

Wellspring Foundation of Southwest Virginia

Audited Financial Report

June 30, 2023

Wellspring Foundation of Southwest Virginia

Audited Financial Report

For the Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wellspring Foundation of Southwest Virginia

Opinion

We have audited the accompanying financial statements of Wellspring Foundation of Southwest Virginia (a private foundation), which comprise of the statement of assets, liabilities, and net assets – cash basis as of June 30, 2023, and the related statement of revenues, expenses, and other changes in net assets – cash basis, and the statement of functional expenses – cash basis for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the assets, liabilities, and net assets of Wellspring Foundation of Southwest Virginia as of June 30, 2023, and its support, revenue, and expenses for the year then ended in accordance with the cash basis of accounting as described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Foundation of Southwest Virginia and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting as described in Note 1, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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 judgement made by a reasonable user based on the financial statements.

In performing an audit with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identifying 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 Foundation of Southwest Virginia'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wellspring Foundation of Southwest Virginia'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 matters that we identified during the audit.

Hicok, Brown & Company

Hicok, Brown & Company
Certified Public Accountants
November 27, 2023

Wellspring Foundation of Southwest Virginia
Statement of Assets, Liabilities, and Net Assets - Cash Basis
June 30, 2023

<u>ASSETS</u>	<u>TOTAL</u>
Cash and cash equivalents	\$ 107,530
Security deposits	1,313
Investments	<u>137,217,984</u>
 TOTAL ASSETS	 <u>\$ 137,326,827</u>
 <u>NET ASSETS</u>	
Without donor restrictions	
Undesignated	\$ 108,843
Board Designated - Investment Fund	137,217,984
With donor restrictions	<u>-</u>
 TOTAL NET ASSETS	 <u>137,326,827</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 137,326,827</u>

The Notes to Financial Statements are an integral part of this statement.

Wellspring Foundation of Southwest Virginia
Statement of Revenues, Expenses, and Other Changes in Net Assets - Cash Basis
For the Year Ended June 30, 2023

	WITHOUT RESTRICTIONS	WITH RESTRICTIONS	TOTAL
REVENUE AND OTHER SUPPORT			
Proceeds from sale of JMH interest	\$ 23,950,087	\$ -	\$ 23,950,087
Investment revenue	2,478,196	-	2,478,196
Net assets released from restrictions:			
Satisfaction of program restrictions	-	-	-
TOTAL REVENUE AND OTHER SUPPORT	<u>26,428,283</u>	<u>-</u>	<u>26,428,283</u>
EXPENSES:			
Bank Fee	30	-	30
Capital Equipment Expense	43,595	-	43,595
Dues, Memberships	11,980	-	11,980
Employee Benefits	78,264	-	78,264
Grant	584,316	-	584,316
Insurance	31,440	-	31,440
IT	14,447	-	14,447
Legal	6,126	-	6,126
Marketing Expenses	88,343	-	88,343
Meals & Entertainment	4,672	-	4,672
Meeting	3,364	-	3,364
Office Supplies	2,877	-	2,877
Payroll Taxes	26,945	-	26,945
Professional Services	149,917	-	149,917
Rent	28,712	-	28,712
Salary	439,938	-	439,938
Taxes & Licenses	28,918	-	28,918
Travel	4,009	-	4,009
Utilities	3,094	-	3,094
TOTAL EXPENSES	<u>1,550,987</u>	<u>-</u>	<u>1,550,987</u>
CHANGES IN NET ASSETS	24,877,296	-	24,877,296
NET ASSETS AT BEGINNING OF YEAR	<u>112,449,531</u>	<u>-</u>	<u>112,449,531</u>
NET ASSETS AT END OF YEAR	<u>\$ 137,326,827</u>	<u>\$ -</u>	<u>\$ 137,326,827</u>

The Notes to Financial Statements are an integral part of this statement.

**Wellspring Foundation of Southwest Virginia
Statement of Functional Expenses - Cash Basis
For the Year Ended June 30, 2023**

<u>EXPENSE CLASSIFICATION</u>	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT & GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTALS</u>
Bank Fee	\$ -	\$ 30	\$ -	\$ 30
Capital Equipment Expense	35,434	8,161	-	43,595
Dues, Memberships	9,737	2,243	-	11,980
Employee Benefits	66,455	11,809	-	78,264
Grant	584,316	-	-	584,316
Insurance	25,554	5,885	-	31,439
IT	14,447	-	-	14,447
Legal	4,979	1,147	-	6,126
Marketing Expenses	88,343	-	-	88,343
Meals & Entertainment	4,672	-	-	4,672
Meeting	2,734	630	-	3,364
Office Supplies	2,660	613	-	3,273
Payroll Taxes	21,580	4,970	-	26,550
Professional Services	132,242	17,675	-	149,917
Rent	23,337	5,375	-	28,712
Salary	347,840	92,098	-	439,938
Taxes & Licenses	-	28,918	-	28,918
Travel	4,009	-	-	4,009
Utilities	2,515	579	-	3,094
TOTAL EXPENSES	<u>\$ 1,370,854</u>	<u>\$ 180,133</u>	<u>\$ -</u>	<u>\$ 1,550,987</u>

The Notes to Financial Statements are an integral part of this statement.

Wellspring Foundation of Southwest Virginia

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Wellspring Foundation of Southwest Virginia (“the Foundation”) was founded to enhance the health and wellbeing for the Virginia residents of Washington, Grayson, Russell, and Smyth counties by cultivating goal-oriented partnerships. They provide financial assistance to healthcare organizations and projects to help better serve the underserved and underinsured citizens of the region.

Basis of Accounting

The accompanying financial statements have been prepared on the cash basis of accounting. Under this basis, the only assets recognized are cash, security deposits, and investments, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements and non-cash transactions are not recognized. This basis differs from generally accepted accounting principles primarily because the effect of uncollected revenue, unrealized gain/loss on investments, and unpaid obligations as of June 30, 2023, is not included in the financial statement.

Financial Statement Presentation

The Foundation’s financial statements are presented in accordance with Financial Accounting Standard Board Codification (ASC) 958, “Not-for-Profit Entities”. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to the following classes of net assets:

Net Assets With Donor Restrictions — The part of the net assets of the Organization resulting from (a) inflows of assets whose use by the Foundation is limited by donor or grantor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassification to or from other classes of net assets as a consequence of donor or grantor imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

Net Assets Without Donor Restrictions — The part of net assets of the Foundation that is not restricted by donor or grantor-imposed stipulations. The amount reported as board designated – investment fund represents the cost basis of the investment fund that has been designated by the Board to fulfill the mission of the Foundation.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Wellspring Foundation of Southwest Virginia

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Under the cash basis of accounting, the Foundation maintains all investment balances at cost.

To comply with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and all other applicable legal and regulatory considerations, the Foundation adopted an Investment Policy Statement on March 8, 2022. This includes meeting the IRS requirement that private foundations distribute 5% of their fair market value annually for charitable purposes.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places emphasis on investments in equities and fixed income vehicles to achieve its long-term return objectives within prudent risk constraints, as shown below:

	<u>Minimum</u>	<u>Maximum</u>
Equities	50%	80%
Fixed income and cash equivalents	10%	60%
Alternative investments	0%	20%

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation employs a 5% principal spending rate policy. The spending formula is calculated as the amount available for appropriation by applying the spending rate to the monthly value for the twelve months.

Fixed Assets

Any purchase of real property or equipment is reflected in the financial statement as a capital equipment expense.

Revenue from Sale of Interest in Johnston Memorial Hospital

The Foundation was initially funded by the sale of the interest in Johnston Memorial Hospital in Abingdon, Virginia for \$112,441,723 in November 2021. The money received was invested and the income is to partner with community organizations to enhance the health and wellbeing for the residents of Southwest Virginia. Per the agreement with Johnston Memorial Hospital, the Foundation received \$23,950,087 in additional investment funds during fiscal year ending June 30, 2023.

Wellspring Foundation of Southwest Virginia

Notes to Financial Statements

June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of State law. Due to the Foundation's classification as a private foundation under the Internal Revenue Code, it pays an excise tax of 1.39% of its net taxable investment income. Any unrelated business income may also be subject to taxation. The Foundation is not currently under examination by any taxing jurisdiction. For year ending June 30, 2023, the Foundation paid \$32,170 in excise taxes.

The Foundation is subject to distribution requirements of the Internal Revenue Code. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation meets cash needs for expenditures primarily with investment income as stipulated by board requirements. The Foundation considers the following financial assets to be available within one year:

	<u>June 30, 2023</u>
Cash and cash equivalents	\$ 107,530
Security Deposits	1,313
Investments	<u>137,217,984</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 137,326,827</u>

NOTE 3 – LONG-TERM OPERATING LEASE COMMITMENT

The Foundation leases its administrative office space from the Virginia Highlands Small Business Incubator. The Foundation has the option to renew its lease annually, under the same conditions with the exception of rent which increases the greater amount of 4.5% or current published cost of living increase with each renewal. The Foundation entered into this lease on December 1, 2022, for a one-year term. Annual rent for this term is \$32,396.

Wellspring Foundation of Southwest Virginia

Notes to Financial Statements

June 30, 2023

NOTE 4 – INVESTMENTS

As mentioned in Note 1, the Foundation carries investments at cost for cash basis purposes. Realized gains or losses are included in the statement of revenues, expenses, and other changes in net assets – cash basis. Unrealized gains or losses are not included in the statement of assets, liabilities, and net assets – cash basis. However, the fair value of the investment accounts at June 30, 2023 are shown below for informational purposes.

	Cost	Unrealized Gain/Loss	Market
UBS	\$ 137,217,984	\$ 2,675,863	\$ 139,893,847
Total	<u>\$ 137,217,984</u>	<u>\$ 2,675,863</u>	<u>\$ 139,893,847</u>

Investments are composed of the following at June 30, 2023:

	Market	Cost	Unrealized Gain/Loss
Cash & cash equivalents	\$ 8,666,592	\$ 8,666,592	\$ -
Equities	91,190,077	90,396,506	793,571
Fixed Income	38,284,973	36,402,681	1,882,292
Non-traditional	1,752,205	1,752,205	-
Total	<u>\$ 139,893,847</u>	<u>\$ 137,217,984</u>	<u>\$ 2,675,863</u>

The return on investments for the year ended June 30, 2023 is as follows:

Interest and dividends	\$ 2,733,994
Change in accrued interest	131,777
Net realized gain (loss)	(588,439)
Foreign tax withholding	(19,394)
Less: advisory fees	(368,182)
Investment Return	<u>1,889,756</u>
Transfer to Operating	<u>(1,273,247)</u>
Net Return	<u>\$ 616,509</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

The Foundation has engaged related parties for banking, insurance, and professional services in the normal course of business. These are disclosed annually in the Board of Directors' Conflict of Interest Statements.

Wellspring Foundation of Southwest Virginia

Notes to Financial Statements

June 30, 2023

NOTE 6 – CONCENTRATION OF RISK

All of the Foundation's investment accounts are held by UBS, and the fair value of these investments are \$139,893,847. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC) and are subject to market losses. Management believes that credit risk related to these funds is acceptable.

As of June 30, 2023, bank balances in excess of the FDIC insured amount of \$250,000 was \$0.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events were evaluated through November 27, 2023, which is the date the financial statements were available to be issued. No subsequent events were noted.