WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

GAINER | DONNELLY

WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wellsprings Village, Inc.
Houston, Texas

We have audited the accompanying financial statements of Wellsprings Village Inc. (Wellsprings) (a Texas Non-Profit Organization), which comprise the statements of financial positions as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wellsprings Village, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gainer Donnelly LLP

June 19, 2013

WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 51,828	$ 33,781
Unconditional Promises to Give	20,000	25,200
Grants Receivable	51,751	46,129
Prepaid Expenses	6,140	13,699
Total Current Assets	129,719	118,809
PROPERTY AND EQUIPMENT, NET	2,198,609	2,247,605
LONG-TERM ASSETS:		
Unconditional Promises to Give	$ 30,000	$ 30,000
TOTAL ASSETS	$ 2,358,328	$ 2,396,414

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	$ 7,005	$ 4,250
Current Maturities of Notes Payable	60,769	82,659
Total Current Liabilities	67,774	86,909
LONG-TERM LIABILITIES:		
Notes Payable, Net of Current Maturities	299,772	309,204
TOTAL LIABILITIES	367,546	396,113
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Designated	25,000	25,000
Undesignated	1,908,562	1,917,781
Total Unrestricted	1,933,562	1,942,781
Temporarily Restricted	57,220	57,520
TOTAL NET ASSETS	1,990,782	2,000,301
TOTAL LIABILITIES AND NET ASSETS	$ 2,358,328	$ 2,396,414

The accompanying notes are an integral part of these financial statements.

WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	$ 353,557	$ 92,200	$ 445,757	$ 306,229	$ 159,700	$ 465,929
Fundraising	51,721	-	51,721	19,071	-	19,071
Grants and Contracts	122,215	-	122,215	132,137	-	132,137
United Way	-	65,623	65,623	-	74,934	74,934
Investment Loss	(86)	-	(86)	(128)	-	(128)
Net Assets Released from Restrictions	158,123	(158,123)	-	193,849	(193,849)	-
Total Support and Revenue	685,530	(300)	685,230	651,158	40,785	691,943
EXPENSES:						
Program Expenses	508,980	-	508,980	504,465	-	504,465
Administrative Expenses	147,733	-	147,733	135,960	-	135,960
Fundraising Expenses	38,036	-	38,036	37,053	-	37,053
Total Operating Expenses	694,749	-	694,749	677,478	-	677,478
Total Expenses	694,749	-	694,749	677,478	-	677,478
CHANGE IN NET ASSETS	(9,219)	(300)	(9,519)	(26,320)	40,785	14,465
NET ASSETS, BEGINNING OF YEAR	1,942,781	57,520	2,000,301	1,969,101	16,735	1,985,836
NET ASSETS, END OF YEAR	$ 1,933,562	$ 57,220	$ 1,990,782	$ 1,942,781	$ 57,520	$ 2,000,301

The accompanying notes are an integral part of these financial statements.

WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	PROGRAM SERVICES	ADMINISTRATIVE EXPENSES	FUNDRAISING EXPENSES	TOTAL
Salaries and Wages	$ 267,752	$ 76,819	$ -	$ 344,571
Specific Assistance to Individuals	112,638	551	-	113,189
Contract Staff	-	-	21,409	21,409
Depreciation Expense	37,225	11,771	-	48,996
Insurance	15,427	514	-	15,941
Interest Expense	41	18,988	-	19,029
Miscellaneous Expense	80	5,979	-	6,059
Office Supplies	-	3,120	-	3,120
Postage and Shipping	80	1,720	-	1,800
Printing and Publications	-	1,897	8,322	10,219
Professional Fees and Consultants - Other	829	16,754	-	17,583
Occupancy	2,498	1,251	-	3,749
Repairs and Maintenance	30,358	4,435	-	34,793
Security Services	31,784	1,082	-	32,866
Special Events	-	-	8,305	8,305
Telephone	7,313	960	-	8,273
Travel and Meetings	222	1,877	-	2,099
Utilities	2,733	15	-	2,748
Total Operating Expenses	$ 508,980	$ 147,733	$ 38,036	$ 694,749

The accompanying notes are an integral part of these financial statements.

WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	PROGRAM SERVICES	ADMINISTRATIVE EXPENSES	FUNDRAISING EXPENSES	TOTAL
Salaries and Wages	$ 277,786	$ 56,593	$ 21,500	$ 355,879
Specific Assistance to Individuals	110,688	800	-	111,488
Contract Staff	620	-	7,887	8,507
Depreciation Expense	36,275	8,892	-	45,167
Insurance	14,819	-	-	14,819
Interest Expense	178	17,404	-	17,582
Miscellaneous Expense	-	1,185	-	1,185
Office Supplies	1,567	2,556	-	4,123
Postage and Shipping	1,100	2,598	-	3,698
Printing and Publications	82	8,875	-	8,957
Professional Fees and Consultants - Other	614	16,234	-	16,848
Occupancy	5,798	1,814	-	7,612
Repairs and Maintenance	17,323	13,444	-	30,767
Security Services	30,233	-	-	30,233
Special Events	-	-	7,666	7,666
Telephone	7,163	336	-	7,499
Travel and Meetings	157	100	-	257
Utilities	62	5,129	-	5,191
Total Operating Expenses	$ 504,465	$ 135,960	$ 37,053	$ 677,478

The accompanying notes are an integral part of these financial statements.

WELLSPRINGS VILLAGE, INC.
(A Texas Non-Profit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ (9,519)	$ 14,465
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	48,996	45,167
Forgiveness of Debt	(25,000)	(25,000)
(Increase) Decrease in:		
Unconditional Promises to Give	5,200	(55,200)
Grants Receivable	(5,622)	(10,806)
Prepaid Expenses	7,559	(7,415)
Increase in Liabilities:		
Accounts Payable and Accrued Expenses	2,755	1,112
Net Cash Used in Operating Activities	24,369	(37,677)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	-	(29,282)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on Notes Payable	5,775	320,000
Payments on Notes Payable	(12,097)	(284,766)
Net Cash Provided by (Used in) Financing Activities	(6,322)	35,234
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,047	(31,725)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,781	65,506
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 51,828	$ 33,781

SUPPLEMENTARY SCHEDULE OF CASH FLOW ACTIVITIES:

	2012	2011
Cash Paid for Interest	$ 19,029	$ 17,582

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Wellsprings Village, Inc. ("Wellsprings"), a Texas non-profit organization, was founded in 1988. Wellsprings is a non-sectarian charitable organization operating family-style homes. Wellsprings provides residences for homeless, abused/battered employable women between the ages of 30 and 50. The residents also receive food, clothing, personal items, education, job training, group therapy, counseling, and transportation. The mission of Wellsprings is to provide a safe, growthful environment for homeless and abused women, including women in recovery, in order to empower them to become economically and emotionally self-sustaining, contributing members of society. Wellsprings support primarily comes from government grants and donor contributions.

In December 2006, Wellsprings completed construction of the first phase of Wellsprings Village (the Village). The Village can provide residency for up to 52 women.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Wellsprings' financial records have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Wellsprings' is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Wellsprings had no permanently restricted net assets at December 31, 2012 and 2011.

Cash Equivalents

Wellsprings considers all highly liquid investments with initial maturities of three months or less at the time of purchase to be cash equivalents.

Receivables

Wellsprings consider grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Pledges are recorded as revenue in the year they are received unless they contain a conditional promise to give. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material.

Contributions

Wellsprings contributions are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted contributions (including investment income and gains) are reported as increases in temporarily restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions - Continued

Funds received through government grants are a significant source of revenue upon which Wellsprings depends to carry out its operations. A decrease in such funding would have a direct effect on program services provided by Wellsprings.

Fair Value Considerations

Wellsprings uses fair value to measure certain financial and nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. Wellsprings' did not elect the fair value option for the measurement of any eligible assets or liabilities.

Wellspring's financial instruments consist of various receivables, liabilities and borrowings. Management believes the carrying amount of these financial instruments approximate their fair value.

Property and Equipment

Property and equipment are recorded at cost if purchased, or in the case of donated property, at the estimated fair market value at the date of donation. Wellsprings capitalizes all expenditures for property and equipment in excess of $500. Depreciation is computed by use of the straight-line method for financial reporting purposes. Useful lives of the assets range from three to thirty-nine years.

Routine maintenance, repair, renewal and replacement costs are charged against operations in the year incurred. Expenditures, which materially increase values or extend useful lives of property and equipment, are capitalized.

Impairment of Long-Lived Assets

Wellspring's long-lived assets are evaluated for impairment in accordance with generally accepted accounting principles which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well as estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. Management believes no impairment has occurred with respect to long-lived assets at December 31, 2012 and 2011.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Assets

Wellsprings recognizes all donated assets received, including contributions and gifts of furniture and equipment, as income in the period received. All donated assets are reported as unrestricted or as temporarily restricted depending on the existence of donor stipulations that limit the use of the assets. When a donor-restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. No donated assets were received in 2012 and 2011.

Donated Services

Wellsprings recognizes donated services at their fair value in the period received if the services received create or enhance nonfinancial assets that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Wellsprings benefited from certain donated services which were valued by management at $14,865, and $13,000 during the years ended December 31, 2012 and 2011. These amounts have been reported as both contribution revenue and program expenses on the statements of activities and changes in net assets.

A substantial number of unpaid volunteers make significant contributions of their time to develop Wellsprings' programs. The value of the contributed time is not reflected in these statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

Functional Expenses

The majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among the programs and supporting services benefited based on various determinations by management.

Federal Income Taxes

Wellsprings is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, Wellsprings was granted an individual ruling under the same section and has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code and, as such, qualifies for the charitable contribution deduction for individual donors.

Wellsprings accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of December 31, 2012, management believes there were no uncertain tax positions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of grants and accounts receivable, useful lives and recoverability of property and equipment, and allocation of expenses by function. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Wellsprings has evaluated subsequent events through the date the financial statements were available for issuance on June 19, 2013. No matters were identified affecting the accompanying financial statements and related disclosures.

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give at December 31, 2012 and 2011 are as follows:

	2012	2011
Receivable in Less than One Year	$ 20,000	$ 25,200
Receivable in One to Five Years	30,000	30,000
Total Unconditional Promises to Give	$ 50,000	$ 55,200

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2012 and 2011:

	2012	2011
Land and Improvements	$ 1,063,573	$ 1,063,573
Buildings and Improvements	1,331,595	1,331,595
Automotive Equipment	63,674	63,674
Office Equipment	35,058	35,058
Home Furniture and Equipment	16,940	16,940
Total Property and Equipment	2,510,840	2,510,840
Less: Accumulated Depreciation	(312,231)	(263,235)
Property and Equipment, Net	$ 2,198,609	$ 2,247,605

Depreciation expense for the years ended December 31, 2012 and 2011 totaled $48,996 and $45,168, respectively.

NOTE 5 – NOTES PAYABLE

In 2005, Wellsprings entered into a promissory note with an individual to provide $125,000 towards construction of the Village. The note is unsecured and non-interest bearing and scheduled originally to mature on December 14, 2007. Wellsprings made principal payments totaling $26,042 in 2006. In December 2010, Wellsprings received notification from the holder of the note payable that all principal payments previously made were forgiven. In addition, beginning in 2011, it is the intent of the holder to forgive $25,000 of the note payable each year for the next four years. During both of the years ended December 31, 2012 and 2011, $25,000 was forgiven on the note.

In July 2011, Wellsprings entered into a note agreement with a Foundation for $320,000. Proceeds from the note were used to pay off the outstanding balances for the notes issued in 2007 and 2010. The note requires quarterly payments of $6,895 including interest at 6%. The note matures on July 21, 2031 and is collateralized by real property.

In May 2012, Wellsprings entered into an agreement with a financing company for $2,697. The note requires ten monthly payments of $283 including interest at 10.5%. In August 2012, Wellsprings entered into an additional note with a financing company for $3078. The note requires ten monthly payments of $326 including interest at 12.5%. The notes are to finance a portion of Wellsprings insurance premiums and are unsecured. The outstanding balance at December 31, 2012 for these notes totaled $2,576.

A summary of debt at December 31 is as follows:

	2012	2011
Note Payable – Wellsprings Village Construction	$ 48,958	$ 73,958
Note Payable – Foundation	309,007	317,905
Notes Payable – Financing	2,576	-
	360,541	391,863
Less: Current Portion	(60,769)	(82,659)
Long-Term Portion	$ 299,772	$ 309,204

Estimated maturities on debt are as follows:

Year Ending December 31,	
2013	$ 60,769
2014	9,802
2015	10,403
2016	11,041
2017	11,719
2018 and Thereafter	256,807
Total	$ 360,541

NOTE 6 – DESIGNATED UNRESTRICTED NET ASSETS

As of December 31, 2012 and 2011, Wellsprings' Board of Directors had designated $25,000 as an emergency reserve.

NOTE 7 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors as follows:

	2012	2011
Program Restrictions Accomplished	$ 82,200	$ 79,700
Transportation	-	40,000
Time Restrictions Expired	75,923	74,149
Total	$ 158,123	$ 193,849

NOTE 8 – TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	2012	2011
Capital Campaign	$ 890	$ 890
For Periods after December 31	56,330	56,630
Total	$ 57,220	$ 57,520

NOTE 9 – FINANCIAL CONDITION

As shown in the accompanying financial statements, Wellsprings has incurred deficits in its changes in unrestricted net assets and cash flows for 2012 and 2011. To address the organization's financial condition, Wellsprings entered into a new debt agreement in 2011 which refinanced short-term debt, including the line of credit, to a 20 year note (see Note 5) and continues to closely monitor and reduce operating costs. Wellsprings received a new grant in October 2012 which will offset certain costs which were previously unallowable under other government grants or reimbursed at less than 100% of Wellsprings cost while providing additional resources to continue and expand program services. In addition, in March 2013, the United Way notified Wellsprings that their funding level for 2013 will be $65,320, which is consistent with 2012 funding levels. Wellsprings projects that all cash needs will be met throughout fiscal year 2013.