

Beaverbrook STEP, Inc.

Financial Statements

Years Ended June 30, 2012 and 2011

Beaverbrook STEP, Inc.

FINANCIAL STATEMENTS
Years Ended June 30, 2012 and 2011

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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, 2012 and 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Beaverbrook STEP, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012 and 2011, 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 LLP

September 25, 2012
Boston, Massachusetts

Beaverbrook STEP, Inc.

Statements of Financial Position

June 30, 2012 and 2011

	2012			2011		
	STEP	HUD	Total	STEP	HUD	Total
ASSETS						
Cash and cash equivalents (Note 4)	\$ 2,393,985	\$ 1,461	\$ 2,395,446	\$ 1,925,190	\$ 15,981	\$ 1,941,171
Accounts receivable	273,718	-	273,718	257,723	-	257,723
Inventory	35,795	-	35,795	33,499	-	33,499
Prepaid expenses	30,918	357	31,275	32,816	150	32,966
Investment (Note 2)	29,259	-	29,259	29,357	-	29,357
Deposits and other assets (Note 3)	19,670	198,510	218,180	19,293	189,548	208,841
Mortgage acquisition costs, net of accumulated amortization of \$1,719 (\$1,322 as of June 30, 2011)	7,232	-	7,232	7,629	-	7,629
Property and equipment, at cost less accumulated depreciation (Notes 4, 5, 6 and 7)	6,737,677	228,692	6,966,369	6,947,005	238,168	7,185,173
Total assets	\$ 9,528,254	\$ 429,020	\$ 9,957,274	\$ 9,252,512	\$ 443,847	\$ 9,696,359
LIABILITIES AND NET ASSETS						
Accounts payable	\$ 108,891	\$ 5,916	\$ 114,807	\$ 37,401	\$ 11,155	\$ 48,556
Accrued expenses	554,877	3,831	558,708	509,342	5,975	515,317
Mortgage notes payable (Note 6)	5,034,684	459,234	5,493,918	5,164,315	494,356	5,658,671
Notes payable (Note 7)	121,392	-	121,392	136,096	-	136,096
Tenant security deposits	-	3,440	3,440	-	2,864	2,864
Total liabilities	5,819,844	472,421	6,292,265	5,847,154	514,350	6,361,504
Commitment (Note 8)						
Unrestricted net assets	3,708,410	(43,401)	3,665,009	3,405,104	(70,503)	3,334,601
Temporarily restricted net assets (Note 9)	-	-	-	254	-	254
Total net assets	3,708,410	(43,401)	3,665,009	3,405,358	(70,503)	3,334,855
Total liabilities and net assets	\$ 9,528,254	\$ 429,020	\$ 9,957,274	\$ 9,252,512	\$ 443,847	\$ 9,696,359

See notes to financial statements.

Beaverbrook STEP, Inc.

Statements of Activities

Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted		Temporarily Restricted	Total	Unrestricted		Temporarily Restricted	Total
	STEP	HUD			STEP	HUD		
Revenues and other support:								
Contract revenue	\$ 10,108,102	\$ 160,880	\$ -	\$ 10,268,982	\$ 9,491,125	\$ 157,304	\$ -	\$ 9,648,429
Other service fee income	312,440	-	-	312,440	309,331	-	-	309,331
Rental income	665,076	54,702	-	719,778	645,331	52,981	-	698,312
Interest income	4,452	400	-	4,852	6,598	563	-	7,161
Contributions	47,548	-	-	47,548	32,667	-	-	32,667
Miscellaneous income	193,056	-	-	193,056	179,004	-	-	179,004
Loss on sale of property, plant and equipment	(1,296)	-	-	(1,296)	(1,157)	-	-	(1,157)
Net assets released from restrictions (Note 10)	254	-	(254)	-	29,837	-	(29,837)	-
Total revenues and other support	11,329,632	215,982	(254)	11,545,360	10,692,736	210,848	(29,837)	10,873,747
Expenses:								
Program services:								
Residential services	8,000,104	-	-	8,000,104	7,378,285	-	-	7,378,285
Community habilitation services	1,371,162	188,880	-	1,560,042	843,017	-	-	843,017
Individual support	38,380	-	-	38,380	573,276	191,305	-	764,581
Day services	755,746	-	-	755,746	684,077	-	-	684,077
Total program services	10,165,392	188,880	-	10,354,272	9,478,655	191,305	-	9,669,960
Supporting services:								
General and administrative	860,934	-	-	860,934	832,460	-	-	832,460
Total expenses	11,026,326	188,880	-	11,215,206	10,311,115	191,305	-	10,502,420
Change in net assets	303,306	27,102	(254)	330,154	381,621	19,543	(29,837)	371,327
Net assets, beginning of year	3,405,104	(70,503)	254	3,334,855	3,023,483	(90,046)	30,091	2,963,528
Net assets, end of year	\$ 3,708,410	\$ (43,401)	\$ -	\$ 3,665,009	\$ 3,405,104	\$ (70,503)	\$ 254	\$ 3,334,855

See notes to financial statements.

Beaverbrook STEP, Inc.

Statement of Functional Expenses

Year Ended June 30, 2012

	Residential Services	Community Habilitation Services	Individual Support	Day Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 5,270,405	\$ 834,193	\$ 23,880	\$ 472,105	\$ 6,600,583	\$ 426,428	\$ 7,027,011
Payroll taxes and other benefits	1,005,647	158,440	5,104	87,643	1,256,834	81,039	1,337,873
Professional fees	10,360	7,256	-	-	17,616	87,483	105,099
Supplies	287,697	46,811	757	17,196	352,461	20,111	372,572
Occupancy (Note 8)	677,104	267,175	8,362	115,345	1,067,986	181,409	1,249,395
Transportation (Note 8)	192,911	24,168	153	6,800	224,032	27	224,059
Interest	244,718	94,665	-	5,668	345,051	-	345,051
Commercial resources	324	490	-	20,369	21,183	2,286	23,469
Other expenses	38,067	8,459	124	6,001	52,651	57,705	110,356
Depreciation and amortization	272,871	118,385	-	24,619	415,875	4,446	420,321
Total expenses	\$ 8,000,104	\$ 1,560,042	\$ 38,380	\$ 755,746	\$ 10,354,272	\$ 860,934	\$ 11,215,206

See notes to financial statements.

Beaverbrook STEP, Inc.

Statement of Functional Expenses...continued

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 8)	608,447	135,333	153,366	111,296	1,008,442	177,541	1,185,983
Transportation (Note 8)	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
Total expenses	\$ 7,378,285	\$ 843,017	\$ 764,581	\$ 684,077	\$ 9,669,960	\$ 832,460	\$ 10,502,420

See notes to financial statements.

Beaverbrook STEP, Inc.
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012			2011		
	STEP	HUD	Total	STEP	HUD	Total
Cash flows from operating activities:						
Contract receipts	\$ 10,108,830	\$ 160,880	\$ 10,269,710	\$ 9,549,177	\$ 157,304	\$ 9,706,481
Other service fee income	312,440	-	312,440	326,970	-	326,970
Rental receipts	660,324	55,278	715,602	631,417	52,918	684,335
Contributions received	47,548	-	47,548	32,667	-	32,667
Miscellaneous receipts	180,708	-	180,708	180,316	-	180,316
Interest received	4,452	400	4,852	6,598	563	7,161
Salaries paid	(6,935,580)	(40,368)	(6,975,948)	(6,733,864)	(35,923)	(6,769,787)
Payroll taxes and other benefits paid	(1,336,208)	(9,335)	(1,345,543)	(1,183,279)	(7,719)	(1,190,998)
Suppliers paid	(1,939,031)	(80,177)	(2,019,208)	(1,896,203)	(68,334)	(1,964,537)
Interest paid	(308,567)	(36,484)	(345,051)	(284,565)	(39,055)	(323,620)
Net cash provided by operating activities	<u>794,916</u>	<u>50,194</u>	<u>845,110</u>	<u>629,234</u>	<u>59,754</u>	<u>688,988</u>
Cash flows from investing activities:						
Change in deposits	-	(8,962)	(8,962)	450	(16,527)	(16,077)
Purchase of property and equipment	(181,767)	(20,630)	(202,397)	(1,402,755)	(1,374)	(1,404,129)
Net cash used in investing activities	<u>(181,767)</u>	<u>(29,592)</u>	<u>(211,359)</u>	<u>(1,402,305)</u>	<u>(17,901)</u>	<u>(1,420,206)</u>
Cash flows from financing activities:						
Principal payments of mortgages and notes payable	(162,396)	(35,122)	(197,518)	(137,467)	(32,551)	(170,018)
Proceeds from mortgages and notes payable	18,042	-	18,042	900,904	-	900,904
Net cash provided by (used in) financing activities	<u>(144,354)</u>	<u>(35,122)</u>	<u>(179,476)</u>	<u>763,437</u>	<u>(32,551)</u>	<u>730,886</u>
Net change in cash and cash equivalents	468,795	(14,520)	454,275	(9,634)	9,302	(332)
Cash and cash equivalents, beginning of year	1,925,190	15,981	1,941,171	1,934,824	6,679	1,941,503
Cash and cash equivalents, end of year	<u>\$ 2,393,985</u>	<u>\$ 1,461</u>	<u>\$ 2,395,446</u>	<u>\$ 1,925,190</u>	<u>\$ 15,981</u>	<u>\$ 1,941,171</u>
Reconciliation of change in net assets to net cash provided by operating activities:						
Change in net assets	\$ 303,052	\$ 27,102	\$ 330,154	\$ 351,784	\$ 19,543	\$ 371,327
Adjustments to reconcile change in net assets to net cash provided by operating activities:						
Depreciation and amortization	390,215	30,106	420,321	373,097	29,166	402,263
Loss on sale of property, plant and equipment	1,296	-	1,296	1,157	-	1,157
Loss on investments	98	-	98	92	-	92
Change in accounts receivable	(15,995)	-	(15,995)	63,090	-	63,090
Change in inventory	(2,296)	-	(2,296)	671	-	671
Change in prepaid expenses	1,898	(207)	1,691	(6,551)	(58)	(6,609)
Change in deposits and other assets	(377)	-	(377)	-	-	-
Change in accounts payable	71,490	(5,239)	66,251	7,577	10,428	18,005
Change in accrued expenses	45,535	(2,144)	43,391	(161,683)	737	(160,946)
Change in tenant security deposits	-	576	576	-	(62)	(62)
Total adjustments	<u>491,864</u>	<u>23,092</u>	<u>514,956</u>	<u>277,450</u>	<u>40,211</u>	<u>317,661</u>
Net cash provided by operating activities	<u>\$ 794,916</u>	<u>\$ 50,194</u>	<u>\$ 845,110</u>	<u>\$ 629,234</u>	<u>\$ 59,754</u>	<u>\$ 688,988</u>

See notes to financial statements.

Beaverbrook STEP, Inc.

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011

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.

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 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

Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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.

Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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

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 2009. The Organization will account for interest and penalties related to uncertain tax positions, if any, as part of tax expense.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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, 2012 and 2011 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 when combined totaled \$29,259 and \$29,357 as of June 30, 2012 and 2011, respectively.

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

Beaverbrook STEP, Inc.

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

3. DEPOSITS AND OTHER ASSETS

Following is a summary as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
HUD required reserve for replacement account	\$ 180,211	\$ 171,399
HUD required residual receipts account	14,859	14,828
Security deposits	16,763	16,187
Refundable deposits	<u>6,347</u>	<u>6,427</u>
	<u>\$ 218,180</u>	<u>\$ 208,841</u>

4. PROPERTY AND EQUIPMENT

Following is a summary as of June 30, 2012 and 2011:

	<u>2012</u>		
	<u>STEP</u>	<u>HUD</u>	<u>Total</u>
Buildings and building improvements	\$ 7,637,986	\$ 1,094,436	\$ 8,732,422
Land	1,423,919	-	1,423,919
Furniture and equipment	426,180	725	426,905
Motor vehicles	258,937	-	258,937
Leasehold improvements	340,808	-	340,808
Life safety improvements	<u>15,981</u>	<u>6,639</u>	<u>22,620</u>
	10,103,811	1,101,800	11,205,611
Less - accumulated depreciation and amortization	<u>3,366,134</u>	<u>873,108</u>	<u>4,239,242</u>
	<u>\$ 6,737,677</u>	<u>\$ 228,692</u>	<u>\$ 6,966,369</u>
	 <u>2011</u> 		
	<u>STEP</u>	<u>HUD</u>	<u>Total</u>
Buildings and building improvements	\$ 7,502,488	\$ 1,080,445	\$ 8,582,933
Land	1,423,919	-	1,423,919
Furniture and equipment	422,107	725	422,832
Motor vehicles	229,829	-	229,829
Leasehold improvements	335,208	-	335,208
Life safety improvements	<u>15,981</u>	<u>-</u>	<u>15,981</u>
	9,929,532	1,081,170	11,010,702
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>

Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

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% as of June 30, 2012). The line of credit is secured by real property at 55 Waverly Street, Belmont, MA with a depreciated cost of \$141,508 as of June 30, 2012. There was no outstanding balance on the line of credit as of June 30, 2012 and 2011.

6. MORTGAGE NOTES PAYABLE

	<u>2012</u>	<u>2011</u>
<u>STEP</u>		
Note payable to Watertown Savings Bank 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.	\$ 146,929	\$ 149,328
Note payable to Watertown Savings Bank 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.	135,225	144,230
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 \$1,472, including interest, to February 2025. The note is secured by real property at 387-389 Belmont Street, Belmont, MA.	160,462	168,840
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 \$450, including interest, to February 2016. The note is secured by real property at 20 Riverside Street, Unit number G-7, Watertown, MA.	17,833	22,093
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.	26,662	33,735
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 \$2,512, including interest, through November 2027. The note is secured by real property at 24 Hillside Road, Watertown, MA.	<u>322,651</u>	<u>334,293</u>
Balance Forward	\$ 809,762	\$ 852,519

Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

6. MORTGAGE NOTES PAYABLE...continued

	<u>2012</u>	<u>2011</u>
Balance Forward	\$ 809,762	\$ 852,519
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 \$1,442, including interest, through November 2031. The note is secured by real property at 55 Waverley Street, Watertown, MA.	209,761	215,098
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 \$693, including interest, through February 2032. The note is secured by real property at 170 Main Street, Unit 100, Watertown, MA.	99,315	101,967
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 \$4,542, including interest, through February 2032. The note is secured by real property at 45-47 Forest Street, Watertown, MA.	632,568	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.	50,360	53,464
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 \$5,438, including interest, through July 2034. The note is secured by real property at 45-47 Quirk Street, Watertown, MA.	797,524	814,374
Note payable to Watertown Savings Bank with interest at 5.75% per annum. The rate is fixed for the term of the note. 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.	476,370	485,934
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 2035. The note is secured by real property at 50 Mapleton, Brighton, MA.	<u>554,044</u>	<u>563,515</u>
Balance Forward	\$ 3,629,704	\$ 3,735,460

Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

6. MORTGAGE NOTES PAYABLE...continued

	<u>2012</u>	<u>2011</u>
Balance Forward	\$ 3,629,704	\$ 3,735,460
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 \$3,944, including interest, through October 2033. The note is secured by real property at 122 Grove Street, Brookline, MA.	568,749	581,530
Note payable to Watertown Savings Bank with interest at 5.75% per annum. The rate is fixed for the term of the note. The note 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>836,231</u>	<u>847,325</u>
Total STEP	5,034,684	5,164,315

HUD

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>459,234</u>	<u>494,356</u>
<u>\$ 5,493,918</u>	<u>\$ 5,658,671</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>
2013	\$ 137,730	\$ 37,896	\$ 175,626
2014	146,027	40,888	186,915
2015	154,828	44,117	198,945
2016	156,362	47,601	203,963
2017	159,037	51,360	210,397
Thereafter	<u>4,280,700</u>	<u>237,372</u>	<u>4,518,072</u>
	<u>\$ 5,034,684</u>	<u>\$ 459,234</u>	<u>\$ 5,493,918</u>

Beaverbrook STEP, Inc.

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

7. NOTES PAYABLE

	<u>2012</u>	<u>2011</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.	\$ 72,099	\$ 89,741
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.	29,114	37,388
Three notes payable to Watertown Savings Bank with interest at 6.50% and 7% per annum, payable in monthly installments ranging from \$256 to \$360, maturing on various dates through December 2015 and secured by the respective motor vehicle.	<u>20,179</u>	<u>8,967</u>
	<u>\$ 121,392</u>	<u>\$ 136,096</u>

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

<u>Year ending June 30,</u>	
2013	\$ 37,606
2014	36,828
2015	33,787
2016	<u>13,171</u>
	<u>\$ 121,392</u>

8. OPERATING LEASES

The Organization leases its administrative office under an operating lease which expires in January 2014. Lease expense was \$128,806 and \$125,908 for the years ended June 30, 2012 and 2011, 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 \$580 to \$6,500. Lease expense under these leases was \$426,556 and \$428,791 for the years ended June 30, 2012 and 2011, respectively.

Beaverbrook STEP, Inc.

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

8. 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 \$6,642 and \$5,630 for the years ended June 30, 2012 and 2011, respectively.

The Organization leases various motor vehicles under operating leases expiring at various dates through June 2015. The leases require minimum annual rental payments ranging from \$179 to \$700. Lease expense under these leases was \$69,695 and \$86,533 for the years ended June 30, 2012 and 2011, respectively.

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

2013	\$ 292,440
2014	174,692
2015	151,888
2016	140,250
2017	128,250
Thereafter	<u>397,313</u>
	<u>\$ 1,284,833</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 represent the balance of net assets available for the educational benefits and/or expenditures agreed upon by the Board totaling \$254. There were no temporarily restricted net assets as of June 30, 2012.

10. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by incurring costs satisfying the restricted purposes or by the occurrence of other events specified by the donor. Contributions of \$254 and \$9,837 were used for educational benefits and contributions of \$0 and \$20,000 were used for the Irving Street Project during the years ended June 30, 2012 and 2011, respectively.

11. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through September 25, 2012, the date the financial statements were available to be issued.