

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

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FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

GAINER DONNELLY & DESROCHES

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

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statements of Financial Position .....	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Functional Expenses .....	4
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Wellsprings Village, Inc. (a Texas non-profit organization) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Wellsprings Village, Inc.'s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Gainer Donnelly & Desroches LLP*  
May 16, 2011

WELLSPRINGS VILLAGE, INC.  
(A Texas Non-Profit Organization)  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009

ASSETS		2010	2009
		<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$	65,506	\$ 16,836
Grants Receivable		35,323	37,382
Prepaid Expenses		<u>6,284</u>	<u>9,751</u>
Total Current Assets		107,113	63,969
PROPERTY AND EQUIPMENT, NET		<u>2,263,490</u>	<u>2,301,990</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>2,370,603</u></b>	<b><u>\$ 2,365,959</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable and Accrued Expenses	\$	3,138	\$ 4,159
Line of Credit		-	65,000
Current Maturities of Long-Term Debt		<u>104,274</u>	<u>101,045</u>
Total Current Liabilities		107,412	170,204
<b>LONG-TERM LIABILITIES:</b>			
Long-Term Debt, Net of Current Maturities		<u>277,355</u>	<u>142,671</u>
<b>TOTAL LIABILITIES</b>		384,767	312,875
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET ASSETS:</b>			
Unrestricted:			
Designated		25,000	25,000
Undesignated		<u>1,944,101</u>	<u>2,010,297</u>
Total Unrestricted		1,969,101	2,035,297
Temporarily Restricted		<u>16,735</u>	<u>17,787</u>
<b>TOTAL NET ASSETS</b>		<u>1,985,836</u>	<u>2,053,084</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u>2,370,603</u></b>	<b><u>\$ 2,365,959</u></b>

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, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$ 321,644	\$ 68,000	\$ 389,644	\$ 318,858	\$ 52,100	\$ 370,958
Fundraising	19,228	-	19,228	21,983	-	21,983
Grants and Contracts	125,953	-	125,953	150,804	-	150,804
United Way	-	125,216	125,216	-	103,309	103,309
Investment Income (Loss)	(144)	-	(144)	333	-	333
Net Assets Released from Restrictions	194,268	(194,268)	-	405,287	(405,287)	-
<b>Total Support and Revenue</b>	<b>660,949</b>	<b>(1,052)</b>	<b>659,897</b>	<b>897,265</b>	<b>(249,878)</b>	<b>647,387</b>
<b>EXPENSES:</b>						
Program Expenses	497,272	-	497,272	563,140	-	563,140
Administrative Expenses	173,018	-	173,018	218,126	-	218,126
Fundraising Expenses	56,855	-	56,855	55,231	-	55,231
<b>Total Operating Expenses</b>	<b>727,145</b>	<b>-</b>	<b>727,145</b>	<b>836,497</b>	<b>-</b>	<b>836,497</b>
Receivable Write-off (Note 7)	-	-	-	300,000	-	300,000
<b>Total Expenses</b>	<b>727,145</b>	<b>-</b>	<b>727,145</b>	<b>1,136,497</b>	<b>-</b>	<b>1,136,497</b>
<b>CHANGE IN NET ASSETS</b>	<b>(66,196)</b>	<b>(1,052)</b>	<b>(67,248)</b>	<b>(239,232)</b>	<b>(249,878)</b>	<b>(489,110)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>2,035,297</b>	<b>17,787</b>	<b>2,053,084</b>	<b>2,274,529</b>	<b>267,665</b>	<b>2,542,194</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,969,101</b>	<b>\$ 16,735</b>	<b>\$ 1,985,836</b>	<b>\$ 2,035,297</b>	<b>\$ 17,787</b>	<b>\$ 2,053,084</b>

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, 2010

	PROGRAM SERVICES	ADMINISTRATIVE EXPENSES	FUNDRAISING EXPENSES	TOTAL
Salaries and Wages	\$ 269,836	\$ 88,532	\$ 48,166	\$ 406,534
Specific Assistance to Individuals	109,267	5,440	-	114,707
Contract Staff	913	-	-	913
Depreciation Expense	36,086	7,269	-	43,355
Insurance	12,554	-	-	12,554
Interest Expense	258	21,506	-	21,764
Miscellaneous Expense	1,173	769	-	1,942
Office Supplies	332	4,437	137	4,906
Postage and Shipping	19	4,985	220	5,224
Printing and Publications	-	6,752	290	7,042
Professional Fees and Consultants - Other	475	15,952	-	16,427
Occupancy	4,190	1,485	-	5,675
Repairs and Maintenance	23,867	12,975	-	36,842
Security Services	24,003	1,280	-	25,283
Special Events	-	-	8,042	8,042
Telephone	6,992	563	-	7,555
Travel and Meetings	157	-	-	157
Utilities	7,150	1,073	-	8,223
Total Operating Expenses	<u>\$ 497,272</u>	<u>\$ 173,018</u>	<u>\$ 56,855</u>	<u>\$ 727,145</u>

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, 2009

	PROGRAM SERVICES	ADMINISTRATIVE EXPENSES	FUNDRAISING EXPENSES	TOTAL
Salaries and Wages	\$ 275,682	\$ 118,027	\$ 46,346	\$ 440,055
Specific Assistance to Individuals	135,987	5,916	-	141,903
Contract Staff	17,166	-	-	17,166
Depreciation Expense	36,448	6,128	-	42,576
Insurance	21,815	-	-	21,815
Interest Expense	176	18,038	-	18,214
Miscellaneous Expense	1,290	2,882	-	4,172
Office Supplies	25	5,574	171	5,770
Postage and Shipping	135	4,269	312	4,716
Printing and Publications	-	7,576	190	7,766
Professional Fees and Consultants - Other	15	17,035	-	17,050
Occupancy	4,539	1,546	-	6,085
Repairs and Maintenance	9,228	28,290	-	37,518
Security Services	29,161	-	-	29,161
Special Events	-	-	8,212	8,212
Telephone	8,016	1,250	-	9,266
Travel and Meetings	309	125	-	434
Utilities	23,148	1,470	-	24,618
Total Operating Expenses	<u>\$ 563,140</u>	<u>\$ 218,126</u>	<u>\$ 55,231</u>	<u>\$ 836,497</u>

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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (67,248)	\$ (489,110)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	43,355	42,576
Receivable Write Off	-	300,000
(Increase) Decrease in:		
Pledges Receivable	-	5,000
Grants Receivable	2,059	8,794
Prepaid Expenses	3,467	2,448
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	<u>(1,021)</u>	<u>(9,805)</u>
Net Cash Used in Operating Activities	<u>(19,388)</u>	<u>(140,097)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Property and Equipment	(4,855)	-
Redemption of Certificate of Deposit	<u>-</u>	<u>25,172</u>
Net Cash Provided by (Used in) Investing Activities	<u>(4,855)</u>	<u>25,172</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net Borrowings on Line of Credit	75,000	10,000
Payments on Note Payable	<u>(2,087)</u>	<u>(2,458)</u>
Net Cash Provided by Financing Activities	<u>72,913</u>	<u>7,542</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	48,670	(107,383)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,836</u>	<u>124,219</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 65,506</u>	<u>\$ 16,836</u>
<b>SUPPLEMENTARY SCHEDULE OF CASH FLOW ACTIVITIES:</b>		
Cash Paid for Interest	<u>\$ 21,764</u>	<u>\$ 18,214</u>
<b>SUPPLEMENTARY NONCASH OPERATING AND INVESTING ACTIVITIES:</b>		
Forgiveness of Debt	<u>\$ 26,042</u>	<u>\$ -</u>

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

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

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, 2010 and 2009.

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.

WELLSPRINGS VILLAGE, INC.  
(A Texas Non-Profit Organization)  
NOTES TO THE FINANCIAL STATEMENTS

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 an 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, 2010 and 2009.

WELLSPRINGS VILLAGE, INC.  
(A Texas Non-Profit Organization)  
NOTES TO THE FINANCIAL STATEMENTS

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 2010 and 2009.

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 \$13,000 and \$10,500 during the years ended December 31, 2010 and 2009, respectively. 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 the accounting standard that clarifies the accounting for uncertainty in income taxes recognized for financial statement reporting purposes as applied to nonprofit organizations. Based on its evaluation, Wellsprings' has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Wellsprings' evaluation was performed for the tax periods ended December 31, 2006 through December 31, 2010. The latter three years remain subject to examination by major tax jurisdictions as of December 31, 2010.

WELLSPRINGS VILLAGE, INC.  
(A Texas Non-Profit Organization)  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Subsequent Events

Wellsprings has evaluated subsequent events through the date the financial statements were available for issuance on May 16, 2011. No matters were identified affecting the accompanying financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2010 and 2009:

	2010	2009
Land and Improvements	\$ 1,063,573	\$ 1,063,573
Buildings and Improvements	1,331,595	1,331,595
Automotive Equipment	37,801	37,801
Office Equipment	34,558	29,703
Home Furniture and Equipment	14,030	14,030
Total Property and Equipment	2,481,557	2,476,702
Less: Accumulated Depreciation	(218,067)	(174,712)
Property and Equipment, Net	\$ 2,263,490	\$ 2,301,990

Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$43,355 and \$42,576, respectively.

NOTE 4 – LINE OF CREDIT

Wellsprings had a \$250,000 maximum available line of credit with a bank, which matured July 21, 2010. The line of credit bore interest at 7% and was collateralized by real property. At maturity, the outstanding borrowings on the line, totaling \$140,000, were converted to a term loan (see Note 5).

The balance outstanding on the line of credit as of December 31, 2009 was \$65,000.

WELLSPRINGS VILLAGE, INC.  
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – NOTE 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 one principal payments totaling \$26,042 in 2006. In December 2010, Wellsprings received notification from the holder of the note payable that the principal payment of \$26,042 was forgiven. In addition, it is the intent of the holder to forgive \$25,000 of the note payable each year for the next four years.

In February 2007, Wellsprings entered into a note agreement with an individual to provide \$149,500 towards the purchase of land for the expansion of the Village. The note requires monthly payments beginning in July 2007 of \$1,255 including interest at 9%. A lump sum payment is due July 2012 when the note matures with all unpaid principal and interest due and is secured by the underlying property.

In July 2010, Wellsprings entered into a note agreement with the bank for repayment of the outstanding balance on the line of credit totaling \$140,000. No principal payments were required to be made on the note during 2010. Beginning in February 2011, the note requires monthly payments of \$1,094 including interest of 7%. A lump sum payment of \$132,342 is due July 2013 when the note matures with all unpaid principal and interest due. The note is collateralized by real property.

A summary of notes payable at December 31, 2010, is as follows:

	2010	2009
Note Payable – Wellsprings Village Construction	\$ 98,958	\$ 98,958
Note Payable – Wellsprings Village Expansion	142,671	144,758
Note Payable	140,000	-
	381,629	243,716
Less: Current Portion	(104,274)	(101,045)
Long-Term Portion	\$ 277,355	\$ 142,671

Estimated maturities on long-term debt are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2011	\$ 104,274
2012	143,882
2013	133,473
Total	\$ 381,629

WELLSPRINGS VILLAGE, INC.  
(A Texas Non-Profit Organization)  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – DESIGNATED UNRESTRICTED NET ASSETS

As of December 31, 2010 and 2009, 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:

	2010	2009
Program Restrictions Accomplished	\$ 68,000	\$ 52,100
Capital Campaign	-	249,470
Time Restrictions Expired	126,268	103,717
Total	\$ 194,268	\$ 405,287

Wellsprings received a capital campaign pledge of \$300,000 in a prior year and due to the current economic conditions, the Board decided to postpone their capital expansion. As a result, in September 2009, Wellsprings received notification from the donor terminating their pledge which resulted in writing off the receivable. In terminating the pledge, \$249,470 was released from net assets temporarily restricted for the capital campaign during 2009. Wellsprings had incurred certain costs related to the future construction of the community center which were released from temporarily restricted net assets and capitalized in prior years.

NOTE 8 – TEMPORARY RESTRICTIONS ON NET ASSETS

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

	2010	2009
Capital Campaign	\$ 890	\$ 890
For Periods after December 31	15,845	16,897
Total	\$ 16,735	\$ 17,787