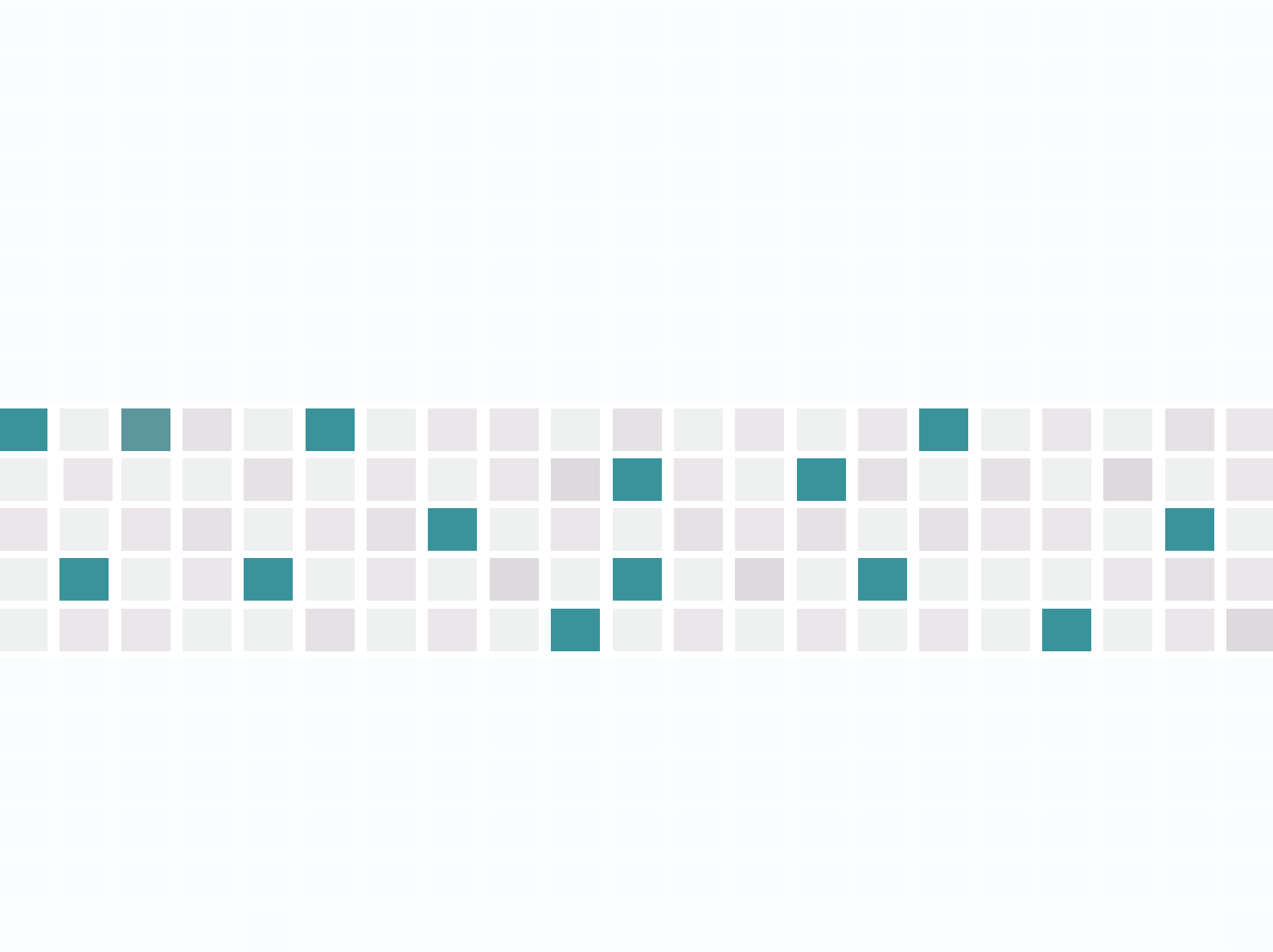


Beaverbrook STEP, Inc.

Financial Report
June 30, 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, 2010 and 2009, 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2010, 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 27, 2010

Beaverbrook STEP, Inc.

Statements of Financial Position
June 30, 2010 and 2009

Assets	2010			2009		
	STEP	HUD	Totals	STEP	HUD	Totals
Cash and cash equivalents (Note 4)	\$ 1,934,824	\$ 6,679	\$ 1,941,503	\$ 1,488,834	\$ 1,818	\$ 1,490,652
Accounts receivable	320,813	-	320,813	150,896	-	150,896
Inventory	34,170	-	34,170	37,412	-	37,412
Prepaid expenses	26,265	92	26,357	25,470	61	25,531
Investment (Note 2)	29,449	-	29,449	29,321	-	29,321
Deposits and other assets (Notes 3 and 4)	19,743	173,021	192,764	21,768	158,045	179,813
Mortgage acquisition costs, net of accumulated amortization of \$925 (Note 7)	8,026	-	8,026	8,423	-	8,423
Property and equipment, at cost						
less accumulated depreciation (Notes 5, 6, 7 and 8)	5,918,107	265,959	6,184,066	6,095,446	295,523	6,390,969
Total assets	\$ 8,291,397	\$ 445,751	\$ 8,737,148	\$ 7,857,570	\$ 455,447	\$ 8,313,017
Liabilities and Net Assets						
Accounts payable	\$ 29,824	\$ 727	\$ 30,551	\$ 14,186	\$ 4,352	\$ 18,538
Accrued expenses	671,025	5,237	676,262	575,025	3,881	578,906
Mortgage notes payable (Note 7)	4,428,223	526,907	4,955,130	4,531,245	557,076	5,088,321
Notes payable (Note 8)	108,751	-	108,751	10,520	-	10,520
Tenant security deposits	-	2,926	2,926	-	2,927	2,927
Total liabilities	5,237,823	535,797	5,773,620	5,130,976	568,236	5,699,212
Commitment (Note 9)						
Unrestricted net assets	3,023,483	(90,046)	2,933,437	2,705,605	(112,789)	2,592,816
Temporarily restricted net assets (Note 10)	30,091	-	30,091	20,989	-	20,989
Total net assets	3,053,574	(90,046)	2,963,528	2,726,594	(112,789)	2,613,805
Total liabilities and net assets	\$ 8,291,397	\$ 445,751	\$ 8,737,148	\$ 7,857,570	\$ 455,447	\$ 8,313,017

See Notes to Financial Statements.

Beaverbrook STEP, Inc.

Statements of Activities
Years Ended June 30, 2010 and 2009

	2010				2009			
	Unrestricted		Temporarily Restricted	Totals	Unrestricted		Temporarily Restricted	Totals
	STEP	HUD			STEP	HUD		
Revenues and Other Support								
Contract revenue	\$ 8,865,788	\$ 149,131	\$ -	\$ 9,014,919	\$ 8,280,765	\$ 146,264	\$ -	\$ 8,427,029
Other service fee income	519,545	-	-	519,545	417,985	-	-	417,985
Rental income	616,343	56,127	-	672,470	551,841	53,983	-	605,824
Interest income	5,983	620	-	6,603	13,447	1,058	-	14,505
Contributions	72,550	-	20,000	92,550	25,264	-	-	25,264
Miscellaneous income	169,833	-	-	169,833	117,513	50	-	117,563
Net assets released from restrictions (Note 11)	10,898	-	(10,898)	-	21,541	-	(21,541)	-
Total revenues and other support	10,260,940	205,878	9,102	10,475,920	9,428,356	201,355	(21,541)	9,608,170
Expenses								
Program Services								
Residential Services	7,189,920	-	-	7,189,920	6,451,071	-	-	6,451,071
Community Habilitation Services	694,698	-	-	694,698	810,478	-	-	810,478
Individual Support	505,894	183,135	-	689,029	497,294	184,394	-	681,688
Day Services	640,134	-	-	640,134	587,914	-	-	587,914
Total program services	9,030,646	183,135	-	9,213,781	8,346,757	184,394	-	8,531,151
Supporting Services								
General and administrative	912,416	-	-	912,416	826,123	-	-	826,123
Total expenses	9,943,062	183,135	-	10,126,197	9,172,880	184,394	-	9,357,274
Change in net assets	317,878	22,743	9,102	349,723	255,476	16,961	(21,541)	250,896
Net Assets at Beginning of Year	2,705,605	(112,789)	20,989	2,613,805	2,450,129	(129,750)	42,530	2,362,909
Net Assets at End of Year	\$ 3,023,483	\$ (90,046)	\$ 30,091	\$ 2,963,528	\$ 2,705,605	\$ (112,789)	\$ 20,989	\$ 2,613,805

See Notes to Financial Statements.

Beaverbrook STEP, Inc.

Statement of Functional Expenses
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.

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.

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010			2009		
	STEP	HUD	Totals	STEP	HUD	Totals
Cash Flows from Operating Activities						
Contract receipts	\$ 8,688,901	\$ 149,131	\$ 8,838,032	\$ 8,203,030	\$ 146,264	\$ 8,349,294
Other service fee income	526,515	-	526,515	414,774	-	414,774
Rental receipts	616,343	56,127	672,470	551,841	53,983	605,824
Contributions received	92,550	-	92,550	25,264	-	25,264
Miscellaneous receipts	169,833	-	169,833	117,513	50	117,563
Depreciation and amortization	332,018	29,563	361,581	303,339	29,877	333,216
Gain on investments	(128)	-	(128)	(593)	-	(593)
Interest received	5,983	620	6,603	13,447	1,058	14,505
Salaries paid	(6,249,416)	(38,935)	(6,288,351)	(5,838,856)	(37,556)	(5,876,412)
Payroll taxes and other benefits paid	(1,073,262)	(6,534)	(1,079,796)	(954,922)	(6,098)	(961,020)
Suppliers paid	(2,223,343)	(98,530)	(2,321,873)	(2,094,067)	(94,374)	(2,188,441)
Interest paid	(282,956)	(41,437)	(324,393)	(271,772)	(43,645)	(315,417)
Net cash provided by operating activities	603,038	50,005	653,043	468,998	49,559	518,557
Cash Flows from Investing Activities						
Change in deposits	2,025	(14,976)	(12,951)	(3,133)	(15,058)	(18,191)
Purchase of property and equipment	(154,281)	-	(154,281)	(1,083,092)	-	(1,083,092)
Net cash used in investing activities	(152,256)	(14,976)	(167,232)	(1,086,225)	(15,058)	(1,101,283)
Cash Flows from Financing Activities						
Principal payments of mortgages and notes payable	(117,095)	(30,168)	(147,263)	(130,564)	(27,961)	(158,525)
Principal payments of capital lease obligations	-	-	-	(3,823)	-	(3,823)
Change in interfund balances	-	-	-	5,768	(5,768)	-
Purchase of mortgage acquisition costs	-	-	-	(1,970)	-	(1,970)
Proceeds from mortgages and notes payable	112,303	-	112,303	765,400	-	765,400
Net cash provided by (used in) financing activities	(4,792)	(30,168)	(34,960)	634,811	(33,729)	601,082
Net change in cash and cash equivalents	445,990	4,861	450,851	17,584	772	18,357
Cash and Cash Equivalents						
Beginning of year	1,488,834	1,818	1,490,652	1,471,250	1,046	1,472,296
End of year	\$ 1,934,824	\$ 6,679	\$ 1,941,503	\$ 1,488,834	\$ 1,818	\$ 1,490,653
Reconciliation of Change in Net Assets to Net Cash						
Provided by Operating Activities:						
Change in net assets	\$ 326,980	\$ 22,743	\$ 349,723	\$ 233,935	\$ 16,961	\$ 250,896
Adjustments to reconcile change in net assets to net cash provided by operating activities						
Depreciation and amortization	332,018	29,563	361,581	303,339	29,877	333,216
(Gain) loss on investments	(128)	-	(128)	(593)	-	(593)
Change in accounts receivable	(169,917)	-	(169,917)	(80,945)	-	(80,945)
Change in inventory	3,242	-	3,242	(2,990)	-	(2,990)
Change in prepaid expenses	(795)	(31)	(826)	(4,649)	(6)	(4,655)
Change in accounts payable	15,638	(3,625)	12,013	(20,991)	2,597	(18,394)
Change in accrued expenses	96,000	1,356	97,356	41,892	139	42,031
Change in tenant security deposits	-	(1)	(1)	-	(8)	(8)
Total adjustments	276,058	27,262	303,320	235,063	32,599	267,662
Net cash provided by operating activities	\$ 603,038	\$ 50,005	\$ 653,043	\$ 468,998	\$ 49,560	\$ 518,558

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 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. 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 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.

Notes to Financial Statements

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

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.

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.

Investments 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.

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

Notes to Financial Statements

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

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.

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 has implemented the guidance for income taxes in accordance with GAAP, as it relates to *Accounting for Uncertainty in Income Taxes*, which clarifies the treatment of the Organization's position of accounting for income taxes recognized in the financial statements. The guidance 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.

Notes to Financial Statements

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

Income tax status (continued): These provisions became effective for the Organization for the year ended June 30, 2010. The provisions are to be applied to all tax positions upon initial application of this standard, and only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of this application. Management believes the Organization has no material uncertainties in income taxes.

Based on applying the effect of these provisions, there will be no impact to the financial statements requiring an adjustment to the opening balance of net assets for the adoption of this application. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S., federal, state or local tax authorities for years before 2006.

Reclassifications: Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation.

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, 2010 and 2009 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 \$29,449 and \$29,321 as of June 30, 2010 and 2009, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
HUD required reserve for replacement account	\$ 156,018	\$ 141,077
HUD required residual receipts account	14,077	14,041
Security deposits	16,249	17,125
Refundable deposits	6,420	7,570
	<u>\$ 192,764</u>	<u>\$ 179,813</u>

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 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, 2010 and 2009:

Assets Measured at Fair Value on a Recurring Basis
Fair Value Measurements Using

2010	Quoted Prices	Observable Inputs	Unobservable Inputs	Total June 30, 2010
	Level I	Level II	Level III	
Deposits and other assets (Note 3)	\$ 192,764	\$ -	\$ -	\$ 192,764
Certificate of deposit	-	108,586	-	108,586
Total	\$ 192,764	\$ 108,586	\$ -	\$ 301,350

2009	Quoted Prices	Observable Inputs	Unobservable Inputs	Total June 30, 2009
	Level I	Level II	Level III	
Deposits and other assets (Note 3)	\$ 179,813	\$ -	\$ -	\$ 179,813
Certificate of deposit	-	108,285	-	108,285
Total	\$ 179,813	\$ 108,285	\$ -	\$ 288,098

Note 5. Property and Equipment

Following is a summary as of June 30, 2010 and 2009:

	2010		
	STEP	HUD	Totals
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
	8,584,901	1,079,795	9,664,696
Less: accumulated depreciation and amortization	2,666,794	813,836	3,480,630
	\$ 5,918,107	\$ 265,959	\$ 6,184,066
	2009		
	STEP	HUD	Totals
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
	8,471,827	1,079,795	9,551,622
Less: accumulated depreciation and amortization	2,376,381	784,272	3,160,653
	\$ 6,095,446	\$ 295,523	\$ 6,390,969

Beaverbrook STEP, Inc.**Notes to Financial Statements**

Note 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% at June 30, 2010). The line of credit is secured by real property at 55 Waverly Street, Belmont, MA with a depreciated cost of \$152,554 as of June 30, 2010. There was no outstanding balance on the line of credit as of June 30, 2010 and 2009.

Note 7. Mortgage Notes Payable

	<u>2010</u>	<u>2009</u>
<u>STEP</u>		
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.	\$ 151,502	\$ 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.	152,563	160,157
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.	176,658	183,883
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.	26,096	29,835
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.	40,385	46,599
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.	345,481	356,268
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.	<u>220,179</u>	<u>225,015</u>
Balance Forward	\$ 1,112,864	\$ 1,155,215

Beaverbrook STEP, Inc.**Notes to Financial Statements**

Note 7. Mortgage Notes Payable (continued)

	<u>2010</u>	<u>2009</u>
Balance Forward	\$ 1,112,864	\$ 1,155,215
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.	104,424	106,670
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.	663,712	677,988
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.	56,812	59,673
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.	829,782	843,617
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.	494,964	503,491
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.	572,435	580,837
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.	593,230	603,754
Total STEP	\$ 4,428,223	\$ 4,531,245

Beaverbrook STEP, Inc.**Notes to Financial Statements****Note 7. Mortgage Notes Payable (continued)**

	<u>2010</u>	<u>2009</u>
Total STEP	\$ 4,428,223	\$ 4,531,245
<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>526,907</u>	557,076
Total	\$ 4,955,130	\$ 5,088,321

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>
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
2015	141,390	44,117	185,507
Thereafter	<u>3,804,236</u>	<u>336,333</u>	<u>4,140,569</u>
	\$ 4,428,223	\$ 526,907	\$ 4,955,130

Note 8. Notes Payable

	<u>2010</u>	<u>2009</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.	\$ 105,846	\$ -
Note payable to Volkswagen Credit with interest at 2.90% per annum, payable in monthly installments of \$436, to May 2010.	-	4,725
Note payable to Chase Automotive Finance with interest at 7.90% per annum, payable in monthly installments of \$275 to May 2011.	<u>2,905</u>	<u>5,795</u>
Total	\$ 108,751	\$ 10,520

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>
2011	\$ 19,340
2012	17,781
2013	19,238
2014	20,814
2015	22,328
Thereafter	<u>9,250</u>
	\$ 108,751

Beaverbrook STEP, Inc.

Notes to Financial Statements

Note 9. Operating Leases

The Organization leases its administrative office under an operating lease, which expires in January 2014. Lease expense was \$100,758 and \$108,275 for the years ended June 30, 2010 and 2009, 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 \$406,626 and \$390,910 for the years ended June 30, 2010 and 2009, 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 \$5,873 and \$6,141 for the years ended June 30, 2010 and 2009, 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 \$141 to \$788. Lease expense under these leases was \$100,440 and \$107,501 for the years ended June 30, 2010 and 2009, 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>
2011	\$ 374,358
2012	268,282
2013	244,352
2014	145,292
2015	140,250
Thereafter	669,563
	<u>\$ 1,842,097</u>

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010 and 2009 represent the balance of net assets available for the educational benefits and/or expenditures agreed upon by the Board totaling \$10,091 and \$20,989, respectively and for the Irving Street Project totaling \$20,000 and \$0, respectively.

Note 11. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009 by incurring costs satisfying the restricted purposes or by the occurrence of other events specified by the donor. Contributions of \$10,898 and \$21,541 were used for educational benefits during the years ended June 30, 2010 and 2009, respectively.

Note 12. Subsequent Events

The Organization evaluated subsequent events through September 27, 2010, when the financial statements were available to be issued.

