

***WELLSPRING FAMILY SERVICES
AND SUBSIDIARY***

Consolidated Financial Statements

For the Year Ended December 31, 2012

Table of Contents

	<i>Page</i>
Independent Auditors' 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 - 14
Supplementary Information:	
Consolidating Statement of Financial Position	15
Consolidating Statement of Activities	16

Independent Auditors' Report

*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, 2012, and the related consolidated statement 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.

Auditors' 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 auditors' 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 auditors consider 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.

CLARK NUBER

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, 2012, 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.

Report on Summarized Comparative Information

We have previously audited Wellspring's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 23, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information shown on pages 15 through 16 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and it is not a required part of the consolidated 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated 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 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013 on our consideration of Wellspring's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wellspring's internal control over financial reporting and compliance.



Certified Public Accountants
June 21, 2013

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2012
(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,874,857	\$ 1,981,210
Accounts receivable, net of allowance for doubtful accounts of \$34,815 (\$0 - 2011)	1,281,438	1,380,005
Current portion of pledges receivable, net	124,950	83,621
Current portion of capital campaign pledges receivable, net	119,890	395,181
Prepaid expenses and other current assets	136,225	399,408
Total Current Assets	3,537,360	4,239,425
Property and equipment, net	15,144,152	15,395,843
Other Assets:		
Pledges receivable, less current portion	44,773	42,296
Capital campaign pledges receivable, net, less current portion	63,295	14,438
Beneficial interest in assets held by The Seattle Foundation	141,044	185,706
Total Assets	\$ 18,930,624	\$ 19,877,708
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 941,339	\$ 1,072,648
Current portion of capital lease obligations	28,295	
Current portion of notes payable	202,356	197,725
Total Current Liabilities	1,171,990	1,270,373
Accrued interest payable	13,931	13,931
Capital lease obligations, less current portion	114,651	
Notes payable, less current portion	5,703,632	5,905,393
Total Liabilities	7,004,204	7,189,697
Net Assets:		
Unrestricted	11,311,859	12,092,260
Temporarily restricted	569,061	553,251
Permanently restricted	45,500	42,500
Total Net Assets	11,926,420	12,688,011
Total Liabilities and Net Assets	\$ 18,930,624	\$ 19,877,708

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Activities
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2012 Total</i>	<i>2011 Total</i>
Support, Revenue and Reclassifications:					
Program service fees	\$ 7,268,603	\$ -	\$ -	\$ 7,268,603	\$ 7,420,095
Fees and grants from governmental agencies, including federal assistance of \$680,654 (\$1,503,715 - 2011)	2,273,150	75,000		2,348,150	3,035,068
Contributions	1,319,148	238,621	3,000	1,560,769	1,354,936
United Way of King County	838,974			838,974	847,808
In-kind contributions	289,401			289,401	595,253
Training fee revenues	40,602			40,602	36,757
Investment return	592	17,420		18,012	(969)
Other	10,136			10,136	43,328
Net assets released from restrictions	315,231	(315,231)			
Total Support, Revenue and Reclassifications	12,355,837	15,810	3,000	12,374,647	13,332,276
Expenses:					
Program services-					
Homeless children's services	296,565			296,565	395,154
Homeless and at-risk families	3,709,023			3,709,023	4,136,555
Domestic violence intervention and prevention	337,881			337,881	326,230
Clinical and training services	3,433,233			3,433,233	3,574,739
Employee assistance program	2,816,742			2,816,742	2,650,296
Total program services	10,593,444			10,593,444	11,082,974
Supporting services-					
Management and general	1,467,028			1,467,028	1,571,373
Fundraising	445,918			445,918	500,243
Total supporting services	1,912,946			1,912,946	2,071,616
Total Expenses before Depreciation	12,506,390			12,506,390	13,154,590
Change in Net Assets before Depreciation	(150,553)	15,810	3,000	(131,743)	177,686
Depreciation and amortization	629,848			629,848	536,197
Total Change in Net Assets	(780,401)	15,810	3,000	(761,591)	(358,511)
Net assets, beginning of year	12,092,260	553,251	42,500	12,688,011	13,046,522
Net Assets, End of Year	\$ 11,311,859	\$ 569,061	\$ 45,500	\$ 11,926,420	\$ 12,688,011

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	Program Services					Supporting Services			2012 Total	2011 Total
	Homeless Children's Services	Homeless & At-Risk Families	Domestic Violence Intervention & Prevention	Clinical & Training Services	Employee Assistance Program	Total Program Services	Management & General	Fund Raising		
Salaries and wages	\$ 171,808	\$ 1,633,755	\$ 203,987	\$ 2,112,487	\$ 927,381	\$ 5,049,418	\$ 847,163	\$ 192,841	\$ 6,089,422	\$ 6,245,913
Payroll taxes	13,358	130,316	15,886	162,556	71,002	393,118	103,706	15,320	512,144	553,594
Employee benefits	27,045	270,782	33,238	322,289	141,877	795,231	95,535	15,486	906,252	969,459
Total salary and related expenses	212,211	2,034,853	253,111	2,597,332	1,140,260	6,237,767	1,046,404	223,647	7,507,818	7,768,966
Professional services	2,453	44,966	24,788	31,436	1,442,150	1,545,793	184,739	41,518	1,772,050	1,634,158
Human resources	60	2,593		915	259	3,827	31,519	22	35,368	41,770
Professional development and training	3,789	8,479	813	15,594	6,976	35,651	19,473	1,716	56,840	63,753
Occupancy	46,636	275,102	42,241	323,815	5,000	692,794	23,983	5,094	721,871	691,583
Electronic communications	5,161	25,790	2,724	22,744	52,819	109,238	14,912	2,335	126,485	128,782
Equipment maintenance	4,289	23,705	4,640	19,012	18,539	70,185	42,370	15,540	128,095	159,372
Agency sponsored conferences		722			353	1,075			1,075	1,054
Office/supplies/other	6,007	47,232	6,206	94,413	77,137	230,995	15,003	40,073	286,071	355,413
Postage and shipping	39	2,110	467	1,766	5,041	9,423	2,607	4,645	16,675	21,867
Insurance and financial	1,683	16,791	2,891	28,620	9,256	59,241	25,360	15,589	100,190	245,533
Volunteer and donor expenses		2,144			80	2,224	15,130	89,602	106,956	122,083
Marketing/promotion/public relations		50		5,009	58,872	63,931	45,528	351	109,810	103,515
Bad debt	13,704	5,993		248,858		268,555		5,786	274,341	
Specific assistance	533	1,218,493		43,719		1,262,745			1,262,745	1,816,741
Total expenses before depreciation and amortization	296,565	3,709,023	337,881	3,433,233	2,816,742	10,593,444	1,467,028	445,918	12,506,390	13,154,590
Depreciation and amortization	11,379	151,133	12,726	156,606	107,655	439,499	173,554	16,795	629,848	536,197
Total Expenses	\$ 307,944	\$ 3,860,156	\$ 350,607	\$ 3,589,839	\$ 2,924,397	\$ 11,032,943	\$ 1,640,582	\$ 462,713	\$ 13,136,238	\$ 13,690,787

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidated Statement of Cash Flows
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (761,591)	\$ (358,511)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	629,848	536,197
Net (gain) loss from the beneficial interest held by The Seattle Foundation	(15,338)	5,022
Donated computer equipment and software	(30,000)	(260,739)
(Increase) decrease in assets:		
Accounts receivable	98,567	(71,179)
Pledges receivable	182,628	78,562
Prepaid expenses and other current assets	202,015	119,898
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(131,309)	68,423
Net Cash Provided by Operating Activities	<u>174,820</u>	<u>117,673</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(167,509)	(45,281)
Distribution of beneficial interest in asset held by The Seattle Foundation	60,000	60,000
Net Cash (Used in) Provided by Investing Activities	<u>(107,509)</u>	<u>14,719</u>
Cash Flows from Financing Activities:		
Payments on notes payable	(197,130)	(191,699)
Payments on capital lease obligations	(9,168)	
Proceeds from contributions restricted for the acquisition of long-term assets	32,634	147,589
Net Cash Used in Financing Activities	<u>(173,664)</u>	<u>(44,110)</u>
Net Change in Cash and Cash Equivalents	<u>(106,353)</u>	<u>88,282</u>
Cash and cash equivalents, beginning of year	1,981,210	1,892,928
Cash and Cash Equivalents, End of Year	<u>\$ 1,874,857</u>	<u>\$ 1,981,210</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 157,051	\$ 162,138
Acquisition of fixed assets through a capital lease	\$ 152,114	\$ -
Property and equipment acquired through in-kind donation	\$ 30,000	\$ 260,739

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

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 twenty years.

Wellspring Family Services is located at The Rotary Support Center for Families (the Support Center) in Seattle, WA. The Support Center houses administration, employee assistance, family stabilization programs, and services to children.

The building is leased from Family Services Property LLC (FSP LLC), a single member LLC, wholly owned by 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, Wellspring Family Services helps people address underlying root causes of the problems, as well as respond to immediate needs.

Wellspring Family Services' 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)

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of Wellspring Family Services and its subsidiary, collectively referred to as Wellspring. 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 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 \$569,061 and \$553,251, as of December 31, 2012 and 2011, respectively (Note 10).

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by Wellspring. As of December 31, 2012 and 2011, Wellspring Family Services had \$45,500 and \$42,500, respectively, 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 Wellspring 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 Wellspring'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 - 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 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.

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 FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 2 - Continued

Wellspring 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, 2012 and 2011, Wellspring had no unrelated business income and accordingly, no provision for federal income taxes has been reported in the accompanying consolidated financial statements. Wellspring Family Services 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 - In-kind contributions consisted of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Facilities	\$ 73,967	\$ 129,480
Software and computer equipment	30,000	260,739
Supplies	157,692	164,680
Services	27,742	40,354
	<u>\$ 289,401</u>	<u>\$ 595,253</u>

In addition, a substantial number of unpaid volunteers have made significant contributions of time (approximately 9,658 hours and 7,358 hours for December 31, 2012 and 2011, 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 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 (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, 2012 and 2011, respectively.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 2 - Continued

Reclassifications - Certain reclassifications were made to the December 31, 2011 consolidated financial statements to conform to the current year presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

Comparative Totals for 2011 - 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, 2011, from which the summarized information was derived.

Subsequent Events - Wellspring has evaluated subsequent events through June 21, 2013, the date on which the consolidated financial statements were available to be issued.

Note 3 - Pledges Receivable

Wellspring has received pledges for contributions to be received in future periods. Such pledges have been discounted at a 2% discount rate. These contributions are receivable as follows at December 31:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 263,840	\$ 506,255
One to five years	<u>110,848</u>	<u>58,268</u>
	374,688	564,523
Allowance for uncollectible pledges	(19,000)	(28,225)
Present value discount	<u>(2,780)</u>	<u>(762)</u>
	<u><u>\$ 352,908</u></u>	<u><u>\$ 535,536</u></u>

Pledges receivable from two donors represented 24% of total pledges receivable at December 31, 2012. Capital campaign pledges have been spent on their intended purpose and therefore are no longer classified as assets restricted for the acquisition of long-term assets on the consolidated statement of financial position.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,456,349	\$ 2,456,349
Building	13,588,083	13,588,083
Furniture and equipment	1,079,578	717,912
Vehicles	23,143	
Leasehold improvements	436,954	436,954
Software rights available for use	<u>225,554</u>	<u>260,739</u>
	17,809,661	17,460,037
Less accumulated depreciation	<u>(2,665,509)</u>	<u>(2,064,194)</u>
	<u>\$ 15,144,152</u>	<u>\$ 15,395,843</u>

Note 5 - Beneficial Interest in Assets Held by The Seattle Foundation

Wellspring transferred \$330,000 to The Seattle Foundation in 2003. The agreement permits Wellspring's Board of Directors to transfer funds back to Wellspring and stipulates that the timing and amount of distributions will be on an as needed basis. Under U.S. GAAP these funds have been recorded as a contribution and a beneficial interest in assets held by others. At December 31, 2012 and 2011, the balance of \$141,044 and \$185,706, respectively, is recorded as an asset.

Note 6 - Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and require disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. 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).

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.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 6 - Continued

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2012 and 2011.

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, 2012, using significant unobservable inputs (Level 3) is as follows:

Beginning balance	\$ 185,706
Grants paid	(60,000)
Net investment return	17,420
Fees	<u>(2,082)</u>
	<u>\$ 141,044</u>

Note 7 - Notes Payable

On November 13, 2008, Wellspring 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.

At December 31, 2012 and 2011, the balance of the loan was \$5,905,988 and \$6,103,118, respectively. Interest accrues at 2.57% per annum and the rate lock fees are 2%. The balance of the loan is due in November 2015.

As of December 31, 2012, future minimum payments on the notes is as follows:

For the Year Ending December 31,

2013	\$ 202,356
2014	207,682
2015	<u>5,495,950</u>
	<u>\$ 5,905,988</u>

Under the terms of the agreement, Wellspring must comply with a debt service covenant ratio. Compliance with such covenants is determined on an annual basis. As of December 31, 2012, Wellspring was not in compliance with the financial covenant. The lending institution has provided a waiver of compliance for the covenant.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 8 - Line of Credit

Wellspring has available an \$800,000 line of credit with a bank expiring September 1, 2013. There was no outstanding balance on the line at December 31, 2012. The line bears interest at the greater of prime rate plus 0.875% or 5% (5% at December 31, 2012). The line is collateralized with assets owned by Wellspring. Under the terms of the agreement, Wellspring must comply with several financial covenants, including total debt to tangible net worth and operating cash flow to fixed charge ratios. Compliance with such covenants is determined on an annual basis. As of December 31, 2012, Wellspring was not in compliance with one of the financial covenants. The lending institution has provided a waiver of compliance for the covenant.

Note 9 - Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Capital campaign - program	\$ 145,017	\$ 215,709
Project Permanency	141,044	97,311
Classroom initiative campaign	124,000	
New parent services	84,000	
Diversity homeless program	75,000	
Contributed facilities		51,450
No Child Homeless initiative		163,781
Operating programs		25,000
	<u>\$ 569,061</u>	<u>\$ 553,251</u>

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, 2012:

Purpose restriction-	
No Child Homeless initiative	\$ 163,781
Capital campaign - program and other	75,000
Time restriction-	
Pledges for future periods	25,000
Contributed rent for future periods	51,450
	<u>\$ 315,231</u>

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2012

Note 10 - Commitments and Contingencies

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. Future minimum lease payments under the capital lease agreement are as follows:

For the Year Ending December 31,

2013	\$	33,828
2014		33,828
2015		33,828
2016		33,828
2017		22,552
		<hr/>
		157,864
Less amounts representing interest at 4.25%		(14,918)
		<hr/>
	\$	142,946
		<hr/> <hr/>

Property and equipment included copiers under capital lease of \$152,114 and accumulated depreciation of \$25,352 at December 31, 2012.

Operating Leases - Wellspring leases space for several of its offices in the Seattle area under operating lease agreements expiring through December 2014. Lease expense under these operating leases in 2012 was \$230,538. As of December 31, 2012, future minimum lease payments under operating leases with terms in excess of one year are as follows:

For the Year Ending December 31,

2013	\$	294,893
2014		153,544
		<hr/>
	\$	448,437
		<hr/> <hr/>

Note 11 - 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 \$225,881 and \$225,987 for the years ended December 31, 2012 and 2011, respectively. Employer contributions vest incrementally based on years of service up to five years.

SUPPLEMENTARY INFORMATION

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidating Statement of Financial Position

December 31, 2012

(With Comparative Totals for 2011)

	<i>Wellspring Services Services</i>	<i>Family Services Property LLC</i>	<i>Eliminations</i>	<i>2012 Total</i>	<i>2011 Total</i>
Assets					
Current Assets:					
Cash and cash equivalents	\$ 1,481,051	\$ 393,806	\$ -	\$ 1,874,857	\$ 1,981,210
Accounts receivable, net of allowance for doubtful accounts of \$34,815 (\$0 - 2011)	11,029,726		(9,748,288)	1,281,438	1,380,005
Current portion of pledges receivable, net	124,950			124,950	83,621
Current portion of capital campaign pledges receivable, net	119,890			119,890	395,181
Prepaid expenses and other current assets	53,001	83,224		136,225	399,408
Total Current Assets	12,808,618	477,030	(9,748,288)	3,537,360	4,239,425
Property and equipment, net	668,605	14,475,547		15,144,152	15,395,843
Other Assets:					
Pledge receivable, net, less current portion	44,773			44,773	42,296
Capital campaign pledges receivable, net, less current portion	63,295			63,295	14,438
Beneficial interest in assets held by The Seattle Foundation	141,044			141,044	185,706
Total Assets	\$ 13,726,335	\$ 14,952,577	\$ (9,748,288)	\$ 18,930,624	\$ 19,877,708
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 941,339	\$ 9,748,288	\$ (9,748,288)	\$ 941,339	\$ 1,072,648
Current portion of capital lease obligations	28,295			28,295	
Current portion of notes payable		202,356		202,356	197,725
Total Current Liabilities	969,634	9,950,644	(9,748,288)	1,171,990	1,270,373
Accrued interest payable		13,931		13,931	13,931
Capital lease obligations, less current portion	114,651			114,651	
Notes payable, less current portion		5,703,632		5,703,632	5,905,393
Total Liabilities	1,084,285	15,668,207	(9,748,288)	7,004,204	7,189,697
Net Assets:					
Unrestricted	12,027,489	(715,630)		11,311,859	12,092,260
Temporarily restricted	569,061			569,061	553,251
Permanently restricted	45,500			45,500	42,500
Total Net Assets	12,642,050	(715,630)		11,926,420	12,688,011
Total Liabilities and Net Assets	\$ 13,726,335	\$ 14,952,577	\$ (9,748,288)	\$ 18,930,624	\$ 19,877,708

See independent auditors' report.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

**Consolidating Statement of Activities
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	<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>2012 Total</i>	<i>2011 Total</i>
Support, Revenue and Reclassifications:								
Program service fees	\$ 7,268,603	\$ -	\$ -	\$ 7,268,603	\$ -	\$ -	\$ 7,268,603	\$ 7,420,095
Fees and grants from governmental agencies, including federal assistance of \$680,654 (\$1,503,715 - 2011)	2,273,150	75,000		2,348,150			2,348,150	3,035,068
Contributions	1,319,148	238,621	3,000	1,560,769			1,560,769	1,354,936
United Way of King County	838,974			838,974			838,974	847,808
In-kind contributions	289,401			289,401			289,401	595,253
Training fee revenues	40,602			40,602			40,602	36,757
Investment return	592	17,420		18,012			18,012	(969)
Rental income					480,000	(480,000)		
Other	10,136			10,136			10,136	43,328
Net assets released from restrictions	315,231	(315,231)						
Total Support, Revenue and Reclassifications	12,355,837	15,810	3,000	12,374,647	480,000	(480,000)	12,374,647	13,332,276
Expenses:								
Program services-								
Homeless children's services	296,565			296,565			296,565	395,154
Homeless and at-risk families	3,709,023			3,709,023			3,709,023	4,136,555
Domestic violence intervention and prevention	337,881			337,881			337,881	326,230
Clinical and training services	3,433,233			3,433,233			3,433,233	3,574,739
Employee assistance program	2,816,742			2,816,742			2,816,742	2,650,296
Total program services	10,593,444			10,593,444			10,593,444	11,082,974
Supporting services-								
Management and general	1,785,647			1,785,647	161,381	(480,000)	1,467,028	1,571,373
Fundraising	445,918			445,918			445,918	500,243
Total supporting services	2,231,565			2,231,565	161,381	(480,000)	1,912,946	2,071,616
Total Expenses before Depreciation	12,825,009			12,825,009	161,381	(480,000)	12,506,390	13,154,590
Change in Net Assets before Depreciation	(469,172)	15,810	3,000	(450,362)	318,619		(131,743)	177,686
Depreciation and amortization	153,055			153,055	476,793		629,848	536,197
Total Change in Net Assets	(622,227)	15,810	3,000	(603,417)	(158,174)		(761,591)	(358,511)
Net assets, beginning of year	12,649,716	553,251	42,500	13,245,467	(557,456)		12,688,011	13,046,522
Net Assets, End of Year	\$ 12,027,489	\$ 569,061	\$ 45,500	\$ 12,642,050	\$ (715,630)	\$ -	\$ 11,926,420	\$ 12,688,011

See independent auditors' report.