

# Beaverbrook STEP, Inc.

## Financial Statements

Years Ended June 30, 2011 and 2010

# Beaverbrook STEP, Inc.

FINANCIAL STATEMENTS  
Years Ended June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Beaverbrook STEP, Inc.  
Watertown, Massachusetts

We have audited the accompanying statements of financial position of Beaverbrook STEP, Inc. as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Beaverbrook STEP, 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 Beaverbrook STEP, Inc. as of June 30, 2011 and 2010, 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.

*McGladrey & Pullen, LLP*

September 30, 2011  
Boston, Massachusetts

# Beaverbrook STEP, Inc.

Statements of Financial Position

June 30, 2011 and 2010

	2011			2010		
	STEP	HUD	Total	STEP	HUD	Total
<b>ASSETS</b>						
Cash and cash equivalents (Note 4)	\$ 1,925,190	\$ 15,981	\$ 1,941,171	\$ 1,934,824	\$ 6,679	\$ 1,941,503
Accounts receivable	257,723	-	257,723	320,813	-	320,813
Inventory	33,499	-	33,499	34,170	-	34,170
Prepaid expenses	32,816	150	32,966	26,265	92	26,357
Investment (Note 2)	29,357	-	29,357	29,449	-	29,449
Deposits and other assets (Notes 3 and 4)	19,293	189,548	208,841	19,743	173,021	192,764
Mortgage acquisition costs, net of accumulated amortization of \$1,322 (\$925 as of June 30, 2010)	7,629	-	7,629	8,026	-	8,026
Property and equipment, at cost less - accumulated depreciation (Notes 5, 6, 7 and 8)	6,947,005	238,168	7,185,173	5,918,107	265,959	6,184,066
<b>Total assets</b>	<b>\$ 9,252,512</b>	<b>\$ 443,847</b>	<b>\$ 9,696,359</b>	<b>\$ 8,291,397</b>	<b>\$ 445,751</b>	<b>\$ 8,737,148</b>
<b>LIABILITIES AND NET ASSETS</b>						
Accounts payable	\$ 37,401	\$ 11,155	\$ 48,556	\$ 29,824	\$ 727	\$ 30,551
Accrued expenses	509,342	5,975	515,317	671,025	5,237	676,262
Mortgage notes payable (Note 7)	5,164,315	494,356	5,658,671	4,428,223	526,907	4,955,130
Notes payable (Note 8)	136,096	-	136,096	108,751	-	108,751
Tenant security deposits	-	2,864	2,864	-	2,926	2,926
<b>Total liabilities</b>	<b>5,847,154</b>	<b>514,350</b>	<b>6,361,504</b>	<b>5,237,823</b>	<b>535,797</b>	<b>5,773,620</b>
Commitment (Note 9)						
Unrestricted net assets	3,405,104	(70,503)	3,334,601	3,023,483	(90,046)	2,933,437
Temporarily restricted net assets (Note 10)	254	-	254	30,091	-	30,091
<b>Total net assets</b>	<b>3,405,358</b>	<b>(70,503)</b>	<b>3,334,855</b>	<b>3,053,574</b>	<b>(90,046)</b>	<b>2,963,528</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,252,512</b>	<b>\$ 443,847</b>	<b>\$ 9,696,359</b>	<b>\$ 8,291,397</b>	<b>\$ 445,751</b>	<b>\$ 8,737,148</b>

See notes to financial statements.

# Beaverbrook STEP, Inc.

Statements of Activities

Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted		Temporarily	Total	Unrestricted		Temporarily	Total
	STEP	HUD	Restricted		STEP	HUD	Restricted	
Revenues and other support:								
Contract revenue	\$ 9,491,125	\$ 157,304	\$ -	\$ 9,648,429	\$ 8,865,788	\$ 149,131	\$ -	\$ 9,014,919
Other service fee income	309,331	-	-	309,331	519,545	-	-	519,545
Rental income	645,331	52,981	-	698,312	616,343	56,127	-	672,470
Interest income	6,598	563	-	7,161	5,983	620	-	6,603
Contributions	32,667	-	-	32,667	72,550	-	20,000	92,550
Miscellaneous income	179,004	-	-	179,004	169,833	-	-	169,833
Loss on sale of property, plant and equipment	(1,157)	-	-	(1,157)	-	-	-	-
Net assets released from restrictions (Note 11)	29,837	-	(29,837)	-	10,898	-	(10,898)	-
Total revenues and other support	<b>10,692,736</b>	<b>210,848</b>	<b>(29,837)</b>	<b>10,873,747</b>	<b>10,260,940</b>	<b>205,878</b>	<b>9,102</b>	<b>10,475,920</b>
Expenses:								
Program services:								
Residential services	7,378,285	-	-	7,378,285	7,189,920	-	-	7,189,920
Community habilitation services	843,017	-	-	843,017	694,698	-	-	694,698
Individual support	573,276	191,305	-	764,581	505,894	183,135	-	689,029
Day services	684,077	-	-	684,077	640,134	-	-	640,134
Total program services	<b>9,478,655</b>	<b>191,305</b>	<b>-</b>	<b>9,669,960</b>	<b>9,030,646</b>	<b>183,135</b>	<b>-</b>	<b>9,213,781</b>
Supporting services:								
General and administrative	832,460	-	-	832,460	912,416	-	-	912,416
Total expenses	<b>10,311,115</b>	<b>191,305</b>	<b>-</b>	<b>10,502,420</b>	<b>9,943,062</b>	<b>183,135</b>	<b>-</b>	<b>10,126,197</b>
Change in net assets	<b>381,621</b>	<b>19,543</b>	<b>(29,837)</b>	<b>371,327</b>	<b>317,878</b>	<b>22,743</b>	<b>9,102</b>	<b>349,723</b>
Net assets, beginning of year	<b>3,023,483</b>	<b>(90,046)</b>	<b>30,091</b>	<b>2,963,528</b>	<b>2,705,605</b>	<b>(112,789)</b>	<b>20,989</b>	<b>2,613,805</b>
Net assets, end of year	<b>\$ 3,405,104</b>	<b>\$ (70,503)</b>	<b>\$ 254</b>	<b>\$ 3,334,855</b>	<b>\$ 3,023,483</b>	<b>\$ (90,046)</b>	<b>\$ 30,091</b>	<b>\$ 2,963,528</b>

See notes to financial statements.

## Beaverbrook STEP, Inc.

Statement of Functional Expenses

Year Ended June 30, 2011

	Residential Services	Community Habilitation Services	Individual Support	Day Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 4,899,501	\$ 459,668	\$ 390,008	\$ 419,886	\$ 6,169,063	\$ 437,300	\$ 6,606,363
Payroll taxes and other benefits	880,997	81,703	72,712	75,385	1,110,797	82,680	1,193,477
Professional fees	14,415	-	8,123	-	22,538	73,188	95,726
Supplies	243,471	22,427	21,139	16,495	303,532	20,068	323,600
Occupancy (Note 9)	608,447	135,333	153,366	111,296	1,008,442	177,541	1,185,983
Transportation (Note 9)	187,081	19,409	10,667	5,363	222,520	18	222,538
Interest	214,364	52,166	51,061	6,029	323,620	-	323,620
Commercial resources	120	348	40	14,843	15,351	620	15,971
Other expenses	68,025	11,435	13,892	6,370	99,722	33,157	132,879
Depreciation and amortization	261,864	60,528	43,573	28,410	394,375	7,888	402,263
<b>Total expenses</b>	<b>\$ 7,378,285</b>	<b>\$ 843,017</b>	<b>\$ 764,581</b>	<b>\$ 684,077</b>	<b>\$ 9,669,960</b>	<b>\$ 832,460</b>	<b>\$ 10,502,420</b>

See notes to financial statements.

## Beaverbrook STEP, Inc.

Statement of Functional Expenses...continued

Year Ended June 30, 2010

	Residential Services	Community Habilitation Services	Individual Support	Day Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 4,820,727	\$ 334,224	\$ 375,132	\$ 378,590	\$ 5,908,673	\$ 474,134	\$ 6,382,807
Payroll taxes and other benefits	803,414	57,402	63,573	61,587	985,976	98,837	1,084,813
Professional fees	17,544	200	7,087	-	24,831	68,571	93,402
Supplies	222,382	17,823	19,805	20,772	280,782	22,844	303,626
Occupancy (Note 9)	617,244	143,901	105,289	116,799	983,233	166,116	1,149,349
Transportation (Note 9)	198,255	15,511	16,193	4,811	234,770	84	234,854
Interest	218,436	54,498	44,988	6,471	324,393	-	324,393
Commercial resources	1,004	32	32	14,048	15,116	-	15,116
Other expenses	75,036	10,607	15,008	7,555	108,206	68,050	176,256
Depreciation and amortization	215,878	60,500	41,922	29,501	347,801	13,780	361,581
Total expenses	\$ 7,189,920	\$ 694,698	\$ 689,029	\$ 640,134	\$ 9,213,781	\$ 912,416	\$ 10,126,197

See notes to financial statements.

## Beaverbrook STEP, Inc.

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011			2010		
	STEP	HUD	Total	STEP	HUD	Total
<b>Cash flows from operating activities:</b>						
Contract receipts	\$ 9,549,177	\$ 157,304	\$ 9,706,481	\$ 8,688,901	\$ 149,131	\$ 8,838,032
Other service fee income	326,970	-	326,970	526,515	-	526,515
Rental receipts	631,417	52,918	684,335	616,343	56,127	672,470
Contributions received	32,667	-	32,667	92,550	-	92,550
Miscellaneous receipts	180,316	-	180,316	169,833	-	169,833
Depreciation and amortization	373,097	29,166	402,263	332,018	29,563	361,581
(Gain) loss on investments	92	-	92	(128)	-	(128)
Interest received	6,598	563	7,161	5,983	620	6,603
Salaries paid	(6,733,864)	(35,923)	(6,769,787)	(6,249,416)	(38,935)	(6,288,351)
Payroll taxes and other benefits paid	(1,183,279)	(7,719)	(1,190,998)	(1,073,262)	(6,534)	(1,079,796)
Suppliers paid	(2,269,392)	(97,500)	(2,366,892)	(2,223,343)	(98,530)	(2,321,873)
Interest paid	(284,565)	(39,055)	(323,620)	(282,956)	(41,437)	(324,393)
Net cash provided by operating activities	629,234	59,754	688,988	603,038	50,005	653,043
<b>Cash flows from investing activities:</b>						
Change in deposits	450	(16,527)	(16,077)	2,025	(14,976)	(12,951)
Purchase of property and equipment	(1,402,755)	(1,374)	(1,404,129)	(154,281)	-	(154,281)
Net cash used in investing activities	(1,402,305)	(17,901)	(1,420,206)	(152,256)	(14,976)	(167,232)
<b>Cash flows from financing activities:</b>						
Principal payments of mortgages and notes payable	(137,467)	(32,551)	(170,018)	(117,095)	(30,168)	(147,263)
Proceeds from mortgages and notes payable	900,904	-	900,904	112,303	-	112,303
Net cash provided by (used in) financing activities	763,437	(32,551)	730,886	(4,792)	(30,168)	(34,960)
Net change in cash and cash equivalents	(9,634)	9,302	(332)	445,990	4,861	450,851
Cash and cash equivalents, beginning of year	1,934,824	6,679	1,941,503	1,488,834	1,818	1,490,652
Cash and cash equivalents, end of year	\$ 1,925,190	\$ 15,981	\$ 1,941,171	\$ 1,934,824	\$ 6,679	\$ 1,941,503
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>						
Change in net assets	\$ 351,784	\$ 19,543	\$ 371,327	\$ 326,980	\$ 22,743	\$ 349,723
Adjustments to reconcile change in net assets to net cash provided by operating activities:						
Depreciation and amortization	373,097	29,166	402,263	332,018	29,563	361,581
Loss on sale of property, plant and equipment	1,157	-	1,157	-	-	-
(Gain) loss on investments	92	-	92	(128)	-	(128)
Change in accounts receivable	63,090	-	63,090	(169,917)	-	(169,917)
Change in inventory	671	-	671	3,242	-	3,242
Change in prepaid expenses	(6,551)	(58)	(6,609)	(795)	(31)	(826)
Change in accounts payable	7,577	10,428	18,005	15,638	(3,625)	12,013
Change in accrued expenses	(161,683)	737	(160,946)	96,000	1,356	97,356
Change in tenant security deposits	-	(62)	(62)	-	(1)	(1)
Total adjustments	277,450	40,211	317,661	276,058	27,262	303,320
Net cash provided by operating activities	\$ 629,234	\$ 59,754	\$ 688,988	\$ 603,038	\$ 50,005	\$ 653,043

See notes to financial statements.



# Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

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## 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of Activities

Beaverbrook STEP, Inc. (the "Organization") is a not-for-profit organization which provides community, residential and support services to adults with developmental disabilities. The Organization assists consumers with the access, training and opportunities necessary to fully experience the benefits of community living in an independent setting.

A summary of the Organization's significant accounting policies follows:

### Classification and Reporting of Net Assets

The Organization's financial statement presentation follows the requirements of accounting principles generally accepted in the United States of America ("GAAP"). Under GAAP, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the unrestricted, temporarily and permanently restricted net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are reported in two self-balancing groups as follows:
  - **STEP** - STEP funds represent the portion of expendable funds that are available for support of operations, for plant related transactions and acquisitions and those funds designated for specific purposes by the Organization's Board of Directors.
  - **HUD** - HUD funds represent resources for the operations of HUD Project No. 023-EH018 and resources for plant transactions and acquisitions related to HUD Project No. 023-EH018.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of June 30, 2011 and 2010, the Organization does not have permanently restricted net assets.

### Use of Estimates

The preparation of 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 amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

# Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

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## 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

### Liquidity

In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to the nearness of their estimated maturity.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Organization has included in cash and cash equivalents short-term, highly liquid investments consisting of certificates of deposits and money market funds.

### Accounts Receivable

Accounts receivable are carried at original invoice amount. Management determines the collectability by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

### Inventory

Inventory, consisting of supplies on hand, is stated at the lower of cost or market determined by the first-in, first-out method.

### Investment and Investment Income

The Organization accounts for its investment in The Resource Consortium, LLC (Note 2) under the equity method. Gains and losses on the investment are based on the Organization's share of income and losses.

The Organization follows the fair value measurements accounting standard. The standard defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

# Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

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## 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

### Fair Value Measurements

Investments and other assets measured and reported at fair value are classified and disclosed in one of the following categories:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes listed equities and listed derivatives. As required by GAAP, the Organization does not adjust the quoted prices for these investments, even in situations where the Organization may hold a large position and a sale could reasonably impact the quoted price.

Securities that are listed on the United States securities exchange are valued at their last sales price on the largest United States securities exchange on which such securities have traded. Securities that are listed on an international exchange are valued at the last sales price from the largest exchange within the individual security's country of jurisdiction.

Level II - Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

The following is a description of the valuation methodologies used for assets measured at fair value.

### Deposits

The fair value of deposits is the market value based on quoted market prices.

### Certificate of Deposit

Valuation inputs utilized by the bank for the certificate of deposit are based on estimated cash flow projections that utilize an appropriate discount rate based on the maturity date.

# Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

## 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

### Property and Equipment

Property and equipment is recorded at cost or estimated fair market value, if received by donation, at the time such assets are received. Depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets. Depreciation and amortization are provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

<u>Description</u>	<u>Years</u>
Buildings and building improvements	20-40
Furniture and equipment	3-10
Motor vehicles	3-5
Leasehold improvements	5
Life safety improvements	5

### Mortgage Escrow Accounts

The Organization maintains mortgage escrow accounts, which represent reserves which are required to be held under the HUD mortgage agreement. These reserves are included in deposits and other assets on the statement of financial position.

### Revenue Recognition

The Organization's clients are substantially funded by the Massachusetts Department of Developmental Services ("DDS") and the U.S. Department of Housing and Urban Development ("HUD"). Therefore, the Organization is subject to the regulations of DDS and HUD. Revenue is recorded in individual programs under negotiated contracts with DDS and the maximum rental rate allowable under HUD.

The Organization is also subject to the regulations of the Massachusetts Executive Office for Administration and Finance Operational Services Division ("OSD"). Excess of revenue over expense from the Commonwealth of Massachusetts supported programs, up to certain defined limits, can be utilized by the Organization for expenditures in accordance with its exempt purposes provided such expenditures are reimbursable under OSD regulations.

### Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fundraising activity. Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated 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 as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset category.

# Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

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## 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

### Contributions...continued

Contributions of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the long-lived assets are acquired.

### Advertising Costs

The Organization expenses advertising costs as incurred.

### Construction in Progress

Costs associated with on-going projects are accumulated until completion. The completed asset is then depreciated over its estimated useful life once placed in service.

### Income Tax Status

The Organization is qualified under Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and state income taxes.

The Organization follows Financial Accounting Standards Board ("FASB") ASC 740, "Income Taxes", which clarifies the treatment of the Organization's position of accounting for income taxes recognized in the financial statements. It also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in the tax return. In addition, it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management believes the Organization has no material uncertainties in income taxes. The Organization is no longer subject to income tax examinations by the U.S., federal, state or local tax authorities for fiscal years before 2008.

### Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation.

## 2. RELATED PARTY TRANSACTIONS

During July 2000, the Organization entered into an agreement with eleven other member organizations to form The Resource Consortium, LLC (the "Company"), an entity formed to arrange for, coordinate, and manage the delivery of services benefiting adults with mental retardation and other developmental disabilities in the Commonwealth of Massachusetts who reside in nursing facilities or who are or should be screened for admission to community programs. Included in investments as of June 30, 2011 and 2010 is the Organization's initial contribution in the Company totaling \$3,000, as well as the increase in the value of the Organization's investment in The Resource Consortium, LLC, which totaled \$29,357 and \$29,449 as of June 30, 2011 and 2010, respectively.

## Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

### 2. RELATED PARTY TRANSACTIONS...continued

The Executive Director of Beaverbrook STEP, Inc. is a member of the Executive Committee of The Resource Consortium, LLC.

### 3. DEPOSITS AND OTHER ASSETS

Following is a summary as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
HUD required reserve for replacement account	\$ 171,399	\$ 156,018
HUD required residual receipts account	14,828	14,077
Security deposits	16,187	16,249
Refundable deposits	<u>6,427</u>	<u>6,420</u>
	<u>\$ 208,841</u>	<u>\$ 192,764</u>

### 4. FAIR VALUE MEASUREMENTS

The following table summarizes the valuation of the Organization's assets by the fair value hierarchy levels as of June 30, 2011 and 2010:

	<u>2011</u>			
	Assets Measured at Fair Value on a Recurring Basis			
	Fair Value Measurements Using			
	<u>Quoted Prices</u>	<u>Observable Inputs</u>	<u>Unobservable Inputs</u>	<u>Total June 30, 2011</u>
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	
Deposits and other assets	\$ 189,091	\$ -	\$ -	\$ 189,091
Certificates of deposit	<u>-</u>	<u>108,777</u>	<u>-</u>	<u>108,777</u>
	<u>\$ 189,091</u>	<u>\$ 108,777</u>	<u>\$ -</u>	<u>\$ 297,868</u>
	<u>2010</u>			
	Assets Measured at Fair Value on a Recurring Basis			
	Fair Value Measurements Using			
	<u>Quoted Prices</u>	<u>Observable Inputs</u>	<u>Unobservable Inputs</u>	<u>Total June 30, 2010</u>
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	
Deposits and other assets	\$ 173,021	\$ -	\$ -	\$ 173,021
Certificates of deposit	<u>-</u>	<u>108,586</u>	<u>-</u>	<u>108,586</u>
	<u>\$ 173,021</u>	<u>\$ 108,586</u>	<u>\$ -</u>	<u>\$ 281,607</u>

## Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

### 5. PROPERTY AND EQUIPMENT

Following is a summary as of June 30, 2011 and 2010:

	2011		
	STEP	HUD	Total
Buildings and building improvements	\$ 7,858,507	\$ 1,080,445	\$ 8,938,952
Land	1,067,900	-	1,067,900
Furniture and equipment	422,107	725	422,832
Motor vehicles	229,829	-	229,829
Leasehold improvements	335,208	-	335,208
Life safety improvements	15,981	-	15,981
	<u>9,929,532</u>	<u>1,081,170</u>	<u>11,010,702</u>
Less - accumulated depreciation and amortization	<u>2,982,527</u>	<u>843,002</u>	<u>3,825,529</u>
	<u>\$ 6,947,005</u>	<u>\$ 238,168</u>	<u>\$ 7,185,173</u>
	2010		
	STEP	HUD	Total
Buildings and building improvements	\$ 6,572,661	\$ 1,079,070	\$ 7,651,731
Land	1,067,900	-	1,067,900
Furniture and equipment	407,917	725	408,642
Motor vehicles	213,734	-	213,734
Leasehold improvements	306,708	-	306,708
Life safety improvements	15,981	-	15,981
	<u>8,584,901</u>	<u>1,079,795</u>	<u>9,664,696</u>
Less - accumulated depreciation and amortization	<u>2,666,794</u>	<u>813,836</u>	<u>3,480,630</u>
	<u>\$ 5,918,107</u>	<u>\$ 265,959</u>	<u>\$ 6,184,066</u>

### 6. LINE OF CREDIT

The Organization has a \$150,000 line of credit agreement with Watertown Savings Bank. Borrowings on the line of credit bear interest at a rate equal to 1.5% above the Wall Street Journal prime rate (4.75% as of June 30, 2011). The line of credit is secured by real property at 55 Waverly Street, Belmont, MA with a depreciated cost of \$195,067 as of June 30, 2011. There was no outstanding balance on the line of credit as of June 30, 2011 and 2010.

### 7. MORTGAGE NOTES PAYABLE

	2011	2010
<u>STEP</u>		
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The note was payable in monthly installments of \$942 including interest, to July 2038. The note was secured by real property at 111 Galen Street, Watertown, MA and was refinanced during the year ended June 30, 2011.	\$ -	\$ 151,502
Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The note is payable in monthly installments of \$895 including interest, to July 2038. The note is secured by real property at 111 Galen Street, Watertown, MA.	<u>149,328</u>	<u>-</u>
Balance Forward	\$ 149,328	\$ 151,502

# Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

## 7. MORTGAGE NOTES PAYABLE...continued

	<u>2011</u>	<u>2010</u>
Balance Forward	\$ 149,328	\$ 151,502
Note payable to Watertown Savings Bank with interest at 6.375% per annum. The note was payable in monthly installments of \$1,465 including interest, to February 2023. The note was secured by real property at 22-24 Bromfield Street, Watertown, MA and was refinanced during the year ended June 30, 2011.	-	152,563
Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The note is payable in monthly installments of \$1,407 including interest, to February 2023. The note is secured by real property at 22-24 Bromfield Street, Watertown, MA.	144,230	-
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$1,524, including interest, to February 2025. The note was secured by real property at 387-389 Belmont Street, Belmont, MA and was refinanced during the year ended June 30, 2011.	-	176,658
Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$1,472, including interest, to February 2025. The note is secured by real property at 387-389 Belmont Street, Belmont, MA.	168,840	-
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 20 years and was payable in monthly installments of \$455, including interest, to February 2016. The note was secured by real property at 20 Riverside Street, Unit number G-7, Watertown, MA and was refinanced during the year ended June 30, 2011.	-	26,096
Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$450, including interest, to February 2016. The note is secured by real property at 20 Riverside Street, Unit number G-7, Watertown, MA.	22,093	-
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 20 years and was payable in monthly installments of \$741, including interest, to October 2015. The note was secured by property at 170 Main Street – unit #303, Watertown, MA and was refinanced during the year ended June 30, 2011.	-	<u>40,385</u>
Balance Forward	\$ 484,491	\$ 547,204



# Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

## 7. MORTGAGE NOTES PAYABLE...continued

	<u>2011</u>	<u>2010</u>
Balance Forward	\$ 484,491	\$ 547,204
 Note payable to Watertown Savings Bank with interest at 5.625% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$733, including interest, to October 2015. The note is secured by property at 170 Main Street – Unit #303, Watertown, MA.	 33,735	 -
 Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$2,692, including interest, through November 2027. The note was secured by real property at 24 Hillside Road, Watertown, MA and was refinanced during the year ended June 30, 2011.	 -	 345,481
 Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$2,512, including interest, through November 2027. The note is secured by real property at 24 Hillside Road, Watertown, MA.	 334,293	 -
 Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$1,540, including interest through November 2031. The note was secured by real property at 55 Waverley Street, Watertown, MA and was refinanced during the year ended June 30, 2011.	 -	 220,179
 Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$1,442, including interest through November 2031. The note is secured by real property at 55 Waverley Street, Watertown, MA.	 215,098	 -
 Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$726, including interest through February 2032. The note was secured by real property at 170 Main Street, Unit 100, Watertown, MA and was refinanced during the year ended June 30, 2011.	 -	 104,424
 Note payable to Watertown Savings Bank was refinanced in the current year with interest at 5.625% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$693, including interest through February 2032. The note is secured by real property at 170 Main Street, Unit 100, Watertown, MA.	 <u>101,967</u>	 <u>-</u>
Balance Forward	\$ 1,169,584	\$ 1,217,288

# Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

## 7. MORTGAGE NOTES PAYABLE...continued

	<u>2011</u>	<u>2010</u>
Balance Forward	\$ 1,169,584	\$ 1,217,288
 Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$4,617, including interest through February 2032. The note was secured by real property at 45-47 Forest Street, Watertown, MA and was refinanced during the year ended June 30, 2011.	 -	 663,712
 Note payable to Watertown Savings Bank was refinanced in the current year with interest at 6.00% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$4,542, including interest through February 2032. The note is secured by real property at 45-47 Forest Street, Watertown, MA.	 648,589	 -
 Note payable to a trust with interest at 7.875% per annum. The note is payable in monthly installments of \$622, including interest, through February 2022. The note is secured by a second mortgage on real property at 45-47 Forest Street, Watertown, MA.	 53,464	 56,812
 Note payable to Watertown Savings Bank with interest at 6.5% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$5,689, including interest through July 2034. The note was secured by real property at 45-47 Quirk Street, Watertown, MA and was refinanced during the year ended June 30, 2011.	 -	 829,782
 Note payable to Watertown Savings Bank was refinanced in the current year with interest at 6% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$5,438, including interest through July 2034. The note is secured by real property at 45-47 Quirk Street, Watertown, MA.	 814,374	 -
 Note payable to Watertown Savings Bank with interest at 5.75% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$3,105, including interest through July 2035. The note is secured by real property at 8 Panteline Terrace, Watertown, MA.	 485,934	 494,964
 Note payable to Watertown Savings Bank with interest at 6.00% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$3,585, including interest through July 2037. The note is secured by real property at 50 Mapleton, Brighton, MA.	 <u>563,515</u>	 <u>572,435</u>
Balance Forward	\$ 3,735,460	\$ 3,834,993

# Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2011 and 2010

## 7. MORTGAGE NOTES PAYABLE...continued

	<u>2011</u>	<u>2010</u>
Balance Forward	\$ 3,735,460	\$ 3,834,993
Note payable to Watertown Savings Bank with interest at 6.50% per annum. The rate was fixed for 30 years and was payable in monthly installments of \$4,121, including interest through October 2033. The note is secured by real property at 122 Grove Street, Brookline, MA and was refinanced during the year ended June 30, 2011.	-	593,230
Note payable to Watertown Savings Bank was refinanced in the current year with interest at 6.00% per annum. The rate is fixed for the term of the note. The note is payable in monthly installments of \$3,944, including interest through October 2033. The note is secured by real property at 122 Grove Street, Brookline, MA.	581,530	-
Note payable to Watertown Savings Bank with interest at 5.75% per annum. The rate is fixed for 30 years and is payable in monthly installments of \$4,960, including interest through March 2041. The note is secured by real property at 17 Kensington Circle, Brookline, MA.	<u>847,325</u>	<u>-</u>
Total STEP	5,164,315	4,428,223
<u>HUD</u>		
Note payable to United States Department of Housing and Urban Development ("HUD") under Section 202 of the Housing Act, with interest at 7.625% per annum, payable in monthly installments of \$5,967, including interest, to April 2021. The note is secured by real property located at 43 Phillips Street and 16 Irving Street, Watertown, MA and by an assignment to HUD of all rights to the income received by the Organization from the operation of the mortgaged property.	<u>494,356</u>	<u>526,907</u>
	<u>\$ 5,658,671</u>	<u>\$ 4,955,130</u>

Maturities of mortgage notes payable are due in the next five years and in the aggregate are as follows:

<u>Year ending June 30,</u>	<u>STEP</u>	<u>HUD</u>	<u>Total</u>
2012	\$ 129,906	\$ 35,122	\$ 165,028
2013	137,730	37,896	175,626
2014	146,027	40,888	186,915
2015	154,841	44,117	198,958
2016	156,198	47,601	203,799
Thereafter	<u>4,439,613</u>	<u>288,732</u>	<u>4,728,345</u>
	<u>\$ 5,164,315</u>	<u>\$ 494,356</u>	<u>\$ 5,658,671</u>

## Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

### 8. NOTES PAYABLE

	<u>2011</u>	<u>2010</u>
<u>STEP</u>		
Six notes payable to Toyota Financial Services with interest at 7.90% per annum, payable in monthly installments ranging from \$314 to \$358, maturing on various dates through February 2016 and secured by the respective motor vehicles.	\$ 89,741	\$ 105,846
Note payable to Chase Automotive Finance with interest at 7.90% per annum, payable in monthly installments of \$275 to May 2011. During the year ended June 30, 2011, this note was paid in full.	-	2,905
Two notes payable to America Honda Finance with interest at 1.90% and 4.99% per annum, payable in monthly installments of \$410 and \$365 to January 2016 and July 2015, respectively, and are secured by the respective motor vehicles.	37,388	-
Note payable to Watertown Savings Bank with interest at 7% per annum, payable in monthly installments of \$360 to September 2013 and secured by the respective motor vehicle.	<u>8,967</u>	<u>-</u>
	<u>\$ 136,096</u>	<u>\$ 108,751</u>

Maturities of the notes payable for the next five years and in the aggregate are as follows:

<u>Year ending June 30,</u>	
2012	\$ 29,437
2013	31,741
2014	30,571
2015	31,396
2016	<u>12,951</u>
	<u>\$ 136,096</u>

### 9. OPERATING LEASES

The Organization leases its administrative office under an operating lease, which expires in January 2014. Lease expense was \$125,908 and \$100,758 for the years ended June 30, 2011 and 2010, respectively.

The Organization leases residential space for its programs under both tenant-at-will and operating leases expiring at various dates through April 2021. The operating leases require minimum annual rental payments ranging from \$483 to \$6,500. Lease expense under these leases was \$428,791 and \$406,626 for the years ended June 30, 2011 and 2010, respectively.

## Beaverbrook STEP, Inc.

Notes to Financial Statements  
Years Ended June 30, 2011 and 2010

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### 9. OPERATING LEASES...continued

The Organization leases office equipment expiring at various dates through March 2013. The office equipment leases require annual rental payments ranging from \$11 to \$245. Rent expense under these leases was \$5,630 and \$5,873 for the years ended June 30, 2011 and 2010, respectively.

The Organization leases various motor vehicles under operating leases expiring at various dates through March 2015. The leases require minimum annual rental payments ranging from \$187 to \$788. Lease expense under these leases was \$86,533 and \$100,440 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments due for leases with minimum future periods of one year or more are as follows:

2012	\$ 305,134
2013	257,822
2014	153,662
2015	146,204
2016	68,250
Thereafter	<u>673,313</u>
	<u>\$ 1,604,385</u>

### 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 and 2010 represent the balance of net assets available for the educational benefits and/or expenditures agreed upon by the Board totaling \$254 and \$10,091, respectively and for the Irving Street Project totaling \$0 and \$20,000, respectively.

### 11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2011 and 2010 by incurring costs satisfying the restricted purposes or by the occurrence of other events specified by the donor. Contributions of \$9,837 and \$10,898 were used for educational benefits and contributions of \$20,000 and \$0 were used for the Irving Street Project during the years ended June 30, 2011 and 2010, respectively.

### 12. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through September 30, 2011, the date the financial statements were available to be issued.