

Beaverbrook STEP, Inc.

Financial Report
June 30, 2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

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, 2009 and 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2009, on our consideration of Beaverbrook STEP, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Burlington, Massachusetts
September 21, 2009

Beaverbrook STEP, Inc.

Statements of Financial Position
June 30, 2009 and 2008

Assets	2009			2008		
	STEP	HUD	Totals	STEP	HUD	Totals
Cash and cash equivalents	\$ 1,488,834	\$ 1,818	\$ 1,490,652	\$ 1,471,250	\$ 1,046	\$ 1,472,296
Accounts receivable	150,896	-	150,896	69,951	-	69,951
Inventory	37,412	-	37,412	34,422	-	34,422
Prepaid expenses	25,470	61	25,531	20,821	55	20,876
Investment (Note 2)	29,321	-	29,321	28,728	-	28,728
Deposits and other assets (Note 3)	21,768	158,045	179,813	18,635	142,987	161,622
Mortgage acquisition costs, net accumulated amortization of \$165 (Note 6)	8,423	-	8,423	6,816	-	6,816
Property and equipment, at cost less accumulated depreciation (Notes 4, 5, 6 and 7)	6,095,446	295,523	6,390,969	5,315,330	325,399	5,640,729
Interfund balances	-	-	-	5,768	(5,768)	-
Total assets	\$ 7,857,570	\$ 455,447	\$ 8,313,017	\$ 6,971,721	\$ 463,719	\$ 7,435,440
Liabilities and Net Assets						
Accounts payable	\$ 14,186	\$ 4,352	\$ 18,538	\$ 35,177	\$ 1,755	\$ 36,932
Accrued expenses	575,025	3,881	578,906	533,133	3,742	536,875
Mortgage notes payable (Note 6)	4,531,245	557,076	5,088,321	3,885,976	585,037	4,471,013
Notes payable (Note 7)	10,520	-	10,520	20,953	-	20,953
Capital lease obligation (Note 8)	-	-	-	3,823	-	3,823
Tenant security deposits	-	2,927	2,927	-	2,935	2,935
Total liabilities	5,130,976	568,236	5,699,212	4,479,062	593,469	5,072,531
Commitment (Note 9)						
Unrestricted net assets	2,705,605	(112,789)	2,592,816	2,450,129	(129,750)	2,320,379
Temporarily restricted net assets (Note 10)	20,989	-	20,989	42,530	-	42,530
Total net assets	2,726,594	(112,789)	2,613,805	2,492,659	(129,750)	2,362,909
Total liabilities and net assets	\$ 7,857,570	\$ 455,447	\$ 8,313,017	\$ 6,971,721	\$ 463,719	\$ 7,435,440

See Notes to Financial Statements.

Beaverbrook STEP, Inc.

Statements of Activities
Years Ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted		Temporarily Restricted	Totals	Unrestricted		Temporarily Restricted	Totals
	STEP	HUD			STEP	HUD		
Revenues and Other Support								
Contract revenue	\$ 8,280,765	\$ 146,264	\$ -	\$ 8,427,029	\$ 7,827,448	\$ 142,441	\$ -	\$ 7,969,889
Other service fee income	417,985	-	-	417,985	410,506	-	-	410,506
Rental income	551,841	53,983	-	605,824	522,861	52,840	-	575,701
Investment income	13,447	1,058	-	14,505	33,387	338	-	33,725
Loss on sale of property and equipment	-	-	-	-	(1,647)	-	-	(1,647)
Contributions	25,264	-	-	25,264	22,502	-	-	22,502
Miscellaneous income	117,513	50	-	117,563	78,942	-	-	78,942
Net assets released from restrictions (Note 11)	21,541	-	(21,541)	-	23,888	-	(23,888)	-
Total revenues and other support	9,428,356	201,355	(21,541)	9,608,170	8,917,887	195,619	(23,888)	9,089,618
Expenses								
Program Services								
Residential Services	6,451,071	-	-	6,451,071	6,222,683	-	-	6,222,683
Community Habilitation Services	810,478	-	-	810,478	774,239	-	-	774,239
Individual Support	497,294	184,394	-	681,688	460,640	180,114	-	640,754
Day Services	587,914	-	-	587,914	514,284	-	-	514,284
Total program services	8,346,757	184,394	-	8,531,151	7,971,846	180,114	-	8,151,960
Supporting Services								
General and administrative	826,123	-	-	826,123	777,503	-	-	777,503
Total expenses	9,172,880	184,394	-	9,357,274	8,749,349	180,114	-	8,929,463
Change in net assets	255,476	16,961	(21,541)	250,896	168,538	15,505	(23,888)	160,155
Net Assets at Beginning of Year	2,450,129	(129,750)	42,530	2,362,909	2,281,591	(145,255)	66,418	2,202,754
Net Assets at End of Year	\$ 2,705,605	\$ (112,789)	\$ 20,989	\$ 2,613,805	\$ 2,450,129	\$ (129,750)	\$ 42,530	\$ 2,362,909

See Notes to Financial Statements.

Beaverbrook STEP, Inc.

Statement of Functional Expenses

Year Ended June 30, 2009

	Residential Services	Community Habilitation Services	Individual Support	Day Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 4,316,283	\$ 444,515	\$ 384,660	\$ 339,102	\$ 5,484,560	\$ 431,531	\$ 5,916,091
Payroll taxes and other benefits	702,107	72,660	62,048	54,761	891,576	71,800	963,376
Professional fees	11,413	800	6,318	-	18,531	77,198	95,729
Supplies	189,033	16,619	18,264	21,730	245,646	32,113	277,759
Occupancy (Note 9)	625,202	134,269	107,404	111,973	978,848	164,791	1,143,639
Transportation (Note 9)	185,378	17,348	13,860	6,319	222,905	185	223,090
Interest	206,413	55,571	46,695	6,604	315,283	134	315,417
Commercial resources	-	24	56	9,998	10,078	-	10,078
Other expenses	29,947	4,279	5,110	9,206	48,542	30,337	78,879
Depreciation and amortization	185,295	64,393	37,273	28,221	315,182	18,034	333,216
Total expenses	\$ 6,451,071	\$ 810,478	\$ 681,688	\$ 587,914	\$ 8,531,151	\$ 826,123	\$ 9,357,274

See Notes to Financial Statements.

Beaverbrook STEP, Inc.

Statement of Functional Expenses
Year Ended June 30, 2008

	Residential Services	Community Habilitation Services	Individual Support	Day Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 4,092,139	\$ 435,596	\$ 358,342	\$ 313,936	\$ 5,200,013	\$ 399,013	\$ 5,599,026
Payroll taxes and other benefits	648,283	68,334	53,706	49,311	819,634	70,731	890,365
Professional fees	12,442	1,000	7,501	9,263	30,206	68,815	99,021
Supplies	162,999	18,117	13,646	14,937	209,699	27,425	237,124
Occupancy (Note 9)	704,108	115,135	101,888	85,794	1,006,925	154,073	1,160,998
Transportation (Note 9)	206,543	10,072	16,244	2,010	234,869	198	235,067
Interest	187,602	56,475	49,088	7,479	300,644	469	301,113
Commercial resources	2,037	136	85	3,657	5,915	-	5,915
Other expenses	29,009	6,898	4,459	9,793	50,159	39,922	90,081
Depreciation and amortization	177,521	62,476	35,795	18,104	293,896	16,857	310,753
Total expenses	\$ 6,222,683	\$ 774,239	\$ 640,754	\$ 514,284	\$ 8,151,960	\$ 777,503	\$ 8,929,463

See Notes to Financial Statements.

Beaverbrook STEP, Inc.

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009			2008		
	STEP	HUD	Totals	STEP	HUD	Totals
Cash Flows from Operating Activities						
Contract receipts	\$ 8,203,030	\$ 146,264	\$ 8,349,294	\$ 7,865,517	\$ 142,441	\$ 8,007,958
Other service fee income	414,774	-	414,774	397,317	-	397,317
Rental receipts	551,841	53,983	605,824	522,861	52,840	575,701
Contributions received	25,264	-	25,264	22,502	-	22,502
Miscellaneous receipts	117,513	50	117,563	78,942	-	78,942
Depreciation and amortization	303,339	29,877	333,216	280,556	30,197	310,753
Gain on investments	(593)	-	(593)	(694)	-	(694)
Loss on sale of property and equipment	-	-	-	1,647	-	1,647
Interest received	13,447	1,058	14,505	33,387	337	33,724
Salaries paid	(5,838,856)	(37,556)	(5,876,412)	(5,510,549)	(36,606)	(5,547,155)
Payroll taxes and other benefits paid	(954,922)	(6,098)	(961,020)	(881,724)	(5,893)	(887,617)
Suppliers paid	(2,094,067)	(94,374)	(2,188,441)	(2,169,357)	(96,735)	(2,266,092)
Interest paid	(271,772)	(43,645)	(315,417)	(255,420)	(45,692)	(301,112)
Net cash provided by operating activities	468,998	49,559	518,557	384,985	40,889	425,874
Cash Flows from Investing Activities						
Change in deposits	(3,133)	(15,058)	(18,191)	(4,784)	(14,139)	(18,923)
Proceeds from sale of property and equipment	-	-	-	2,525	-	2,525
Purchase of property and equipment	(1,083,092)	-	(1,083,092)	(291,958)	-	(291,958)
Net cash used in investing activities	(1,086,225)	(15,058)	(1,101,283)	(294,217)	(14,139)	(308,356)
Cash Flows from Financing Activities						
Principal payments of mortgages and notes payable	(130,564)	(27,961)	(158,525)	(95,575)	(25,914)	(121,489)
Principal payments of capital lease obligations	(3,823)	-	(3,823)	(4,280)	-	(4,280)
Change in interfund balances	5,768	(5,768)	-	2,029	(2,029)	-
Purchase of mortgage acquisition costs	(1,970)	-	(1,970)	(6,981)	-	(6,981)
Proceeds from mortgages and notes payable	765,400	-	765,400	-	-	-
Net cash provided by (used in) financing activities	634,811	(33,729)	601,082	(104,807)	(27,943)	(132,750)
Net change in cash and cash equivalents	17,584	772	18,356	(14,039)	(1,193)	(15,232)
Cash and Cash Equivalents						
Beginning of year	1,471,250	1,046	1,472,296	1,485,289	2,239	1,487,528
End of year	\$ 1,488,834	\$ 1,818	\$ 1,490,652	\$ 1,471,250	\$ 1,046	\$ 1,472,296
Reconciliation of Change in Net Assets to Net Cash						
Provided by Operating Activities:						
Change in net assets	\$ 233,935	\$ 16,961	\$ 250,896	\$ 144,650	\$ 15,505	\$ 160,155
Adjustments to reconcile change in net assets to net cash provided by operating activities						
Depreciation and amortization	303,339	29,877	333,216	280,556	30,197	310,753
Gain on sale of property and equipment	-	-	-	1,647	-	1,647
(Gain) loss on investments	(593)	-	(593)	(694)	-	(694)
Change in accounts receivable	(80,945)	-	(80,945)	24,877	-	24,877
Change in inventory	(2,990)	-	(2,990)	(22,242)	-	(22,242)
Change in prepaid expenses	(4,649)	(6)	(4,655)	8,582	87	8,669
Change in accounts payable	(20,991)	2,597	(18,394)	(107,559)	(4,579)	(112,138)
Change in accrued expenses	41,892	139	42,031	55,168	(537)	54,631
Change in tenant security deposits	-	(8)	(8)	-	216	216
Total adjustments	235,063	32,599	267,662	240,335	25,384	265,719
Net cash provided by operating activities	\$ 468,998	\$ 49,560	\$ 518,558	\$ 384,985	\$ 40,889	\$ 425,874

See Notes to Financial Statements.

Notes to Financial Statements

Note 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 the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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. There are no 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.

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 U.S. Treasury money market funds.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (continued)

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 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 (See Note 2) under the equity method. Gains and losses on the investment are based on the Organization's share of income and losses.

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

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Contributions (continued): 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.

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.

Reclassifications: Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation.

Recently Issued Accounting Pronouncements: In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 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 a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to the adoption of FIN 48, the Organization will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Organization to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 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 at June 30, 2009 and 2008 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 \$29,321 and \$28,728 as of June 30, 2009 and 2008, respectively.

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

Note 3. Deposits and Other Assets

Following is a summary as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
HUD required reserve for replacement account	\$ 141,077	\$ 126,072
HUD required residual receipts account	14,041	13,980
Security deposits	17,125	14,000
Refundable deposits	7,570	7,570
	<u>\$ 179,813</u>	<u>\$ 161,622</u>

Note 4. Property and Equipment

Following is a summary as of June 30, 2009 and 2008:

	<u>2009</u>		
	<u>STEP</u>	<u>HUD</u>	<u>Totals</u>
Buildings and building improvements	\$ 6,561,806	\$ 1,079,070	\$ 7,640,876
Land	1,067,900	-	1,067,900
Furniture and equipment	390,656	725	391,381
Motor vehicles	128,776	-	128,776
Leasehold improvements	306,708	-	306,708
Life safety improvements	15,981	-	15,981
	<u>8,471,827</u>	<u>1,079,795</u>	<u>9,551,622</u>
Less: accumulated depreciation and amortization	<u>2,376,381</u>	<u>784,272</u>	<u>3,160,653</u>
	<u>\$ 6,095,446</u>	<u>\$ 295,523</u>	<u>\$ 6,390,969</u>

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 4. Property and Equipment (continued)

	2008		Totals
	STEP	HUD	
Buildings and building improvements	\$ 5,767,465	\$ 1,079,070	\$ 6,846,535
Land	797,900	-	797,900
Furniture and equipment	343,787	725	344,512
Motor vehicles	128,776	-	128,776
Leasehold improvements	293,783	-	293,783
Life safety improvements	15,981	-	15,981
Construction in progress	41,771	-	41,771
	7,389,463	1,079,795	8,469,258
Less: accumulated depreciation and amortization	2,074,133	754,396	2,828,529
	<u>\$ 5,315,330</u>	<u>\$ 325,399</u>	<u>\$ 5,640,729</u>

Note 5. 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% at June 30, 2009). The line of credit is secured by real property at 55 Waverly Street, Belmont, MA with a depreciated cost of \$165,713 as of June 30, 2009. There was no outstanding balance on the line of credit as of June 30, 2009 and 2008.

Note 6. Mortgage Notes Payable

	2009	2008
<u>STEP</u>		
Note payable to Washington Mutual with interest at 4.98% per annum. The note was payable in monthly installments of \$512, including interest, to June 2013. The note was secured by real property at 111 Galen Street, Watertown, MA. This note was refinanced and balance was paid in full in July 2008.	\$ -	\$ 26,837
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The note is payable in monthly installments of \$942 including interest, to July 2038. The note is secured by real property at 111 Galen Street, Watertown, MA.	153,458	-
Note payable to Watertown Savings Bank with interest at 6.375% per annum. The note is payable in monthly installments of \$1,465 including interest, to February 2023. The note is secured by real property at 22-24 Bromfield Street, Watertown, MA.	<u>160,157</u>	<u>167,284</u>
Balance forward	\$ 313,615	\$ 194,121

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 6. Mortgage Notes Payable (continued)

	<u>2009</u>	<u>2008</u>
Balance forward	\$ 313,615	\$ 194,121
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$1,524, including interest, to February 2025. The note is secured by real property at 387-389 Belmont Street, Belmont, MA.	183,883	190,680
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 20 years. The note is payable in monthly installments of \$455, including interest, to February 2016. The note is secured by real property at 20 Riverside Street, Unit number G-7, Watertown, MA.	29,835	33,352
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 20 years. The note is payable in monthly installments of \$741, including interest, to October 2015. The note is secured by property at 170 Main Street – unit #303, Watertown, MA.	46,599	52,444
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$2,692, including interest, through November 2027. The note is secured by real property at 24 Hillside Road, Watertown, MA.	356,268	366,416
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$1,540, including interest through November 2031. The note is secured by real property at 55 Waverley Street, Watertown, MA.	225,015	229,564
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$726, including interest through February 2032. The note is secured by real property at 170 Main Street, Unit 100, Watertown, MA.	106,670	108,783
Note payable to Watertown Savings Bank with interest at 6.125% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$4,617, including interest through February 2032. The note is secured by real property at 45-47 Forest Street, Watertown, MA.	<u>677,988</u>	<u>691,418</u>
Balance forward	\$ 1,939,873	\$ 1,866,778

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 6. Mortgage Notes Payable (continued)

	<u>2009</u>	<u>2008</u>
Balance forward	\$ 1,939,873	\$ 1,866,778
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.	59,673	62,319
Note payable to Watertown Savings Bank with interest at 6.5% per annum. The rate is fixed for 30 years. The note is payable in monthly installments of \$5,689, including interest through July 2034. The note is secured by real property at 45-47 Quirk Street, Watertown, MA.	843,617	856,585
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.	503,491	511,543
Note payable to Watertown Savings Bank with interest at 6.00% per annum. The rate is fixed for 30 years. 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.	580,837	588,751
Note payable to Watertown Savings Bank with interest at 6.50% per annum. The rate is fixed for 30 years. The note is 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.	<u>603,754</u>	-
Total STEP	4,531,245	3,885,976
<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>557,076</u>	585,037
Total	<u>\$ 5,088,321</u>	<u>\$ 4,471,013</u>

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 6. Mortgage Notes Payable (continued)

Maturities of mortgage notes payable are due in future years as follows:

<u>Year ending June 30,</u>	<u>STEP</u>	<u>HUD</u>	<u>Totals</u>
2010	\$ 103,011	\$ 30,169	\$ 133,180
2011	109,626	32,551	142,177
2012	116,668	35,122	151,790
2013	124,163	37,896	162,059
2014	132,140	40,888	173,028
Thereafter	3,945,637	380,450	4,326,087
	<u>\$ 4,531,245</u>	<u>\$ 557,076</u>	<u>\$ 5,088,321</u>

Note 7. Notes Payable

	<u>2009</u>	<u>2008</u>
<u>STEP</u>		
Note payable to Toyota of Watertown with interest at 2.90% per annum, payable in monthly installments of \$249, to May 2009.	\$ -	\$ 2,687
Note payable to Volkswagen Credit with interest at 2.90% per annum, payable in monthly installments of \$436, to May 2010.	4,725	9,737
Note payable to Chase Automotive Finance with interest at 7.90% per annum, payable in monthly installments of \$275, to May 2011.	<u>5,795</u>	<u>8,529</u>
Total	<u>\$ 10,520</u>	<u>\$ 20,953</u>

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

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 7,663
2011	<u>2,857</u>
	<u>\$ 10,520</u>

Note 8. Capital Lease Obligation

During the year ended June 30, 2005, the Organization entered into a capital lease agreement with a creditor to acquire certain equipment. The equipment and related liability under the capital lease were recorded in 2005 at the present value of the future payments due under the lease. The liability required monthly payments of \$396 and was paid in full in April 2009.

Notes to Financial Statements

Note 9. Operating Leases

The Organization leases its administrative office under an operating lease, which expires in January 2014. The lease requires monthly rental payments of \$10,150. Lease expense was \$108,275 and \$112,950 for the years ended June 30, 2009 and 2008, respectively.

The Organization leases residential space for its programs under both tenant-at-will and operating leases expiring at various dates through September 2021. The operating leases require minimum annual rental payments ranging from \$470 to \$6,500. Lease expense under these leases was \$390,910 and \$465,733 for the years ended June 30, 2009 and 2008, respectively.

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 \$6,141 and \$4,781 for the years ended June 30, 2009 and 2008, respectively.

The Organization leases various motor vehicles under operating leases expiring at various dates through February 2013. The leases require minimum annual rental payments ranging from \$219 to \$788. Lease expense under these leases was \$107,501 and \$106,709 for the years ended June 30, 2009 and 2008, respectively.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 419,227
2011	390,964
2012	291,440
2013	275,712
2014	218,067
Thereafter	737,813
	<u>\$ 2,333,223</u>

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2009 and 2008 represent the balance of net assets available for the educational benefits and/or expenditures agreed upon by the Board totaling \$20,989 and \$42,530, respectively.

Note 11. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2009 and 2008 by incurring costs satisfying the restricted purposes or by the occurrence of other events specified by the donor. Contributions of \$21,541 and \$23,888 were used for educational benefits during the years ended June 30, 2009 and 2008, respectively.

Note 12. Subsequent Events

The Organization evaluated subsequent events through September 21, 2009, when the financial statements were available to be issued.