(219,989)		(578,606)	5,255,738
Net assets, beginning of year	12,358,629	1,442,352	42,500	13,843,481	(218,353)		13,625,128	8,369,390
Net Assets, End of Year	\$ 12,547,644	\$ 894,720	\$ 42,500	\$ 13,484,864	\$ (438,342)	\$ -	\$ 13,046,522	\$ 13,625,128

See independent auditors' report.