WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Financial Statements

For the Year Ended December 31, 2019

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Clark Nuber PS

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, 2019, 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, 2019, 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 the Wellspring's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which is has been derived.

Clark Nuber P.S.

Certified Public Accountants
April 30, 2020

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	$ 752,412	$ 746,526
Accounts receivable, net of allowance for doubtful accounts of $13,900 ($14,000 - 2018)	1,789,334	1,187,128
Current portion of pledges receivable, net	365,832	114,472
Donated inventory	82,662	73,372
Prepaid expenses and other current assets	88,914	84,760
Total Current Assets	**3,079,154**	**2,206,258**
Property and equipment, net	11,614,186	12,069,351
Total Assets	**$ 14,693,340**	**$ 14,275,609**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,861,258	$ 1,201,146
Deferred revenue	346,885	7,281
Current portion of abandoned lease obligations	61,032	99,685
Current portion of capital lease obligations	25,092	28,068
Current portion of notes payable	170,261	165,943
Total Current Liabilities	**2,464,528**	**1,502,123**
Abandoned lease obligations, less current portion		84,947
Capital lease obligations, less current portion	35,881	55,009
Notes payable, less current portion	5,515,941	5,678,247
Total Liabilities	**8,016,350**	**7,320,326**
Net Assets:		
Without donor restrictions	6,508,770	6,518,235
With donor restrictions	168,220	437,048
Total Net Assets	**6,676,990**	**6,955,283**
Total Liabilities and Net Assets	**$ 14,693,340**	**$ 14,275,609**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support, Revenue and Reclassifications:				
Program service fees	$ 9,570,335	$ -	$ 9,570,335	$ 7,953,578
Fees and grants from governmental agencies, including federal assistance of $355,375 ($406,040 - 2018)	2,592,729		2,592,729	1,743,401
Contributions	1,659,983	278,350	1,938,333	1,387,315
Special event revenue, gross (Note 9)	324,604		324,604	420,719
United Way of King County	62,311		62,311	318,311
In-kind contributions	546,877		546,877	501,950
Other	72,453		72,453	16,272
Net assets released from restrictions	547,178	(547,178)		
Total Support, Revenue and Reclassifications	**15,376,470**	**(268,828)**	**15,107,642**	**12,341,546**
Expenses:				
Program services-				
Children and early learning center	1,427,507		1,427,507	1,384,646
Homeless and at-risk families	2,516,034		2,516,034	1,665,885
Clinical and training services	2,119,744		2,119,744	2,267,600
Employee assistance program	6,086,064		6,086,064	4,056,663
Total program services	12,149,349		12,149,349	9,374,794
Supporting services-				
Management and general	1,879,562		1,879,562	1,940,362
Fundraising	697,029		697,029	621,629
Total supporting services	2,576,591		2,576,591	2,561,991
Total Expenses Before Depreciation	**14,725,940**		**14,725,940**	**11,936,785**
Change in Net Assets from Continuing Operations Before Depreciation, Loss on Disposal and Discontinued Operations	**650,530**	**(268,828)**	**381,702**	**404,761**
Loss on disposal of property and equipment	(18,319)		(18,319)	
Depreciation	(486,846)		(486,846)	(589,092)
Total Change in Net Assets from Continuing Operations	**145,365**	**(268,828)**	**(123,463)**	**(184,331)**
Loss from discontinued operations (Note 11)	(154,830)		(154,830)	(671,465)
Total Change in Net Assets	**(9,465)**	**(268,828)**	**(278,293)**	**(855,796)**
Net assets, beginning of year	6,518,235	437,048	6,955,283	7,811,079
Net Assets, End of Year	**$ 6,508,770**	**$ 168,220**	**$ 6,676,990**	**$ 6,955,283**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Program Services						Supporting Services			
	Clinical and Training Services	Employee Assistance Program	Children and Early Learning Center	Homeless and At-Risk Families	Domestic Violence Intervention and Prevention	Total Program Services	Management and General	Fundraising	2019 Total	2018 Total
Salaries and wages	$ 1,505,748	$ 1,438,393	$ 781,870	$ 722,830	$ 48,466	$ 4,497,307	$ 1,035,803	$ 420,531	$ 5,953,641	$ 5,904,744
Payroll taxes	131,370	123,656	73,101	63,812	4,991	396,930	83,124	36,465	516,519	469,552
Employee benefits	117,505	143,686	84,981	61,079	5,481	412,732	79,416	23,511	515,659	539,392
Total salary and related expenses	1,754,623	1,705,735	939,952	847,721	58,938	5,306,969	1,198,343	480,507	6,985,819	6,913,688
Professional services	7,358	3,973,270	1,661	8,905	4,092	3,995,286	107,252	121,908	4,224,446	3,150,755
Specific assistance			479,805	1,545,312		2,025,117	11		2,025,128	1,164,913
Occupancy	230,651	8,435	135,805	70,368	39,390	484,649	8,046	(397)	492,298	814,660
Electronic communications	12,046	185,044	8,815	7,359	4,715	217,979	173,672	31,394	423,045	354,871
Office/supplies/other	50,445	139,522	15,256	14,275	1,310	220,808	41,481	27,375	289,664	281,493
Interest							265,146		265,146	263,907
Insurance and financial	35,136	24,494	14,688	12,828	1,815	88,961	40,803	11,059	140,823	117,651
Marketing/promotion/public relations	1,707	41,762	18			43,487	7,343	3,978	54,808	57,695
Equipment maintenance	4,216	4,267	2,895	6,174	3,920	21,472	13,858	2,147	37,477	84,073
Human resources	3,762	1,186	781	217	127	6,073	18,361		24,434	55,142
Bad debt	19,066	169				19,235			19,235	118,107
Volunteer and donor expenses			754	1,398		2,152	151	10,233	12,536	12,835
Postage and shipping	734	1,358	2	202	17	2,313	3,369	5,258	10,940	13,553
Professional development and training		822	2,496	1,275		4,593	1,726	3,567	9,886	11,561
Agency sponsored conferences										3,045
	2,119,744	6,086,064	1,602,928	2,516,034	114,324	12,439,094	1,879,562	697,029	15,015,685	13,417,949
Less expenses from discontinued operations presented separately on the consolidated statement of activities (Note 11)			(175,421)		(114,324)	(289,745)			(289,745)	(1,481,164)
Total operating expenses before depreciation	2,119,744	6,086,064	1,427,507	2,516,034		12,149,349	1,879,562	697,029	14,725,940	11,936,785
Depreciation	63,291	97,369	141,185	97,369		399,214	53,553	34,079	486,846	589,092
Total Expenses	**$ 2,183,035**	**$ 6,183,433**	**$ 1,568,692**	**$ 2,613,403**	**$ -**	**$ 12,548,563**	**$ 1,933,115**	**$ 731,108**	**$ 15,212,786**	**$ 12,525,877**

See accompanying notes.

WELLSPRING FAMILY SERVICES AND SUBSIDIARY

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	$ (278,293)	$ (855,796)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	486,846	589,092
Financing cost amortization	7,954	15,858
Loss on disposal of property and equipment	18,319	
Donated property and equipment	(50,000)	
Decrease (increase) in assets:		
Accounts receivable	(602,206)	189,865
Pledges receivable	(251,360)	144,724
Donated inventory	(9,290)	(15,655)
Prepaid expenses and other current assets	(4,154)	(7,438)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	660,112	(35,579)
Abandoned lease obligations	(123,600)	184,632
Deferred revenue	339,604	(63,656)
Net Cash Provided by Operating Activities	**193,932**	**146,047**
Cash Flows From Investing Activities:		
Purchase of property and equipment		(45,189)
Net Cash Used in Investing Activities		**(45,189)**
Cash Flows From Financing Activities:		
Payments on notes payable	(165,942)	(163,551)
Payments on capital lease obligations	(22,104)	(47,769)
Proceeds from contributions restricted for the acquisition of long-term assets		1,250
Net Cash Used in Financing Activities	**(188,046)**	**(210,070)**
Net Change in Cash and Cash Equivalents	**5,886**	**(109,212)**
Cash and cash equivalents, beginning of year	746,526	855,738
Cash and Cash Equivalents, End of Year	**$ 752,412**	**$ 746,526**
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 257,192	$ 232,588

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) (FSP, LLC), collectively referred to as Wellspring. All inter-entity transactions have been eliminated.

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

Wellspring's programs include three service groups:

<u>Community Services (CS)</u>

- Early Learning Center
- Baby Boutique
- Housing Services Intervention and Prevention for Homeless and At-Risk Families

<u>Clinical and Training Services (CTS)</u>

- Counseling Services

<u>Employee Assistance Program (EAP)</u>

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.

Basis of Presentation - Net assets, 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:

<u>Net Assets Without Donor Restrictions</u> - Net assets that are not subject to externally imposed restrictions.

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

Note 2 - Continued

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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.

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, 2019 and 2018, Wellspring had no unrelated business income and accordingly, no provision for federal income taxes has been reported in the accompanying consolidated financial statements.

Note 2 - Continued

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

	2019	2018
Facilities	$ 75,600	$ 82,800
Baby Boutique goods	419,352	398,512
Miscellaneous	1,925	20,638
Monitors and office equipment	50,000	
	$ 546,877	**$ 501,950**

In addition, a substantial number of unpaid volunteers have made significant contributions of time (approximately 3,722 hours and 7,139 hours for the years ended December 31, 2019 and 2018, 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.

Concentrations - Wellspring had one client comprising 31% and 22% of revenues during the years ended December 31, 2019 and 2018, respectively.

Revenue Recognition -

Program service fees revenue -

EAP Session Fees - Wellspring provides Employee Assistance Program (EAP) services to employees of customer companies. Wellspring is reimbursed at a fixed rate for services provided. Revenue is recognized at the time the EAP service is provided. Fees are generally received in arrears of services provided.

Counseling Session Fees - Wellspring provides counseling services and receives session fees when clients receive a counseling service whereby Wellspring is reimbursed at a fixed rate for services provided. Revenue is recognized at the time the counseling service is provided. Fees are generally received in arrears of services provided.

Note 2 - Continued

Program Administration Fees - Wellspring provides administration services for administrating EAP contracts. Program administration fees are charged based on a capitated rate. Program administration fees are recognized ratably over the service period provided.

Management Fees - Wellspring provides critical incident stress debriefings, trainings, and other management services and receives management fees whereby Wellspring is reimbursed at a fixed rate for services provided. Revenue is recognized at the time the services are provided. Fees are generally received in arrears of services provided.

Program services revenue and receivables are summarized below as follows as of and for the years ended December 31:

	2019 Revenue	2018 Revenue	2019 Receivable	2018 Receivable
EAP session fees	$ 3,785,098	$ 2,153,982	$ 1,329,823	$ 665,621
Counseling session fees	2,131,095	2,763,698	275,196	227,088
Program administration fees	2,871,184	2,576,157	2,854	29,909
Management fees	782,958	459,741		
	$ 9,570,335	**$ 7,953,578**	1,607,873	922,618
Grants Receivable			195,361	278,510
Allowance for doubtful accounts			(13,900)	(14,000)
Total Recievables			**$ 1,789,334**	**$ 1,187,128**

Grant and Contribution Revenue - Wellspring recognizes contributions when cash, securities, or other assets are received, or an unconditional promise to give is received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are met. Grants and contracts are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 31, 2019, conditional contributions approximating $1,250,893 of which $324,564 had been received in advance, have not been recognized in the accompanying consolidated financial statement. Advance payments received are included in deferred revenue on the consolidated statement of financial position.

Comparative Totals for 2018 - 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, 2018, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the 2018 amounts to conform to the 2019 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets, or change in net assets for 2018.

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:

	2019	2018
Less than one year	$ 374,832	$ 129,772
	374,832	129,772
Allowance for uncollectible pledges	(9,000)	(15,300)
	$ 365,832	**$ 114,472**

Pledges receivable from three donors represented 77% and 50% of total pledges receivable at December 31, 2019 and 2018, respectively.

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2019	2018
Land	$ 2,456,349	$ 2,456,349
Building	13,611,580	13,611,580
Furniture and equipment	1,511,194	1,490,896
Leasehold improvements	448,967	448,967
Assets not yet placed in service	10,590	10,590
	18,038,680	18,018,382
Less accumulated depreciation	(6,424,494)	(5,949,031)
	$ 11,614,186	**$ 12,069,351**

Note 5 - Net Assets With Donor Restriction

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

	2019	2018
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Parent-Child services	$ -	$ 170,000
Housing services	103,822	96,825
Early Learning Center - general	14,738	68,738
CS Initiative		25,000
Administration		23,250
Housing - Beds for Families	1,670	5,245
Total Subject to the Passage of Time or Expenditure for Specified Purpose	**120,230**	**389,058**
Endowment Corpus:		
Endowment corpus - capital campaign	47,990	47,990
Total Endowment Corpus	**47,990**	**47,990**
Total Net Assets with Donor Restrictions	**$ 168,220**	**$ 437,048**

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, 2019:

Purpose restriction-	
Early Learning Center	$ 178,000
Housing services	145,753
Parent-Child services	170,000
Childhood services	25,000
Administration - Consultants	23,750
Housing - Beds for Families	3,575
Baby Boutique	1,100
	$ 547,178

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.

The balance on the WHCFA bond was $4,724,477 and $4,890,419 at December 31, 2019 and 2018, respectively.

Note 6 - Continued

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, 2019, 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,	
2020	$ 170,261
2021	175,438
2022	181,049
2023	187,077
2024	192,287
Thereafter	4,818,365
	5,724,477
Less unamortized financing costs	(38,275)
	$ 5,686,202

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% (5.75% at December 31, 2019). As of March 13, 2019, the line was extended through May 31, 2020. The balance outstanding on the line was $0 on December 31, 2019 and 2018.

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.

Note 7 - Continued

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

For the Year Ending December 31,		
2020	$	28,068
2021		28,068
2022		9,357
		65,493
Less amounts representing interest at 6.0%		(4,520)
	$	**60,973**

Property and equipment included copiers and computers under capital leases at December 31, 2019 and 2018 of $120,987. Accumulated depreciation on these leases was $64,526 and $40,329 at December 31, 2019 and 2018, 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 2019 was $96,714. As of December 31, 2019, future minimum lease payments under operating leases with terms in excess of one year are as follows:

For the Year Ending December 31,		
2020	$	142,404
2021		152,580
	$	**294,984**

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. No contributions were made to the defined contribution plan for the years ended December 31, 2019 and 2018. 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, 2019.

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:

	2019	2018
Gross revenues	$ 324,604	$ 420,719
Direct expenses	(114,358)	(104,166)
Excess of Special Event Revenue Over Expenses	**$ 210,246**	**$ 316,553**

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.

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:

	2019	2018
Cash and cash equivalents	$ 752,412	$ 746,526
Accounts receivable, net of allowance for doubtful accounts	1,789,334	1,187,128
Current portion of pledges receivable, net	365,832	114,472
Total financial assets, excluding noncurrent receivables	2,907,578	2,048,126
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	**$ 2,859,588**	**$ 2,000,136**

Note 10 - Continued

As disclosed in Note 6, Wellspring is required to maintain cash liquidity of $1,000,000, including the available balance on the $500,000 line of credit, to remain in compliance with the WHCFA bond agreement covenants. The liquidity requirement is not included in the calculation of financial assets available to meet cash needs for general expenditure within one year.

Note 11 - Discontinued Operations

Wellspring discontinued two operations during the year ended December 31, 2019: the Domestic Violence Intervention Program (DVIP) and the Parent Child Services (PCS) program.

Wellspring learned that it was losing its funding for the DVIP program in 2019. After considering its long-term strategic goals, management decided it could no longer subsidize the program. In June 2019, Wellspring was able to transfer the program to Anger Control Treatment & Therapies (ACT&T), in addition to leasing a portion of Wellspring's facility to ACT&T in order to facilitate treatment meetings. Wellspring incurred a loss from the discontinued operations in the amount of $62,561 for the year end December 31, 2019. Wellspring had recognized a loss of $7,090 for the year ended December 31, 2018.

Late in 2018, Wellspring was informed that the PCS program was going to receive a cut in its funding as well. In addition, the program lost its key director in January 2019. Given the circumstances, management determined that it was no longer viable to maintain the program. Costs associated with the closing of this practice resulted in a loss of $92,269 during the year ended December 31, 2019. Wellspring had recognized a loss of $174,312 for the year ended December 31, 2018.

Wellspring also 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 Events

Wellspring has evaluated subsequent events through April 30, 2020, the date on which the consolidated financial statements were available to be issued. In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. Subsequent to year-end, the World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak has caused business disruption through mandated and voluntary closings of multiple businesses. As a result, employees of Wellspring are working remotely and eliminating non-essential business travel. The extent of the impact of COVID-19 on Wellspring’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact Wellspring’s financial condition or results of operations is uncertain.

In response to COVID-19, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 8, 2020, Wellspring obtained a loan under the PPP with a principal balance of $1,272,173 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning October 31, 2020 through maturity on March 31, 2022. All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met.