

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Financial Statements

June 30, 2010

BRIDGEWELL, INC. AND AFFILIATES

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Kevin P. Martin & Associates, P.C.

Independent Auditors' Report

To the Board of Directors of
Bridgewell, Inc. and Affiliates

We have audited the accompanying consolidated statement of financial position of Bridgewell, Inc. and Affiliates (a nonprofit organization), (the Agency), as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2009 consolidated financial statements and, in our report dated November 13, 2009, we expressed an unqualified opinion on those consolidated financial statements. The prior year comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit 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 consolidated 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 the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2010, and the changes in its consolidated net assets and its consolidated cash flows for the year 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 November 11, 2010, on our consideration of the Agency'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.

Wm. P. Martini & Chute P.C.

Braintree, Massachusetts
November 11, 2010



Kevin P. Martin & Associates, P.C.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Bridgewell, Inc. and Affiliates

We have audited the consolidated financial statements of Bridgewell, Inc. and Affiliates (a nonprofit organization), (the Agency), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 11, 2010. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, others within the Agency and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Minnie P. Martini & Company, P.C."

Braintree, Massachusetts
November 11, 2010



Kevin P. Martin & Associates, P.C.

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors of
Bridgewell, Inc. and Affiliates

Compliance

We have audited the compliance of Bridgewell, Inc. and Affiliates (a nonprofit organization), (the Agency), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, others within the Agency and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Braintree, Massachusetts
November 11, 2010

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Financial Position

As of June 30, 2010

With Comparative Totals as of June 30, 2009

Current Assets	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,935,199	\$ 3,327,110
Accounts receivable, net of allowance	2,056,337	3,004,127
Prepaid expenses and other current assets	699,509	625,565
Investments	<u>65,162</u>	<u>56,116</u>
Total current assets	<u>4,756,207</u>	<u>7,012,918</u>
Restricted Deposits and Funded Reserves		
Reserve for satisfaction of long term debt	1,315,926	-
Other reserves	<u>155,340</u>	<u>147,097</u>
Total restricted deposits and funded reserves	<u>1,471,266</u>	<u>147,097</u>
Fixed Assets		
Property and equipment	45,597,581	44,180,855
Less: accumulated depreciation	<u>(16,625,995)</u>	<u>(17,193,105)</u>
Total net fixed assets	<u>28,971,586</u>	<u>26,987,750</u>
Restricted Assets		
Assets held in trust under indenture agreement	<u>-</u>	<u>8,509</u>
Total restricted assets	<u>-</u>	<u>8,509</u>
Other Assets		
Deferred financing costs, net of amortization	653,797	689,940
Intangible assets, net of amortization	218,897	288,442
Security deposits and other assets	<u>37,379</u>	<u>22,674</u>
Total other assets	<u>910,073</u>	<u>1,001,056</u>
Total Assets	<u>\$ 36,109,132</u>	<u>\$ 35,157,330</u>

The accompanying notes are an integral part of the financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Financial Position - continued

As of June 30, 2010

With Comparative Totals as of June 30, 2009

Current Liabilities	<u>2010</u>	<u>2009</u>
Accounts payable	\$ 1,053,910	\$ 1,845,507
Accrued expenses	1,640,449	1,693,654
Line of credit	719,429	-
Capital lease obligations, current	22,937	-
Long term debt, current	518,202	436,846
Deferred revenue	123,667	186,123
Due to Commonwealth of Massachusetts	<u>62,532</u>	<u>62,532</u>
 Total current liabilities	 <u>4,141,126</u>	 <u>4,224,662</u>
 Long Term Liabilities		
 Capital lease obligations, long term	 38,741	 -
Long term debt	26,488,339	26,297,800
Interest rate swaps	<u>2,743,682</u>	<u>2,013,745</u>
 Total long term liabilities	 <u>29,270,762</u>	 <u>28,311,545</u>
 Total liabilities	 <u>33,411,888</u>	 <u>32,536,207</u>
 Net Assets		
 Unrestricted	 1,804,096	 1,759,200
Temporarily restricted	<u>893,148</u>	<u>861,923</u>
 Total net assets	 <u>2,697,244</u>	 <u>2,621,123</u>
 Total Liabilities and Net Assets	 <u>\$ 36,109,132</u>	 <u>\$ 35,157,330</u>

The accompanying notes are an integral part of the financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Activities

For the Year Ended June 30, 2010

With Comparative Totals for the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Revenue and Support				
Contributions, grants and special events	\$ 583,658	\$ 151,225	\$ 734,883	\$ 812,798
Program service fees	36,037,072	-	36,037,072	42,290,807
Rental revenue	3,278,197	-	3,278,197	3,667,862
Investment revenue	20,164	-	20,164	18,322
Revenue from commercial products and services	269,413	-	269,413	309,900
Gain on sale of property and equipment	806,056	-	806,056	675,780
Other	334,150	-	334,150	225,852
	<u>41,328,710</u>	<u>151,225</u>	<u>41,479,935</u>	<u>48,001,321</u>
Total revenue and support				
Net assets released from restrictions	<u>120,000</u>	<u>(120,000)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>41,448,710</u>	<u>31,225</u>	<u>41,479,935</u>	<u>48,001,321</u>
Expenses				
Management and general	4,636,814	-	4,636,814	4,901,277
Fundraising	264,182	-	264,182	109,770
Program services	35,772,881	-	35,772,881	42,040,874
	<u>40,673,877</u>	<u>-</u>	<u>40,673,877</u>	<u>47,051,921</u>
Total operating expenses				
Change in Net Assets from Operations	<u>774,833</u>	<u>31,225</u>	<u>806,058</u>	<u>949,400</u>
Other Changes				
Loss on interest rate swap	(729,937)	-	(729,937)	(1,205,696)
Gain on insurance proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,149</u>
Total other changes	<u>(729,937)</u>	<u>-</u>	<u>(729,937)</u>	<u>(1,186,547)</u>
Change in Net Assets	44,896	31,225	76,121	(237,147)
Net Assets at Beginning of Year	<u>1,759,200</u>	<u>861,923</u>	<u>2,621,123</u>	<u>2,858,270</u>
Net Assets at End of Year	<u>\$ 1,804,096</u>	<u>\$ 893,148</u>	<u>\$ 2,697,244</u>	<u>\$ 2,621,123</u>

The accompanying notes are an integral part of the financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2010

With Comparative Totals for the Year Ended June 30, 2009

Cash Flows from Operating Activities	<u>2010</u>	<u>2009</u>
Change in Net Assets	\$ 76,121	\$ (237,147)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,833,671	1,976,522
Gain on sale of property and equipment	(806,056)	(675,780)
Gain on insurance proceeds	-	(19,149)
Contributions restricted for long term investment	(151,225)	(365,623)
Unrealized (gain) loss on investments	(8,074)	26,607
Loss on interest rate swap	729,937	1,205,696
Decrease (increase) in assets		
Accounts receivable, net of allowance	947,790	(1,443,232)
Prepaid expenses and other current assets	(73,944)	12,577
Security deposit and other assets	(14,705)	89,153
Increase (decrease) in liabilities		
Accounts payable	(791,597)	54,096
Accrued expenses	(53,205)	146,076
Deferred revenue	<u>(62,456)</u>	<u>129,403</u>
Net Cash Provided by Operating Activities	<u>1,626,257</u>	<u>899,199</u>
Cash Flows from Investing Activities		
Insurance proceeds	-	336,956
Deposits to restricted deposits and funded reserves	(1,324,169)	(6,435)
Proceeds from sale of fixed assets	1,628,328	1,032,505
Purchase of fixed assets	(4,396,589)	(3,846,930)
Purchase of investments	(972)	(325,881)
Proceeds from (payment for) assets held in trust under indenture agreement	<u>8,509</u>	<u>1,442,823</u>
Net Cash Used in Investing Activities	<u>\$ (4,084,893)</u>	<u>\$ (1,366,962)</u>

The accompanying notes are an integral part of the financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Cash Flows - continued

For the Year Ended June 30, 2010

With Comparative Totals for the Year Ended June 30, 2009

Cash Flows from Financing Activities	<u>2010</u>	<u>2009</u>
Proceeds from contributions restricted for investment	\$ 151,225	\$ 365,623
Repayments of line of credit	(1,395,020)	-
Advances on line of credit	2,114,449	-
Repayments of capital lease obligations	(75,824)	(7,767)
Repayments of long term debt	(730,685)	(437,643)
Proceeds from long term debt	<u>1,002,580</u>	<u>1,491,600</u>
Net Cash Provided by Financing Activities	<u>1,066,725</u>	<u>1,411,813</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,391,911)	944,050
Cash and Cash Equivalents - Beginning	<u>3,327,110</u>	<u>2,383,060</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,935,199</u>	<u>\$ 3,327,110</u>
Supplement Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 1,784,437</u>	<u>\$ 1,134,088</u>
Supplement Data for Noncash Investing and Financing Activities		
Land and building transferred to work in process	<u>\$ 3,592,492</u>	<u>\$ 872,560</u>
Equipment purchases financed with capital lease obligations	<u>\$ 137,502</u>	<u>\$ -</u>
Work in process additions included in construction payables	<u>\$ -</u>	<u>\$ 347,990</u>
Disposition of fully depreciated assets	<u>\$ 236,277</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2010

With Comparative Totals for the Year Ended June 30, 2009

	Program Services								Total	Management		2010	2009
	Mental Retardation Residential Services	Mental Retardation Day Services	Affordable Housing	Outpatient Services	Community Services	Mental Health Day Services	Mental Health Residential Services	Community Program Innovations	Program Services	and General	Fundraising	Total	Total
Functional Expenses													
Salaries and wages	\$ 15,474,223	\$ 2,319,014	\$ 160,897	\$ 1,246,893	\$ 676,004	\$ 380,580	\$ 343,381	\$ 132,684	\$ 20,733,676	\$ 2,342,151	\$ 86,880	\$ 23,162,707	\$ 27,799,905
Employee benefits and payroll taxes	3,237,333	481,950	33,285	261,777	146,486	75,670	68,878	27,225	4,332,604	577,843	9,316	4,919,763	5,773,152
Supplies and expense	625,343	114,625	13,030	47,439	11,393	31,997	22,288	90,620	956,735	394,243	4,916	1,355,894	1,444,835
Occupancy	2,176,611	306,003	1,363,816	191,666	308,117	70,679	78,676	3,030	4,498,598	188,665	-	4,687,263	4,598,382
Insurance	421,708	62,270	19,797	3,671	153,629	7,186	30,887	68,158	767,306	85,719	138	853,163	831,786
Purchased services	52,797	135,130	29,993	123,973	-	327,959	33,998	418	704,268	412,078	84,228	1,200,574	1,204,299
Food	562,799	16,606	-	1,698	-	13,144	17,814	3,087	615,148	5,214	30	620,392	721,783
Transportation and training	43,448	20,924	-	6,596	1,087	902	1,266	-	74,223	12,955	175	87,353	997,511
Interest expense	1,162,828	145,674	159,652	-	5,205	15,313	48,804	-	1,537,476	311,021	-	1,848,497	1,532,478
Provision for uncollectible accounts	26,101	-	-	-	-	-	-	-	26,101	-	-	26,101	66,145
Depreciation and amortization	948,865	204,513	231,585	8,131	8,104	32,268	35,582	57,698	1,526,746	306,925	-	1,833,671	1,976,522
Fundraising fees	-	-	-	-	-	-	-	-	-	-	78,499	78,499	105,123
Total Functional Expenses	\$ 24,732,056	\$ 3,806,709	\$ 2,012,055	\$ 1,891,844	\$ 1,310,025	\$ 955,698	\$ 681,574	\$ 382,920	\$ 35,772,881	\$ 4,636,814	\$ 264,182	\$ 40,673,877	\$ 47,051,921

The accompanying notes are an integral part of the financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. A summary of significant accounting policies followed by Bridgewell, Inc. and Affiliates (the Agency) are described below to enhance the usefulness of the consolidated financial statements to the reader.

(a) *Basis of Presentation*

The consolidated financial statements present the consolidated financial position and results of operations of Bridgewell, Inc. (Bridgewell), Bridgewell Danvers Housing Corporation (DHC), Bridgewell Merrimack Housing Corporation (MHC), Community Program Innovations, Inc. (CPI), Forthill Avenue, Inc. (Forthill) and Middlesex North Resource Center, Inc. (MNRC). The entities are related through shareholder interest, common board of directors and/or shared resources. All significant intercompany balances and transactions have been eliminated in consolidation.

Forthill, MNRC, MHC and DHC were founded to foster the creation of additional affordable housing opportunities. Programs of Bridgewell occupy the property owned by MNRC and MHC. As of June 30, 2010, DHC held real estate in property that was under construction.

CPI was founded to provide continuing education for mental health and healthcare professionals and educators.

The consolidated statement of activities reports all changes in consolidated net assets, including changes in consolidated unrestricted net assets from operating and non-operating activities. Consolidated operating and non-operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts.

(b) *Nature of Activities*

The Agency is a Massachusetts based human service organization providing a full range of residential, day habilitation, clinical, rehabilitation, vocational and educational services to residents of the Commonwealth of Massachusetts.

The majority of the Agency's services are provided to Massachusetts residents. The following program divisions are listed in order of relative importance based upon total program expenditures:

Mental Retardation Residential Services - The Mental Retardation Residential Services division provides support to individuals with developmental and physical disabilities. The core purpose is assisting people to lead and direct their own lives. The Mental Retardation Residential Services division accounted for 69% of total program expenditures for the year ended June 30, 2010.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(b) Nature of Activities - continued

Mental Retardation Day Services - The Mental Retardation Day Services division provides education, training and expressive therapy for individuals with developmental and physical disabilities in order to teach coping, communication and life skills. The Mental Retardation Day Services division accounted for 11% of total program expenditures for the year ended June 30, 2010.

Affordable Housing - The Affordable Housing division provides safe and affordable housing in Lowell and Lynn for individuals with disabilities, the homeless and individuals with a dual diagnosis. The Affordable Housing division accounted for 5% of total program expenditures for the year ended June 30, 2010.

Outpatient Services - The Outpatient Services division provides outpatient diagnostic assessments, individual, family and group psychotherapy; medication management; psychiatric day treatment; and psychiatric emergency coordination for Bridgewell and community residents. The Outpatient Services division accounted for 5% of total program expenditures for the year ended June 30, 2010.

Community Services - The Community Services division provides transportation and recreation services. The Community Services division accounted for 4% of total program expenditures for the year ended June 30, 2010.

Mental Health Day Services - The Mental Health Day Services division provides education, training and expressive therapy for individuals with psychiatric disabilities in order to teach coping, communication and life skills. The Mental Health Day Services division accounted for 3% of total program expenditures for the year ended June 30, 2010.

Mental Health Residential Services - The Mental Health Residential Services division provides support to individuals with psychiatric disabilities. The core purpose is assisting people to lead and direct their own lives. The Mental Health Residential Services division accounted for 2% of total program expenditures for the year ended June 30, 2010.

Community Programs Innovations - The Community Programs Innovations division provides continuing education for mental health and healthcare professionals and educators. The Community Services division accounted for 1% of total program expenditures for the year ended June 30, 2010.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(c) Revenue Recognition

The Agency earns revenue as follows:

Program Service Fees - Program service fee revenue is earned and recognized by the Agency when units or services are provided and billed under various agreements funded primarily by governmental agencies. All contracts, with the exception of Medicaid, Medicare and private fees, consist of two types, unit-rate and cost-reimbursement contracts, all with ceiling amounts. Unit-rate contracts provide that revenue is to be earned and recognized at a negotiated or class rate for each unit-of-service that is provided under the terms of the contract. Under the cost-reimbursement contracts, revenue recognition takes place as costs related to the services provided are incurred. Billings on the contracts are subject to final approval by the governmental agency. Medicaid, Medicare, and other third party revenue is generated through billing units of service delivered to pre-approved covered individuals.

Grants - Grants are recorded as revenue as costs related to the services provided are incurred.

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Rental - Rental income is derived from commercial and residential rent. Rental revenue is recognized as occupancy is provided and is included with program service fees on the statement of activities.

Commercial Products and Services - Workshop fees are recognized as services are rendered at rates established by parties under contractual arrangements.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special event contributions and fees are recognized as income when received. The majority of special event revenue was derived from an anniversary dinner gala. Revenue derived from this event totaled approximately \$175,000 and is included with contributions on the statement of activities.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(c) Revenue Recognition - continued

Deferred revenue represents program service fees received prior to year-end for the following fiscal period. These amounts are recognized as income during the subsequent fiscal period.

Substantially all of the Agency's revenue is derived from its activities in Massachusetts. During the year ended June 30, 2010, the Agency derived approximately 71% of its total revenue from governmental agencies, 16% from foundations and individual donors and 13% from Medicare and Medicaid. All revenue is recorded at estimated net realizable amounts.

(d) Accounts Receivable

The Agency carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Agency evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. As of June 30, 2010, the allowance for doubtful accounts was \$30,000.

The Agency does not have a policy to accrue interest on account receivables. Contracts and grant accounts are written off upon notification by the government and/or non-profit entity that amounts are uncollectible. Private fees are written off after collection efforts have failed.

The Agency has no policies requiring collateral or other security to secure the accounts receivable. Substantially all of the Agency's receivables are due from other agencies in Massachusetts. During the year ended June 30, 2010, the Agency's trade receivables were due as follows: approximately 51% due from governmental agencies, 34% due from Medicaid, Medicare and 15% due from individuals for rents and service fees.

(e) Standards of Accounting and Reporting

The Agency's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (permanently restricted, temporarily restricted and unrestricted) and the statement of activities displays the amounts of change in each of those classes of net assets.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(e) Standards of Accounting and Reporting - continued

The two classes of net assets applicable to the Agency are presented as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions and investment income whose restrictions are met in the same reporting period are recorded as unrestricted income.

(f) Income Taxes

Bridgewell, DHC, MHC, Forthill and MNRC qualify as organizations formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and therefore are not subject to income tax. Bridgewell, DHC, MHC, Forthill and MNRC are not private foundations under Section 509(a)(1). Certain unrelated business income, as defined in the Internal Revenue Code, is subject to federal income tax. For the year ended June 30, 2010, there was no liability for tax on unrelated business income.

CPI was formed as a Subchapter C corporation and was subject to taxation at the federal and state levels. In August 2009, CPI converted to an organization for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and therefore is not subject to income tax.

Effective July 1, 2009, the provisions of U.S. generally accepted accounting principles require that a tax position be recognized or derecognized based on a more-likely-than-not threshold. This applies to tax positions taken or expected to be taken in a tax return. The implementation of these provisions had no impact on the Agency's financial statements. The Agency does not believe its financial statements include any uncertain tax positions.

All tax years prior to 2006 are closed via the passing of the Statute of Limitations. No notices have been received from either the Internal Revenue Service or Commonwealth of Massachusetts addressing any subsequent year.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(g) Fundraising

Fundraising relates to the activities of individuals in raising general and specific contributions to the Agency and promoting special events.

Fundraising expenses as a percentage of total contribution and grant revenue was 36% for the year ended June 30, 2010. The Agency has included immaterial direct costs of benefit to the donors of its special events in fundraising expenses. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

(h) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

(i) Advertising Costs

The Agency expenses advertising costs when they are incurred. Advertising expense amounted to \$43,745 for the year ended June 30, 2010.

(j) Use of Estimates

In preparing the Agency's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure 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 results could differ from those estimates.

During 2010, the Agency changed its estimate of accrued unemployment expense. The change in estimate resulted in revenue of \$120,000 on the consolidated statement of activities.

(k) Cash, Cash Equivalents and Deposit Balances

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Agency maintains its cash deposit balances in banks located in Massachusetts. Accounts at each institution were insured by FDIC up to \$250,000 per depositor. Cash and deposit balances maintained with Key Bank, Salem Five Bank, Eastern Bank and Wachovia Bank amounted to \$1,513,346, \$1,244,586, \$537,769 and \$262,848, respectively, at June 30, 2010.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(l) Investments

The Agency carries investments in marketable securities with readily determinable values at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities.

(m) Derivative Instruments

The Agency has an interest rate swap agreement to reduce borrowing costs. FASB Accounting Standards Codification 815, "Accounting for Derivative Instruments and Hedging Activities" (formally Statement of Financial Accounting Standards No. 133), requires that derivative instruments be reported at fair value.

(n) Fair Value Measurements

The Agency determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the following fair value hierarchy established in accordance with generally accepted accounting principles.

Level 1: Quoted prices in active markets for identical assets or liabilities the Agency has the ability to access. The Agency's Level 1 assets include short term and long term investments which are measured at fair value on a recurring basis. The Agency currently has no Level 1 liabilities that are measured on a recurring basis.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Agency's Level 2 assets include interest rate swaps.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include items where the determination of fair value requires significant management judgment or estimation. The Agency currently has no Level 3 assets or liabilities that are measured at fair value on a recurring basis.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(n) Fair Value Measurements - continued

The following table presents the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of June 30, 2010.

Fair Value Measurements on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 65,162	\$ -	\$ -	\$ 65,162
Interest Rate Swaps	-	(2,743,682)	-	(2,743,682)
	<u>\$ 65,162</u>	<u>\$ (2,743,682)</u>	<u>\$ -</u>	<u>\$ (2,678,520)</u>

The Agency's financial instruments include cash and cash equivalents, accounts receivable, other assets, accounts payable, accrued expenses, deferred revenue and other current liabilities. The carrying amount of these financial instruments approximates their fair value due to their short maturities. The fair value of the Agency's long-term debt, including the current portion, is estimated based on the borrowing rates currently available for loans with similar terms and maturities.

Effective July 1, 2009, the Agency is required to apply the provisions of U.S. generally accepted accounting principles to fair value measurements for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Agency has no nonfinancial assets or liabilities required to be accounted for on a non-recurring basis as of June 30, 2010.

(o) Fixed Assets and Depreciation

Land, buildings, building improvements, motor vehicles, equipment, and furniture and office equipment are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statement of activities.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(o) Fixed Assets and Depreciation - continued

The Agency computes depreciation using the straight-line method over the following estimated lives:

Buildings	27-40 years
Building improvements	5-20 years
Motor vehicles	3-5 years
Equipment	10 years
Furniture and office equipment	3-5 years

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized during the year ended June 30, 2010.

(p) Work in Process

Work in process costs includes pre-acquisition, acquisition and construction costs related to properties the Agency intends on using in its programs. Real estate project development costs are recorded at cost. Management believes these costs could take anywhere from 1-2 years to completely develop and rent. All properties are located in Massachusetts. Capitalized interest was \$37,037 for the year ended June 30, 2010.

The Agency is developing software for internal use. The software product development costs are capitalized once the application development stage is commenced. Costs incurred prior to commencement of the application development stage are expensed as incurred. Application development is established when the Agency has completed all planning and designing activities that are necessary to determine that the software product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the software product is available for general use. Software development costs and purchased software are generally amortized over their estimated useful lives of three to seven years.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies - continued

(q) Intangible Assets

Deferred financing costs are being amortized on a straight line basis, which approximates the effective interest method, over the term of the related loan. Goodwill is amortized on a straight-line basis over 40 years. A covenant not to compete agreement is being amortized over 2 years, the term of the agreement. Amortization expense for the year ended June 30, 2010 amounted to \$105,688 and is included with depreciation expense on the consolidated statement of activities. Intangible assets are included with other assets on the consolidated statement of financial position.

(r) Reclassifications

Certain amounts in the prior year have been reclassified to conform with the current year presentation. In the prior year, other reserves held by the Agency amounting to \$147,097 were included in cash and cash equivalents. These other reserves balances are included in other assets on the accompanying statement of financial position. The corresponding prior year balances have been reclassified to conform with the current year presentation.

(s) Summarized Financial Information for 2009

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(2) Restricted Deposits and Funded Reserves

(a) Key Bank Account

During the year, the Agency sold two buildings that were being used as collateral for the Massachusetts Development Finance Agency (MDFA) Multi-Mode Variable Rate Revenue Bonds (the Bonds). The net sales proceeds were deposited into a non-interest bearing account with KeyBank National Association as collateral for the Bonds. At June 30, 2010, the account balance amounted to \$1,315,926 and is included with other assets on the consolidated statement of financial position.

(b) Other Reserves

In accordance with various mortgage and capital advance agreements, the Agency is required to maintain reserves for significant repairs and replacements and residual receipts. The reserve funds are held by Enterprise Bank and Eastern Bank and can only be drawn upon with permission of the U.S. Department of Housing and Urban Development (HUD). Deposits and disbursements were made in accordance with the agreements. At June 30, 2010, the total balance of these reserves amounted to \$155,340.

(3) Investments

Investments are comprised of the following as of June 30, 2010:

	<u>Fair Value</u>
Marketable equity securities	\$ <u>65,162</u>
Total	\$ <u>65,162</u>
Investment return consisted of the following for the year ended June 30, 2010:	
Interest on cash and cash equivalents	\$ 11,118
Dividends	972
Net unrealized gain	<u>8,074</u>
Total	\$ <u>20,164</u>

The marketable equity securities primarily consist of common stock and mutual funds traded on the New York Stock Exchange.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(4) Property and Equipment

Property and Equipment consists of the following as of June 30, 2010:

	<u>Agency Owned</u>	<u>Purchased with State Funds</u>	<u>Total</u>
Land	\$ 1,833,465	\$ -	\$ 1,833,465
Buildings	27,686,524	-	27,686,524
Building improvements	11,784,146	-	11,784,146
Motor vehicles	357,176	130,428	487,604
Equipment	245,348	339,273	584,621
Furniture and office equipment	<u>2,654,443</u>	<u>-</u>	<u>2,654,443</u>
	<u>\$ 44,561,102</u>	<u>\$ 469,701</u>	<u>\$ 45,030,803</u>

Purchased with state funds consist of motor vehicles and equipment used in the Agency's programs, for which title is held by the Agency. Depreciation amounted to \$1,727,983 for the year ended June 30, 2010.

(5) Work in Process

Work in Process consists of the following as of June 30, 2010:

Coolidge Road	\$ 211,367
Software development	137,502
Various other projects	<u>217,909</u>
Total Work in Process	<u>\$ 566,778</u>

Work process is included with land, buildings and equipment on the consolidated statement of financial position and is not being depreciated.

(6) Letter of Credit

In connection with its bonds payable financing arrangements, the Agency entered into a standby letter of credit agreement with KeyBank National Association providing available credit of \$24,020,089. The agreement expires in December 2010. During the year ended June 30, 2010, the letter of credit fee was 3% and was payable in advance on July 1. Letter of credit fees amounted to \$391,016 during the year ended June 30, 2010 and are included with interest expense.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(7) Debt

(a) Line of Credit

The Agency has available a \$1,500,000 demand line of credit with KeyBank, National Association (a Massachusetts bank) to be drawn upon as needed, with interest at the greater of 5% or the prime rate plus one-half percent (0.50%), which was 5% as of June 30, 2010. In addition, the Agency is to pay a commitment fee on the unborrowed portion of the line of credit equal to 0.25% per annum. The line is secured by the Agency's real property. Borrowings outstanding amounted to \$719,429 as of June 30, 2010.

(b) Long-term debt

The following is a summary of long-term debt payable at June 30, 2010:

	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Balance</u>
Massachusetts Development Finance Agency, Series A 2005 Bonds	variable	25 years	June, 2030	\$ 12,320,000
Massachusetts Development Finance Agency, Series B 2005 Bonds	variable	11 years	December, 2016	3,225,000
Massachusetts Development Finance Agency, Series 2008 Bonds	variable	25 years	December, 2033	7,970,000
Community Economic Development Assistance Corporation	0.00%	30 years	January, 2037	455,355
Massachusetts Housing Partnership Fund Board	0.00%	50 years	December, 2059	395,352
Community Economic Development Assistance Corporation	0.00%	30 years	December, 2039	470,171
Community Economic Development Assistance Corporation	0.00%	30 years	December, 2039	550,000
Community Economic Development Assistance Corporation	0.00%	30 years	October, 2038	392,571
Community Economic Development Assistance Corporation	0.00%	30 years	August, 2030	200,250
Community Economic Development Assistance Corporation	0.00%	30 years	July, 2032	200,376
Community Economic Development Assistance Corporation	0.00%	30 years	March, 2039	356,086
City of Lowell	0.00%	20 years	October, 2028	320,000
City of Lowell	3.00%	15 years	January, 2013	27,347
North Shore HOME Consortium	0.00%	5 years	April, 2014	10,000
North Shore HOME Consortium	0.00%	15 years	December, 2018	30,000
North Shore HOME Consortium	0.00%	20 years	July, 2024	50,000
Washington Mutual	5 - 7%	20 years	April, 2012	<u>34,033</u>

\$ 27,006,541

Bonds and notes payable are secured by mortgages on real property.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(7) Debt - continued

(c) Series 2005 Bonds Payable

In December 2005, the Agency entered into a loan and trust agreement with the MDFA and Bank of New York Trust Company, N.A., as trustee, to issue \$17,565,000 MDFA Multi-Mode Variable Rate Revenue Bonds, Bridgewell Incorporated Issue, Series 2005. The Bonds were issued in two (2) series, \$12,585,000 Variable Rate Tax-Exempt Revenue Bonds (Series A 2005) and \$4,980,000 Variable Rate Federally Taxable Revenue Bonds (Series B 2005). The Bonds were issued to advance refund the Agency's 1998 and 2000 Series Massachusetts Development Finance Agency Revenue Bonds, retire certain of the Agency's existing traditional first mortgage obligations and to finance the capital costs of renovating, equipping and furnishing certain of the Agency's residential program facilities.

The Series A 2005 Bonds mature June 2030 and bear interest at a variable rate that is subject to a periodic reset by the remarketing agent for the bonds. The reset interest rate is the lowest rate, based on prevailing market conditions, that in the judgment of the remarketing agent, would permit the sale of the bonds. The Series B 2005 Bonds mature in December 2016 and bear interest at a variable rate that is the lowest rate that in the judgment of the remarketing agent, based on prevailing market conditions, would permit the sale of the Bonds.

(d) Series 2008 Bonds Payable

In April 2008, the Agency entered into a loan and trust agreement with the MDFA and Bank of New York Trust Company, N.A., as trustee, to issue \$8,000,000 MDFA Multi-Mode Variable Rate Bonds, Bridgewell, Incorporated Issue, Series 2008 (Series 2008). The Bonds were issued to retire certain of the Agency's remaining traditional mortgage obligations and to finance capital projects.

The Series 2008 Bonds mature in December 2033 and bear interest at a variable rate that is subject to periodic reset by the remarketing agent for the Bonds. The reset interest rate is the lowest rate that in the judgment of the remarketing agent, based on prevailing market conditions, would permit the sale of the bonds.

Both the Series 2005 and 2008 Bonds are secured by an unconditional, irrevocable letter of credit issued to KeyBank, National Association, as well as a mortgage on certain of the Agency's real properties. The letter of credit agreement is subject to financial covenants including a leverage ratio and a fixed charge ratio. The Agency was in compliance with these ratios at June 30, 2010.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(7) Debt - continued

(e) Capital Lease Obligations

The Agency leases software under capital lease arrangements. Capital leases are recorded at fair market value, and as of June 30, 2010 the Agency's monthly aggregate capital lease payments equal \$2,125. The corresponding interest rate is 5.0%. At June 30, 2010, assets under capital leases amounted to \$137,502 and were included in work in process on the accompanying consolidated statement of financial position. There was no depreciation expense on assets under capital leases for the fiscal year ended June 30, 2010.

The minimum lease payments for assets under capital leases are as follows:

2011	\$ 25,500
2012	25,500
2013	<u>14,875</u>
Total minimum obligations	65,875
Less: interest amount	<u>(4,197)</u>
Present value of obligations	61,678
Less: current portion	<u>(22,937)</u>
Long-term obligation	\$ <u>38,741</u>

(f) Debt Maturities and Interest

Maturities of bonds and mortgage notes payable and capital leases are as follows:

2011	\$ 541,139
2012	505,332
2013	694,982
2014	730,515
2015	525,682

Interest expense on all debt amounted to \$1,848,497 for year ended June 30, 2010, of which \$37,037 was capitalized.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(7) Debt - continued

The Agency entered into interest rate swap agreements in December 2005 (Series A 2005 and Series B 2005 MDFA Bonds) and April 2008 (Series 2008 MDFA Bonds) to reduce its borrowing costs by effectively modifying the interest rates under the variable rate instruments to a fixed rate. The interest rates of the swap agreements were 3.60%, 5.18% and 2.94% for the Series A 2005, Series B 2005 and Series B 2008 Bonds, respectively, as of June 30, 2010. The Series A 2005 and B 2005 swaps are outstanding through December 2015, while the debt is outstanding through 2030. The Series 2008 swap is outstanding through April 2018, while the debt is outstanding through 2033. At June 30, 2010, the fair value of the swaps was a liability of \$2,743,682. For the year ended June 30, 2010, the loss on the interest rate swap amounted to \$729,937 which is included in other changes in net assets on the accompanying consolidated statement of activities.

(8) Operating Lease Commitments

The Agency occupies office and program related space under non-cancelable, operating lease agreements with various expiration dates through 2020. The Agency is also liable for certain real estate tax increases and operating cost adjustments under the lease terms. The minimum annual operating non-cancelable lease commitments on property for the Agency are as follows:

2011	\$ 673,479
2012	319,113
2013	275,945
2014	144,775
2015	124,859

Rent expense for the year ended June 30, 2010 was \$1,875,841.

(9) Employee Benefits

The Agency has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 403(b)(7) of the Internal Revenue Code for the benefit of eligible employees. All employees are eligible upon hire. Under the plan, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account. The Agency made contributions under the plan equal to 30% of employee contributions and totaling \$72,522 for the year ended June 30, 2010. The \$72,522 is included in accrued expenses on the consolidated statement of financial position as of June 30, 2010.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(10) Commitments and Contingencies

(a) Funding Sources

The Agency receives a portion of its funding from government agencies under cost reimbursement programs. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Agency's operations are concentrated in the social service provider field. As such, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

Massachusetts Department of Mental Health
Massachusetts Department of Developmental Services (formerly DMR)
Massachusetts Rehabilitation Commission
Massachusetts Board of Registration of Medicine
Massachusetts Operational Services Division
U.S. Department of Housing and Urban Development (HUD)

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by, HUD or the Commonwealth of Massachusetts Departments listed above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

(b) Non-Reimbursable Costs

As of June 30, 2010, the Agency owes the Commonwealth of Massachusetts \$62,532 for non-reimbursable costs billed under contract with purchasing agencies in a prior year. This liability is recorded in the accompanying consolidated financial statements and is included in other current liabilities.

(c) Other

As of June 30, 2010, complaints were filed against the Agency with the Massachusetts Commission Against Discrimination by three former employees. The complaints are in the early stages and the ultimate outcome of the cases is presently uncertain. The accompanying financial statements do not include any adjustments that might be necessary should the cases result in an unfavorable outcome.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(10) Commitments and Contingencies - continued

(d) City of Lowell SHP Grant

The Agency has a supportive housing grant agreement with the City of Lowell (the City) whereby it received \$400,000 in assistance payments used to pay for the construction costs of apartments for the homeless in the City. Under the terms of the agreement, the Agency must operate the property and provide supportive services for 20 years commencing from the date of the initial occupancy. Failure to meet this requirement will result in a liability to the City. As of June 30, 2010, the Agency believes the remaining restriction will be met, and, as such the \$400,000 was recorded as grant revenue for the year ended June 30, 2010.

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. Donor restrictions limit the use of the resources within the particular purposes listed below.

<u>Nature of Restriction</u>	<u>Amount</u>
HUD 811 Capital Advances	\$ <u>893,148</u>
Total	\$ <u>893,148</u>

(12) Other Changes in Net Assets

During the year ended June 30, 2010, the Agency incurred losses on its interest rate swap agreements (see Note 7). This amount is included in other changes in net assets on the accompanying consolidated statement of activities. Other changes in net assets consist of the following:

Loss on interest rate swap agreement	\$ <u>(729,937)</u>
	\$ <u>(729,937)</u>

(13) Schedule of Federal Awards

Determination of federal major programs was made using a risk based approach. For the fiscal year ended June 30, 2010, the Agency qualified as a low-risk auditee. The major programs tested are disclosed as such in the schedule of findings and questioned costs.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Financial Statements

June 30, 2010

(14) Subsequent Events

The Agency has performed an evaluation of subsequent events through November 11, 2010, which is the date the Agency's financial statements were available to be issued. Subsequent to year end, the Board of Directors voted and approved an agreement under which the Agency will establish Bridgewell Lynn Housing Corporation (LHC). LHC is a not-for-profit Massachusetts corporation organized to provide for HUD 811 program funding. The Agency was awarded a \$1.7 million HUD 811 grant to fund the LHC project.

BRIDGEWELL, INC. AND AFFILIATES

Schedule of Findings and Questioned Costs

June 30, 2010

(1) Summary of Auditor's Results

Financial Statements:

Type of Auditor's Report Issued: Unqualified

Internal Control over Financial Reporting:

Material Weakness (es) Identified? _____ yes X no

Significant Deficiency(ies) Identified? _____ yes X none reported

Noncompliance Material to Financial Statements Noted? _____ yes X no

Federal Awards:

Internal Control over Major Programs:

Material Weakness (es) Identified? _____ yes X no

Significant Deficiency (ies) Identified? _____ yes X none reported

Type of Auditor's Report Issued on Compliance:
for Major Programs: Unqualified

Any Audit Findings Disclosed that are Required
to be Reported in Accordance with
Circular A-133, Section .510(a)? _____ yes X no

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.181	Section 811 - Supportive Housing for Persons with Disabilities
14.235	Supportive Housing Program
14.871	Section 8 Housing Choice Voucher

Dollar Threshold Used to Distinguish
Between Type A and Type B Programs: \$ 300,000

Auditee Qualified as Low-Risk Auditee? X yes _____ no

BRIDGEWELL, INC. AND AFFILIATES

Schedule of Findings and Questioned Costs

June 30, 2010

(2) Financial Statement Findings

No significant deficiencies or material weaknesses reported.

(3) Federal Award Findings and Questioned Costs

No significant deficiencies or material weaknesses reported.

(4) Status of Prior Year Findings

No significant deficiencies or material weaknesses reported.



Kevin P. Martin & Associates, P.C.

**Independent Auditors' Report on
Schedule of Expenditures of Federal Awards**

To the Board of Directors of
Bridgewell, Inc. and Affiliates

We have audited the basic consolidated financial statements of Bridgewell, Inc. and Affiliates (a nonprofit organization), (the Agency), for the year ended June 30, 2010. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Agency taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in black ink, reading "Kevin P. Martin & Associates, P.C.", written in a cursive style.

Braintree, Massachusetts
November 11, 2010

BRIDGEWELL, INC. AND AFFILIATES

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Major Programs			
U.S. Department of Housing and Urban Development			
<i>Section 8 Housing Choice Vouchers</i>	14.871	N/A	\$ 1,807,922
<i>Supportive Housing Program</i>	14.235	N/A	986,955
<i>Supportive Housing for Persons with Disabilities (Section 811)</i>	14.181	N/A	<u>883,148</u>
Total Major Programs			\$ <u><u>3,678,025</u></u>
Non Major Programs			
U.S. Department of Housing and Urban Development			
<i>ARRA - Community Development Block Grants</i>	14.218		
Passed through the City of Lynn Office of Economic and Community Development		N/A	\$ 12,785
<i>ARRA - Homelessness Prevention and Rapid Re-Housing</i>	14.257		
Passed through Community Team Work, Inc.		N/A	<u>12,543</u>
			<u>25,328</u>
U.S. Department of Education			
<i>ARRA - Rehabilitation Services - Vocational</i>	84.126		
Passed through the Commonwealth of Massachusetts Massachusetts Rehabilitation Commission		MRC 0MRC00CIESNORTH00000	<u>7,904</u>
Total Non Major Programs			\$ <u><u>33,232</u></u>
Total Expenditures of Federal Awards			\$ <u><u>3,711,257</u></u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bridgewell, Inc. and Affiliates and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations'. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the consolidated financial statements.

Supplemental Information



Kevin P. Martin & Associates, P.C.

Independent Auditors' Report on Supplemental Information

To the Board of Directors of
Bridgewell, Inc. and Affiliates

We have audited the basic consolidated financial statements of Bridgewell, Inc. and Affiliates (a nonprofit organization), (the Agency), for the year ended June 30, 2010. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Consolidating Schedule of Assets, Liabilities and Net Assets and the Consolidating Schedule of Revenues and Expenses are presented solely for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Kevin P. Martin & Associates, P.C.

Braintree, Massachusetts
November 11, 2010

BRIDGEWELL, INC. AND AFFILIATES

Consolidating Schedule of Assets, Liabilities and Net Assets

As of June 30, 2010

	<u>Bridgewell, Inc.</u>	<u>Bridgewell Danvers Housing Corporation</u>	<u>Bridgewell Merrimack Housing Corporation</u>	<u>Community Program Innovations, Inc.</u>	<u>Forthill Avenue, Inc.</u>	<u>Middlesex North Resource Center, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
Current Assets								
Cash and cash equivalents	\$ 1,877,318	\$ 3,075	\$ 6,600	\$ 33,975	\$ 14,231	\$ -	\$ -	\$ 1,935,199
Accounts receivable, net of allowance	2,048,388	-	2,123	-	5,826	-	-	2,056,337
Prepaid expenses and other current assets	696,593	-	1,725	1,191	-	-	-	699,509
Investments	<u>65,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,162</u>
Total current assets	<u>4,687,461</u>	<u>3,075</u>	<u>10,448</u>	<u>35,166</u>	<u>20,057</u>	<u>-</u>	<u>-</u>	<u>4,756,207</u>
Restricted Deposits and Funded Reserves								
Reserve for satisfaction of long term debt	1,315,926	-	-	-	-	-	-	1,315,926
Other reserves	<u>-</u>	<u>-</u>	<u>4,382</u>	<u>-</u>	<u>150,958</u>	<u>-</u>	<u>-</u>	<u>155,340</u>
Total restricted deposits and funded reserves	<u>1,315,926</u>	<u>-</u>	<u>4,382</u>	<u>-</u>	<u>150,958</u>	<u>-</u>	<u>-</u>	<u>1,471,266</u>
Fixed Assets								
Property and equipment	40,818,673	211,367	917,499	6,070	569,560	3,074,412	-	45,597,581
Less: accumulated depreciation	<u>(15,812,393)</u>	<u>-</u>	<u>-</u>	<u>(1,656)</u>	<u>(350,542)</u>	<u>(461,404)</u>	<u>-</u>	<u>(16,625,995)</u>
Total net fixed assets	<u>25,006,280</u>	<u>211,367</u>	<u>917,499</u>	<u>4,414</u>	<u>219,018</u>	<u>2,613,008</u>	<u>-</u>	<u>28,971,586</u>
Other Assets								
Deferred financing costs, net of amortization	653,797	-	-	-	-	-	-	653,797
Intangible assets, net of amortization	7,247	-	-	211,650	-	-	-	218,897
Due (to) from affiliates	871,455	(205,104)	(37,579)	(88,198)	(2,539)	(538,035)	-	-
Security deposits and other assets	<u>38,279</u>	<u>-</u>	<u>-</u>	<u>(900)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,379</u>
Total other assets	<u>1,570,778</u>	<u>(205,104)</u>	<u>(37,579)</u>	<u>122,552</u>	<u>(2,539)</u>	<u>(538,035)</u>	<u>-</u>	<u>910,073</u>
Total Assets	\$ <u><u>32,580,445</u></u>	\$ <u><u>9,338</u></u>	\$ <u><u>894,750</u></u>	\$ <u><u>162,132</u></u>	\$ <u><u>387,494</u></u>	\$ <u><u>2,074,973</u></u>	\$ <u><u>-</u></u>	\$ <u><u>36,109,132</u></u>

See independent auditors' report on supplemental information.

BRIDGEWELL, INC. AND AFFILIATES

Consolidating Schedule of Assets, Liabilities and Net Assets - continued

As of June 30, 2010

	<u>Bridgewell, Inc.</u>	<u>Bridgewell Danvers Housing Corporation</u>	<u>Bridgewell Merrimack Housing Corporation</u>	<u>Community Program Innovations, Inc.</u>	<u>Forthill Avenue, Inc.</u>	<u>Middlesex North Resource Center, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
Current Liabilities								
Accounts payable	\$ 1,009,622	\$ 9,338	\$ 20,584	\$ 14,366	\$ -	\$ -	\$ -	\$ 1,053,910
Accrued expenses	1,630,440	-	-	10,009	-	-	-	1,640,449
Line of Credit	719,429	-	-	-	-	-	-	719,429
Capital lease obligations, current	22,937	-	-	-	-	-	-	22,937
Long term debt, current	518,202	-	-	-	-	-	-	518,202
Deferred revenue	29,648	-	-	94,019	-	-	-	123,667
Due to Commonwealth of Massachusetts	<u>62,532</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,532</u>
Total current liabilities	<u>3,992,810</u>	<u>9,338</u>	<u>20,584</u>	<u>118,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,141,126</u>
Long Term Liabilities								
Capital lease obligations, long term	38,741	-	-	-	-	-	-	38,741
Long term debt	23,986,104	-	366,086	-	200,376	1,935,773	-	26,488,339
Interest rate swaps	<u>2,743,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,743,682</u>
Total long term liabilities	<u>26,768,527</u>	<u>-</u>	<u>366,086</u>	<u>-</u>	<u>200,376</u>	<u>1,935,773</u>	<u>-</u>	<u>29,270,762</u>
Total liabilities	<u>30,761,337</u>	<u>9,338</u>	<u>386,670</u>	<u>118,394</u>	<u>200,376</u>	<u>1,935,773</u>	<u>-</u>	<u>33,411,888</u>
Net Assets								
Unrestricted	1,819,108	-	(8,768)	43,738	(189,182)	139,200	-	1,804,096
Temporarily restricted	<u>-</u>	<u>-</u>	<u>516,848</u>	<u>-</u>	<u>376,300</u>	<u>-</u>	<u>-</u>	<u>893,148</u>
Total net assets	<u>1,819,108</u>	<u>-</u>	<u>508,080</u>	<u>43,738</u>	<u>187,118</u>	<u>139,200</u>	<u>-</u>	<u>2,697,244</u>
Total Liabilities and Net Assets	<u>\$ 32,580,445</u>	<u>\$ 9,338</u>	<u>\$ 894,750</u>	<u>\$ 162,132</u>	<u>\$ 387,494</u>	<u>\$ 2,074,973</u>	<u>\$ -</u>	<u>\$ 36,109,132</u>

See independent auditors' report on supplemental information.

BRIDGEWELL, INC. AND AFFILIATES

Consolidating Schedule of Revenues and Expenses

For the Year Ended June 30, 2010

	<u>Bridgewell, Inc.</u>	<u>Bridgewell Danvers Housing Corporation</u>	<u>Bridgewell Merrimack Housing Corporation</u>	<u>Community Program Innovations, Inc.</u>	<u>Forthill Avenue, Inc.</u>	<u>Middlesex North Resource Center, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenue and Support								
Contributions, grants and special events	\$ 183,658	\$ -	\$ 151,225	\$ -	\$ -	\$ 400,000	\$ -	\$ 734,883
Program service fees	35,450,183	-	10,839	-	16,525	559,525	-	36,037,072
Rental revenue	3,249,455	-	7,871	-	20,871	-	-	3,278,197
Investment revenue	18,494	-	1	-	1,669	-	-	20,164
Revenue from commercial products and services	48,080	-	-	221,333	-	-	-	269,413
Gain on sale of property and equipment	806,056	-	-	-	-	-	-	806,056
Other	<u>334,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,150</u>
Total revenue and support	<u>40,090,076</u>	<u>-</u>	<u>169,936</u>	<u>221,333</u>	<u>39,065</u>	<u>959,525</u>	<u>-</u>	<u>41,479,935</u>
Expenses								
Management and general	4,636,814	-	-	-	-	-	-	4,636,814
Fundraising	264,182	-	-	-	-	-	-	264,182
Program services	<u>34,728,737</u>	<u>-</u>	<u>27,457</u>	<u>384,834</u>	<u>28,188</u>	<u>603,665</u>	<u>-</u>	<u>35,772,881</u>
Total operating expenses	<u>39,629,733</u>	<u>-</u>	<u>27,457</u>	<u>384,834</u>	<u>28,188</u>	<u>603,665</u>	<u>-</u>	<u>40,673,877</u>
Change in Net Assets from Operations	<u>460,343</u>	<u>-</u>	<u>142,479</u>	<u>(163,501)</u>	<u>10,877</u>	<u>355,860</u>	<u>-</u>	<u>806,058</u>
Other Changes								
Loss on interest rate swap	(729,937)	-	-	-	-	-	-	(729,937)
Gain (Loss) on investment in affiliate	<u>(325,000)</u>	<u>-</u>	<u>-</u>	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other changes	<u>(1,054,937)</u>	<u>-</u>	<u>-</u>	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(729,937)</u>
Change in Net Assets	(594,594)	-	142,479	161,499	10,877	355,860	-	76,121
Net Assets at Beginning of Year	<u>2,413,702</u>	<u>-</u>	<u>365,601</u>	<u>207,239</u>	<u>176,241</u>	<u>(216,660)</u>	<u>(325,000)</u>	<u>2,621,123</u>
Net Assets at End of Year	<u>\$ 1,819,108</u>	<u>\$ -</u>	<u>\$ 508,080</u>	<u>\$ 368,738</u>	<u>\$ 187,118</u>	<u>\$ 139,200</u>	<u>\$ (325,000)</u>	<u>\$ 2,697,244</u>

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