

**WELLSPRING FAMILY SERVICES AND SUBSIDIARY**

Consolidated Financial Statements

For the Year Ended December 31, 2023

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## **Independent Auditor's Report**

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

### **Opinion**

We have audited the consolidated financial statements of Wellspring Family Services and Subsidiary (collectively, Wellspring), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Wellspring as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Wellspring and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Wellspring's ability to continue as a going concern for one year after the date that the financial statements are issued.



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## **Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Wellspring's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wellspring's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Report on Summarized Comparative Information**

We have previously audited Wellspring's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Clark Nuber P.S.*

Certified Public Accountants  
June 25, 2025

**WELLSPRING FAMILY SERVICES AND SUBSIDIARY**

**Consolidated Statement of Financial Position  
December 31, 2023  
(With Comparative Totals for 2022)**

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 254,732	\$ 1,172,818
Accounts and grants receivable, net of allowance for doubtful accounts of \$5,200 (\$469,400 - 2022)	1,758,898	5,929,061
Current portion of pledges receivable, net	100,000	175,026
Donated inventory	88,656	143,580
Prepaid expenses and other current assets	<u>157,662</u>	<u>123,543</u>
<b>Total Current Assets</b>	<b>2,359,948</b>	<b>7,544,028</b>
Pledges receivable, net, less current portion	69,856	
Cash and cash equivalents restricted for endowment	47,990	47,990
Property and equipment, net	<u>11,760,557</u>	<u>11,841,790</u>
<b>Total Assets</b>	<b><u>\$ 14,238,351</u></b>	<b><u>\$ 19,433,808</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,611,650	\$ 3,271,240
Deferred revenue	4,525	21,390
Current portion of financing lease obligations	30,615	30,615
Current portion of notes payable	<u>146,671</u>	<u>139,407</u>
<b>Total Current Liabilities</b>	<b>1,793,461</b>	<b>3,462,652</b>
Financing lease obligations, less current portion	20,124	48,739
Notes payable, less current portion	<u>6,097,246</u>	<u>6,239,486</u>
<b>Total Liabilities</b>	<b>7,910,831</b>	<b>9,750,877</b>
<b>Net Assets:</b>		
Without donor restrictions	5,352,529	8,832,030
With donor restrictions	<u>974,991</u>	<u>850,901</u>
<b>Total Net Assets</b>	<b><u>6,327,520</u></b>	<b><u>9,682,931</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 14,238,351</u></b>	<b><u>\$ 19,433,808</u></b>

See accompanying notes.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Consolidated Statement of Activities For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
<b>Support, Revenue, and Reclassifications:</b>				
Program service fees	\$ 4,377,793	\$ -	\$ 4,377,793	\$ 17,664,168
Fees and grants from governmental agencies, including federal assistance of \$468,408 (\$1,236,863 - 2022)	3,338,971		3,338,971	6,994,478
Contributions	1,988,980	1,161,177	3,150,157	3,063,708
In-kind contributions	2,067,495		2,067,495	2,232,005
Other	54,068		54,068	34,151
Net assets released from restrictions	1,037,087	(1,037,087)		
<b>Total Support, Revenue and Reclassifications</b>	<b>12,864,394</b>	<b>124,090</b>	<b>12,988,484</b>	<b>29,988,510</b>
<b>Expenses:</b>				
Program services-				
Children and early learning center	4,041,768		4,041,768	3,501,642
Homeless and at-risk families	1,773,222		1,773,222	5,773,120
Family information and resource exchange	20,454		20,454	50,455
Employee assistance program	5,096,790		5,096,790	15,140,903
Total program services	10,932,234		10,932,234	24,466,120
Supporting services-				
Management and general	3,454,073		3,454,073	3,793,421
Fundraising	974,556		974,556	985,791
Total supporting services	4,428,629		4,428,629	4,779,212
<b>Total Expenses Before Depreciation</b>	<b>15,360,863</b>		<b>15,360,863</b>	<b>29,245,332</b>
<b>Change in Net Assets From Continuing Operations Before Depreciation and Discontinued Operations</b>	<b>(2,496,469)</b>	<b>124,090</b>	<b>(2,372,379)</b>	<b>743,178</b>
Depreciation	(539,375)		(539,375)	(476,752)
<b>Total Change in Net Assets From Continuing Operations</b>	<b>(3,035,844)</b>	<b>124,090</b>	<b>(2,911,754)</b>	<b>266,426</b>
Loss from discontinued operations (Note 11)	(443,657)		(443,657)	(153,113)
<b>Total Change in Net Assets</b>	<b>(3,479,501)</b>	<b>124,090</b>	<b>(3,355,411)</b>	<b>113,313</b>
Net assets, beginning of year	8,832,030	850,901	9,682,931	9,569,618
<b>Net Assets, End of Year</b>	<b>\$ 5,352,529</b>	<b>\$ 974,991</b>	<b>\$ 6,327,520</b>	<b>\$ 9,682,931</b>

See accompanying notes.

**WELLSPRING FAMILY SERVICES AND SUBSIDIARY**

**Consolidated Statement of Functional Expenses  
For the Year Ended December 31, 2023  
(With Comparative Totals for 2022)**

	Program Services					Supporting Services			2023 Total	2022 Total
	Children and Early Learning Center	Homeless and At-Risk Families	Clinical and Training Services	Family Information and Resource Exchange	Employee Assistance Program	Total Program Services	Management and General	Fundraising		
Salaries and wages	\$ 1,242,572	\$ 883,986	\$ 412,360	\$ 14,736	\$ 1,989,251	\$ 4,542,905	\$ 1,853,745	\$ 693,605	\$ 7,090,255	\$ 9,246,479
Payroll taxes	141,325	109,618	63,822	526	302,995	618,286	208,854	58,676	885,816	774,473
Employee benefits	132,747	103,377	37,992	746	257,915	532,777	168,337	78,470	779,584	1,079,677
<b>Total salary and related expenses</b>	<b>1,516,644</b>	<b>1,096,981</b>	<b>514,174</b>	<b>16,008</b>	<b>2,550,161</b>	<b>5,693,968</b>	<b>2,230,936</b>	<b>830,751</b>	<b>8,755,655</b>	<b>11,100,629</b>
Professional services	7,818	106,825	36,130	4,420	2,199,176	2,354,369	270,054	10,150	2,634,573	11,102,561
Specific assistance	2,324,011	450,033			1,594	2,775,638	200		2,775,838	5,581,786
Electronic communications	9,012	23,206	18,183	26	151,577	202,004	406,262	39,087	647,353	952,441
Office/supplies/other	51,676		13,687		89,015	154,378	46,710	29,308	230,396	632,167
Occupancy	96,972	37,985	194,903		25,305	355,165		17,741	372,906	451,404
Bad debt	3,656	36,543				40,199		5,000	45,199	653,826
Interest							332,556		332,556	305,058
Insurance and financial	17,815	19,650	52,187		46,726	136,378	74,098	33,530	244,006	196,108
Marketing/promotion/public relations			83		28,230	28,313	8,382		36,695	142,582
Equipment maintenance	2,556	1,688	749		1,309	6,302	43,241	427	49,970	92,214
Human resources	1,198	219	2,392		670	4,479	25,575	380	30,434	24,267
Professional development and training	10,410	22			3,027	13,459	7,014	1,723	22,196	20,684
Volunteer and donor expenses							7,896	3,237	11,133	16,674
Postage and shipping		70	1,063			1,133	1,149	3,222	5,504	12,371
Less expenses from discontinued operations presented separately on the consolidated statement of activities (Note 11)			(833,551)			(833,551)			(833,551)	(2,039,440)
<b>Total operating expenses before depreciation</b>	<b>4,041,768</b>	<b>1,773,222</b>		<b>20,454</b>	<b>5,096,790</b>	<b>10,932,234</b>	<b>3,454,073</b>	<b>974,556</b>	<b>15,360,863</b>	<b>29,245,332</b>
Depreciation	156,419	107,875			107,875	372,169	129,450	37,756	539,375	476,752
<b>Total Expenses</b>	<b>\$ 4,198,187</b>	<b>\$ 1,881,097</b>	<b>\$ -</b>	<b>\$ 20,454</b>	<b>\$ 5,204,665</b>	<b>\$11,304,403</b>	<b>\$ 3,583,523</b>	<b>\$ 1,012,312</b>	<b>\$15,900,238</b>	<b>\$29,722,084</b>

See accompanying notes.

**WELLSPRING FAMILY SERVICES AND SUBSIDIARY**

**Consolidated Statement of Cash Flows  
For the Year Ended December 31, 2023  
(With Comparative Totals for 2022)**

	<u>2023</u>	<u>2022</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (3,355,411)	\$ 113,313
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation	539,375	476,752
Financing cost amortization	4,431	8,406
Donated property and equipment		(463,231)
Decrease (increase) in assets:		
Accounts and grants receivable	4,170,163	(2,448,481)
Pledges receivable	5,170	(145,426)
Donated inventory	54,924	(9,416)
Prepaid expenses and other current assets	(34,119)	(259)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,659,590)	1,399,379
Deferred revenue	(16,865)	2,945
<b>Net Cash Used in Operating Activities</b>	<b>(291,922)</b>	<b>(1,066,018)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(458,142)	(292,281)
<b>Net Cash Used in Investing Activities</b>	<b>(458,142)</b>	<b>(292,281)</b>
<b>Cash Flows From Financing Activities:</b>		
Payment of debt issuance costs		(41,353)
Payments on notes payable	(139,407)	(5,356,888)
Proceeds from note payable		6,498,356
Payments on financing lease obligations	(28,615)	(25,144)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(168,022)</b>	<b>1,074,971</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(918,086)</b>	<b>(283,328)</b>
Cash and cash equivalents, beginning of year	1,220,808	1,504,136
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 302,722</b>	<b>\$ 1,220,808</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 328,125	\$ 293,500
Receipt of donated property and equipment	\$ -	\$ 463,231

See accompanying notes.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 1 - Purpose and Programs

**Mission Statement** - Wellspring Family Services' (Wellspring) mission is to end the cycle of family homelessness in the community. Wellspring's vision is a community in which every child has a safe and stable home.

Wellspring has provided the greater Seattle/King and Pierce counties 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. FSP, LLC was dissolved during the year ended December 31, 2023.

**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 four service groups:

#### Community Services (CS)

- Early Learning Center
- Family Store
- Housing Services Intervention and Prevention for Homeless and At-Risk Families

#### Clinical and Training Services (CTS)

- Counseling Services

#### Employee Assistance Program (EAP)

#### Family Information and Resource Exchange (FIRE)

#### 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.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 2 - Continued

**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:

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

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

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. It is Wellspring's policy to record restricted contributions that were initially conditional contributions that are recognized and the restriction is met in the same accounting period as activity of net assets without donor restrictions. All other donor-restricted contributions are recorded as activity of net assets with donor restrictions and a release of restriction when the restriction is met.

**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 and Grants Receivable** - Accounts and grants 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 the receivable.

At December 31, 2023, a grants receivable balance of approximately \$840,000 was being disputed by a grantor. Wellspring intends to defend its claim and pursue the collection of this outstanding receivable balance.

**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. The most significant estimates relate to the estimates used in determining the collectability of accounts receivable described above. Actual results could differ from those estimates, and the resulting adjustment to the consolidated financial statements could be significant.

**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, 2023 (With Comparative Totals for 2022)

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#### Note 2 - Continued

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 is included as a component of interest expense on the consolidated statement of activities.

**Donated Inventory** - Donated inventory consists of goods for Wellspring's Family Store 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.

**Leases** - Wellspring determines if an arrangement contains a lease at inception. Operating leases are included in ROU assets and lease liabilities in the consolidated statement of financial position. ROU assets represent a right to use an underlying asset for the lease term, and operating lease liabilities represent Wellspring's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Wellspring's leases do not provide an implicit rate of return; thus, Wellspring uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The ROU asset also includes prepaid lease payments and unamortized initial direct costs, and excludes lease incentives. Wellspring has lease agreements with lease and non-lease components, which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Wellspring will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability are not recognized for leases with an initial term of 12 months or less.

**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 taxes are the responsibility of its members. During the years ended December 31, 2023 and 2022, Wellspring had no unrelated business income and accordingly, no provision for federal income taxes has been reported in the accompanying consolidated financial statements.

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

	<u>2023</u>	<u>2022</u>
Facilities	\$ 75,600	\$ -
Family Store goods	1,991,895	1,768,774
Furniture and equipment		73,468
Software		389,763
	<u>\$ 2,067,495</u>	<u>\$ 2,232,005</u>

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 2 - Continued

All in-kind contributions received are used in Wellspring's program activities. In-kind contributions of food and clothing to Wellspring's Family Store are valued based on estimates from reviewing prices for similar items through online research. Donated use facilities are valued based on equivalent market rates. Donations of software development services are valued based on the market prices for similar services.

In addition, a substantial number of unpaid volunteers have made significant contributions of time (approximately 2,270 hours and 943 hours for the years ended December 31, 2023 and 2022, 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 the 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.

**Concentrations** - Wellspring had one client comprising 10% and 39% of revenues during the years ended December 31, 2023 and 2022, respectively. Wellspring had no concentrations of contributions revenue during the years ended December 31, 2023 and 2022. Reduction of funding from either source would have a significant impact on the operations of Wellspring.

#### 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 for 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 for services provided. Counselling services (CTS) were discontinued in February 2023.

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

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

#### Note 2 - Continued

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 for services provided.

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

	2023 Revenue	2022 Revenue	2023 Receivable	2022 Receivable
EAP session fees	\$ 1,293,616	\$ 11,613,996	\$ 319,378	\$ 4,789,224
Counseling session fees	49,094	104,061	39,110	270,449
Program administration fees	2,481,590	5,453,178	2,916	6,406
Management fees	553,493	492,933		
	<u>\$ 4,377,793</u>	<u>\$17,664,168</u>	361,404	5,066,079
Grants receivable			1,402,694	1,332,382
Allowance for doubtful accounts			<u>(5,200)</u>	<u>(469,400)</u>
<b>Total Accounts and Grants Receivable, Net of Allowance for Doubtful Accounts</b>			<u><u>\$ 1,758,898</u></u>	<u><u>\$ 5,929,061</u></u>

**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, 2023, conditional contributions approximating \$1,577,620 have not been recognized in the accompanying consolidated financial statements.

**Comparative Totals for 2022** - 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, 2022, from which the summarized information was derived.

**Reclassification** - Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on Wellspring's prior year reported results of operations or financial position.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 3 - Pledges Receivable

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

	<u>2023</u>	<u>2022</u>
Pledges due in less than one year	\$ 100,000	\$ 180,026
Pledges due in more than one year	100,000	
Allowance for uncollectible pledges		(5,000)
Present value discount	<u>(30,144)</u>	
	<u><b>\$ 169,856</b></u>	<u><b>\$ 175,026</b></u>

#### Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 2,456,349	\$ 2,456,349
Building	14,059,331	13,989,893
Furniture and equipment	2,681,419	2,341,905
Leasehold improvements	443,653	443,653
Assets not yet placed in service	<u>59,778</u>	<u>10,590</u>
	19,700,530	19,242,390
Less accumulated depreciation	<u>(7,939,973)</u>	<u>(7,400,600)</u>
	<u><b>\$ 11,760,557</b></u>	<u><b>\$ 11,841,790</b></u>

**WELLSPRING FAMILY SERVICES AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2023  
(With Comparative Totals for 2022)**

**Note 5 - Net Assets With Donor Restriction**

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

	<u>2023</u>	<u>2022</u>
<b>Subject to the Passage of Time or Expenditure for Specified Purpose:</b>		
Housing services	\$ 120,251	\$ 53,183
Early Learning Center - general	398,480	590,737
Family Store	10,054	153,681
NW Justice Project Client Assistance Fund	111,111	
Other misc. funds	117,249	
Pledges due in future periods	169,856	
Counseling		5,000
Housing - Beds for Families		310
	<u>927,001</u>	<u>802,911</u>
<b>Total Subject to the Passage of Time or Expenditure for Specified Purpose</b>	<b>927,001</b>	<b>802,911</b>
<b>Endowment Corpus:</b>		
Endowment corpus - capital campaign	47,990	47,990
	<u>47,990</u>	<u>47,990</u>
<b>Total Endowment Corpus</b>	<b>47,990</b>	<b>47,990</b>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 974,991</u></b>	<b><u>\$ 850,901</u></b>

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, 2023:

Purpose restriction-	
Early Learning Center - General	\$ 303,357
Housing services	194,763
Housing - Beds for Families	310
Family Store	239,612
Other misc funds	19,019
Time restriction-	
Pledges	<u>280,026</u>
	<b><u>\$ 1,037,087</u></b>

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 6 - Notes Payable

On June 8, 2022, Wellspring entered into a Promissory Note with TCBWA for an initial amount of \$6,500,000. Proceeds from this note were used to pay the outstanding balances on the WHCFA bond and Equity Trust Promissory Note. The note matures on May 31, 2032, and incurs interest at a rate of 5.09% annually. Monthly payments of principal and interest totaling \$38,581 are due beginning in June 2022, with a lump sum payment of all remaining unpaid principal and interest due at maturity. The note is collateralized by the real properties of Wellspring located in King County, WA. The balance on the Promissory Note was \$6,243,917 at December 31, 2023.

Under the terms of the TCBWA note, 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, 2023, Wellspring was not in compliance with the financial covenants. Wellspring obtained a forbearance from TCBWA, which suspended TCBWA from exercising default remedies on the debt until June 30, 2025.

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

For the Year Ending December 31,

2024	\$ 146,671
2025	154,313
2026	162,354
2027	170,813
2028	179,713
Thereafter	<u>5,466,975</u>
	6,280,839
Less unamortized financing costs	<u>(36,922)</u>
	<u><u>\$ 6,243,917</u></u>

#### Note 7 - Commitments and Contingencies

**Financing Lease Obligation** - In 2020, Wellspring entered into a lease for eighteen copiers under a noncancelable financing lease agreement, which requires 60 monthly payments of \$2,551 through September 2025.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 7 - Continued

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

For the Year Ending December 31,

2024	\$	30,615
2025		<u>22,960</u>
Total undiscounted cash flows		53,575
Less present value discount		<u>(2,836)</u>
<b>Total Lease Liabilities</b>	<b>\$</b>	<b><u>50,739</u></b>

Property and equipment included copiers and computers under financing leases at December 31, 2023 and 2022 of \$131,964. Accumulated depreciation on these leases was \$85,777 and \$59,384 at December 31, 2023 and 2022, respectively.

**Short-Term Leases** - Wellspring leases space for several of its offices in the Seattle area under operating lease agreements expiring through December 2022. All lease terms are for one year or less. Lease expenses under these operating leases in 2023 was \$96,845, which includes variable lease expenses related to short-term leases.

**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. 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, 2022. No employer matching contributions were made to the defined contribution plan for the years ended December 31, 2023 and 2022. Employer profit sharing contributions were \$0 and \$108,829 for the years ended December 31, 2023 and 2022, respectively.

#### Note 9 - 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.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 9 - Continued

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 254,732	\$ 1,172,818
Accounts and grants receivable, net of allowance for doubtful accounts	1,758,898	5,929,061
Current portion of pledges receivable, net	<u>100,000</u>	<u>175,026</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u>\$ 2,113,630</u></b>	<b><u>\$ 7,276,905</u></b>

As disclosed in Note 6, Wellspring is required to maintain cash liquidity of \$1,000,000 to remain in compliance with the TCBWA note 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 10 - Management's Plan for Financial Sustainability

Wellspring's financial statements have been prepared under the assumption that it will continue as a going concern, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. During the year ended December 31, 2023, Wellspring incurred a loss of \$2.4 million and cash available to meet current obligations has decreased significantly.

Management has evaluated these conditions and events and has developed a plan to mitigate the substantial doubt about Wellspring's ability to continue as a going concern. Management plans for financial sustainability include the following:

As discussed in Note 12, Wellspring:

- Obtained an \$800,000 line of credit.
- Leased a portion of their premises in April 2024, resulting in anticipated cash inflow of \$20,653 per month.
- Listed their premises for sale for \$12 million.
- Sold their transferable employee assistance program contracts to a third party for a base price of \$1,597,000.

Management believes that these plans, as implemented, will alleviate the substantial doubt about Wellspring's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## WELLSPRING FAMILY SERVICES AND SUBSIDIARY

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2023 (With Comparative Totals for 2022)

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#### Note 11 - Discontinued Operations

In March 2023, management closed the Clinical and Training Services program due to poor financial performance and a lack of available funding for the program. This resulted in staff reductions and the reduction of all other program costs. Wellspring incurred a loss from the discontinued operations in the amount of \$443,657 for the year end December 31, 2023. Wellspring incurred a loss from the discontinued operations in the amount of \$153,113 for the year ended December 31, 2022.

#### Note 12 - Subsequent Events

Wellspring has evaluated subsequent events through June 25, 2025, the date on which the financial statements were available to be issued.

In January 2024, Wellspring took out a line of credit with Rainier Valley Community Bank for a maximum draw of \$800,000 at an 8% interest rate per annum. Payments of accrued interest on the outstanding balance began February 1, 2024, and continue on the first of each month thereafter. The line of credit matures on January 1, 2025, on which date the balance of the principal and any accrued interest are due. The line of credit is secured by a deed of trust on Wellspring's main property and any leases or rents revenue collected by Wellspring. As of the date of issuance, the renewal of the line of credit is still under negotiation.

In April 2024, Wellspring executed an agreement with Sound, a Washington nonprofit corporation, to lease 7,398 sq ft of Wellspring's premises. The lease term is five years, beginning May 1, 2024. Monthly rent revenue will be \$20,653.

In June 2024, Wellspring entered into a one-year exclusive sale listing agreement to list their building for sale for \$12 million.

In December 2024, Wellspring entered into an asset purchase agreement to sell their transferable employee assistance program (EAP) contracts to a third-party. The sales price was \$1,597,000, with an additional \$500,000 paid to Wellspring giving rights to the third party to be sole negotiator and an additional \$753,000 paid to Wellspring should all EAP customers agree to be transferred to the third party's services.

In February 2025, in accordance with Washington Superior Court Civil Rule 2A, Wellspring settled with Pierce County (the County) whereby the County will pay \$800,000 for Housing Intervention Program services previously rendered by Wellspring under grant contracts with the County. This amount represents the balance owed on the contracts, and after execution of the agreement, Wellspring agreed to dismiss the pending lawsuit filed to recover these funds.