

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Financial Statements

June 30, 2012

BRIDGEWELL, INC. AND AFFILIATES

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June 30, 2012

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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. (a nonprofit organization) and Affiliates (the Agency), as of June 30, 2012, 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 2011 consolidated financial statements and, in our report dated November 15, 2011, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 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 consolidated financial position of the Agency as of June 30, 2012, 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 12, 2012, 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.

Numer P. Martini & Associates, P.C.

Braintree, Massachusetts
November 12, 2012



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. (a nonprofit organization) and Affiliates (the Agency), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012. 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

Management of the Agency is responsible for establishing and maintaining effective 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 consolidated 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.



Braintree, Massachusetts
November 12, 2012



Kevin P. Martin & Associates, P.C.

ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

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. (a nonprofit organization) and Affiliates (the Agency), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2012. The Agency's major federal program is 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 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

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 to determine the 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 was not designed to 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 12, 2012

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Financial Position

As of June 30, 2012

With Comparative Totals as of June 30, 2011

Current Assets	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 3,349,108	\$ 2,544,400
Accounts receivable, net of allowance	2,697,382	2,151,924
Prepaid expenses and other current assets	584,704	593,319
Deposits	42,323	39,279
Investments	<u>81,969</u>	<u>84,683</u>
 Total current assets	 <u>6,755,486</u>	 <u>5,413,605</u>
 Restricted Deposits and Funded Reserves		
 Reserve for satisfaction of long term debt	 356,825	 419,159
Other reserves	<u>192,685</u>	<u>180,604</u>
 Total restricted deposits and funded reserves	 <u>549,510</u>	 <u>599,763</u>
 Fixed Assets		
 Property and equipment	 46,870,396	 44,338,362
Less: accumulated depreciation	<u>(16,735,470)</u>	<u>(15,198,600)</u>
 Total net fixed assets	 <u>30,134,926</u>	 <u>29,139,762</u>
 Other Assets		
 Deferred financing costs, net of amortization	 281,620	 349,361
Investments - restricted	85,477	-
Goodwill	-	104,025
Intangible assets, net of amortization	21,010	31,909
Security deposits and other assets	<u>49,270</u>	<u>42,919</u>
 Total other assets	 <u>437,377</u>	 <u>528,214</u>
 Total Assets	 <u>\$ 37,877,299</u>	 <u>\$ 35,681,344</u>

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

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Financial Position - continued

As of June 30, 2012

With Comparative Totals as of June 30, 2011

Current Liabilities	<u>2012</u>	<u>2011</u>
Accounts payable	\$ 1,756,214	\$ 835,072
Accrued expenses	1,943,017	2,420,223
Capital lease obligations, current	14,630	24,111
Long term debt, current	629,445	632,105
Deferred revenue	109,693	149,024
Due to Commonwealth of Massachusetts	<u>62,532</u>	<u>62,532</u>
 Total current liabilities	 <u>4,515,531</u>	 <u>4,123,067</u>
 Long Term Liabilities		
 Capital lease obligations, long term	 -	 14,630
Deferred compensation	85,477	-
Long term debt	<u>28,188,738</u>	<u>27,998,056</u>
 Total long term liabilities	 <u>28,274,215</u>	 <u>28,012,686</u>
 Total liabilities	 <u>32,789,746</u>	 <u>32,135,753</u>
 Net Assets		
 Unrestricted	 2,585,841	 1,970,691
Temporarily restricted	<u>2,501,712</u>	<u>1,574,900</u>
 Total net assets	 <u>5,087,553</u>	 <u>3,545,591</u>
 Total Liabilities and Net Assets	 <u>\$ 37,877,299</u>	 <u>\$ 35,681,344</u>

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

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Activities

For the Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenue and Support				
Contributions, grants and special events	\$ 371,519	\$ 926,812	\$ 1,298,331	\$ 915,221
Program service fees	41,530,024	-	41,530,024	38,902,021
Rental revenue	3,428,439	-	3,428,439	3,205,794
Investment revenue	4,114	-	4,114	31,307
Revenue from commercial products and services	55,990	-	55,990	41,282
Gain on sale of property and equipment	99,735	-	99,735	562,908
Other	<u>345,166</u>	<u>-</u>	<u>345,166</u>	<u>297,292</u>
Total revenue and support	<u>45,834,987</u>	<u>926,812</u>	<u>46,761,799</u>	<u>43,955,825</u>
Expenses				
Management and general	5,172,343	-	5,172,343	4,937,741
Fundraising	487,245	-	487,245	365,360
Program services	<u>39,456,224</u>	<u>-</u>	<u>39,456,224</u>	<u>37,368,791</u>
Total expenses	<u>45,115,812</u>	<u>-</u>	<u>45,115,812</u>	<u>42,671,892</u>
Change in Net Assets from Operations	<u>719,175</u>	<u>926,812</u>	<u>1,645,987</u>	<u>1,283,933</u>
Other Changes				
Gain on interest rate swap	-	-	-	303,371
Loss on impairment of goodwill	(104,025)	-	(104,025)	(104,025)
Loss on bond refinance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(634,932)</u>
Total other changes	<u>(104,025)</u>	<u>-</u>	<u>(104,025)</u>	<u>(435,586)</u>
Change in Net Assets	615,150	926,812	1,541,962	848,347
Net Assets at Beginning of Year	<u>1,970,691</u>	<u>1,574,900</u>	<u>3,545,591</u>	<u>2,697,244</u>
Net Assets at End of Year	<u>\$ 2,585,841</u>	<u>\$ 2,501,712</u>	<u>\$ 5,087,553</u>	<u>\$ 3,545,591</u>

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

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

Cash Flows from Operating Activities	<u>2012</u>	<u>2011</u>
Change in Net Assets	\$ 1,541,962	\$ 848,347
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,916,273	1,867,879
Amortization of financing costs and intangible assets	91,561	58,954
Gain on sale of property and equipment	(99,735)	(562,908)
Interest on restricted deposits, net of fees	(656)	(1,563)
Contributions restricted for long term investment	(948,012)	(646,752)
Unrealized loss (gain) on investments	3,691	(19,824)
Unrealized gain on investments - restricted	(4,667)	-
Interest and dividends on investments - restricted, net of fees	(810)	-
Interest and dividends, net of fees	(977)	(542)
Forgiveness of debt	-	(26,034)
Disposal of deferred financing costs	-	642,524
Gain on interest rate swap	-	(303,371)
Decrease (increase) in assets		
Accounts receivable, net of allowance	(545,458)	(95,587)
Prepaid expenses and other current assets	5,571	82,917
Security deposit and other assets	97,674	52,554
Increase (decrease) in liabilities		
Accounts payable	431,983	(264,602)
Accrued expenses	(391,729)	779,774
Deferred revenue	(39,331)	25,357
Net Cash Provided by Operating Activities	<u>2,057,340</u>	<u>2,437,123</u>
Cash Flows from Investing Activities		
Deposits to restricted deposits and funded reserves	(11,323)	(578,048)
Withdrawals from restricted deposits and funded reserves	73	653,796
Proceeds from sale of fixed assets	334,192	585,708
Purchase of fixed assets	(2,160,246)	(2,013,091)
Proceeds from the sale of investments	-	845
Purchase of investments - restricted	(80,000)	-
Net Cash Used in Investing Activities	<u>\$ (1,917,304)</u>	<u>\$ (1,350,790)</u>

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

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Cash Flows - continued

For the Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

Cash Flows from Financing Activities	<u>2012</u>	<u>2011</u>
Proceeds from contributions restricted for investment	\$ 948,012	\$ 646,752
Repayments of capital lease obligations	(24,111)	(22,937)
Repayments of long term debt	(574,391)	(1,318,944)
Proceeds from long term debt	328,083	253,701
Payment of deferred financing costs	<u>(12,921)</u>	<u>(35,704)</u>
Net Cash Provided by (Used in) Financing Activities	<u>664,672</u>	<u>(477,132)</u>
Net Increase in Cash and Cash Equivalents	804,708	609,201
Cash and Cash Equivalents - Beginning	<u>2,544,400</u>	<u>1,935,199</u>
Cash and Cash Equivalents - Ending	<u>\$ 3,349,108</u>	<u>\$ 2,544,400</u>
Supplement Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 974,611</u>	<u>\$ 1,422,027</u>

See Note 8 for noncash investing and financing activities.

BRIDGEWELL, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2012

With Comparative Totals for the Year Ended June 30, 2011

	Program Services								Total	Management		2012	2011
	Mental Retardation Residential Services	Mental Retardation Day Services	Affordable Housing	Outpatient Services	Community Services	Mental Health Day Services	Mental Health Residential Services	Center for Professional Innovation	Program Services	and General	Fundraising	Total	Total
Functional Expenses													
Salaries and wages	\$ 18,185,821	\$ 2,353,803	\$ 161,908	\$ 1,539,012	\$ 625,745	\$ 380,875	\$ 367,937	\$ 91,871	\$ 23,706,972	\$ 2,670,164	\$ 190,212	\$ 26,567,348	\$ 24,671,787
Employee benefits and payroll taxes	3,444,483	457,790	29,684	295,017	123,021	69,191	70,418	9,863	4,499,467	802,133	35,490	5,337,090	5,058,163
Supplies and expense	781,514	134,292	16,036	72,479	10,440	19,235	26,400	97,352	1,157,748	438,342	39,847	1,635,937	1,508,186
Occupancy	2,795,824	312,836	1,346,411	228,509	393,950	67,309	122,722	575	5,268,136	238,095	1,198	5,507,429	5,179,553
Insurance	388,268	58,491	24,009	6,816	122,343	5,676	26,240	-	631,843	78,875	580	711,298	684,702
Purchased services	46,437	175,605	44,063	145,898	-	315,253	42,013	61,161	830,430	555,953	94,213	1,480,596	1,466,310
Food	671,391	21,009	-	1,866	-	15,767	21,619	600	732,252	15,926	983	749,161	679,095
Transportation and training	52,665	19,381	-	14,271	663	3,355	2,187	4,180	96,702	9,336	677	106,715	87,834
Interest expense	669,936	156,644	60,586	-	-	7,622	-	-	894,788	85,176	-	979,964	1,351,957
Provision for uncollectible accounts	2,151	-	-	-	75	-	-	-	2,226	630	-	2,856	20,629
Depreciation and amortization	1,132,492	182,483	217,873	8,009	9,033	34,939	45,285	5,546	1,635,660	277,713	2,900	1,916,273	1,867,879
Fundraising fees	-	-	-	-	-	-	-	-	-	-	121,145	121,145	95,797
Total Functional Expenses	\$ 28,170,982	\$ 3,872,334	\$ 1,900,570	\$ 2,311,877	\$ 1,285,270	\$ 919,222	\$ 724,821	\$ 271,148	\$ 39,456,224	\$ 5,172,343	\$ 487,245	\$ 45,115,812	\$ 42,671,892

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

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). 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 Lynn Housing Corporation (LHC), Bridgewell Merrimac Housing Corporation (MHC), Community Program Innovations, Inc., d/b/a Center for Professional Innovation (CPI), Forthill Avenue, Inc. (Forthill) and Middlesex North Resource Center, Inc. (MNRC). The entities are related through common board of directors and shared resources. All significant intercompany balances and transactions have been eliminated in consolidation.

Forthill, MNRC, MHC, LHC and DHC were founded to foster the creation of additional affordable housing opportunities. Programs of Bridgewell occupy the property owned by MNRC, Forthill, MHC and DHC. As of June 30, 2012, the LHC project 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:

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(b) Nature of Activities - continued

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 70% of total program expenditures for the year ended June 30, 2012.

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 10% of total program expenditures for the year ended June 30, 2012.

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 6% of total program expenditures for the year ended June 30, 2012.

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 6% of total program expenditures for the year ended June 30, 2012.

Community Services - The Community Services division provides transportation and recreation services. The Community Services division accounted for 3% of total program expenditures for the year ended June 30, 2012.

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 2% of total program expenditures for the year ended June 30, 2012.

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, 2012.

Center for Professional Innovation - The Center for Professional Innovation division provides continuing education for mental health and healthcare professionals and educators. The Center for Professional Innovation division accounted for 1% of total program expenditures for the year ended June 30, 2012.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

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

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

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, 2012, the Agency derived approximately 74% of its total revenue from governmental agencies, 14% from foundations and individual donors and 12% from Medicare and Medicaid. All revenue is recorded at estimated net realizable amounts.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(d) Accounts Receivable

The Agency carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. Accounts receivable from tenants outstanding for thirty days or more are deemed delinquent. 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, 2012, the allowance for doubtful accounts was \$30,533.

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. During the year ended June 30, 2012, the Agency's trade receivables were due as follows: approximately 66% from governmental agencies, 24% from Medicaid and Medicare and 10% from individuals for rents and service fees.

(e) Standards of Accounting and Reporting

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

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 consolidated 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.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(f) Income Taxes

Bridgewell, DHC, LHC, MHC, CPI, 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, LHC, MHC, CPI, 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, 2012, there was no liability for tax on unrelated business income.

GAAP prescribes a recognition threshold and measurement attribute for consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2012, the Agency does not believe its consolidated financial statements include any uncertain tax positions. The Agency recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

Generally, the Agency's information (or tax) returns remain open for federal income tax examination for three years from the filing date. No notices have been received from either the Internal Revenue Service or Commonwealth of Massachusetts addressing any subsequent year.

(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 38% for the year ended June 30, 2012. 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 consolidated 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.

Payroll and associated costs are allocated to functions based upon time studies and actual charges. Occupancy costs are allocated based upon associated FTEs.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(i) *Advertising Costs*

The Agency expenses advertising costs when they are incurred. Advertising expense amounted to \$66,611 for the year ended June 30, 2012.

(j) *Use of Estimates*

In preparing the Agency's consolidated financial statements in conformity with GAAP, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(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 interest and non-interest bearing cash and deposit balances in banks located in Massachusetts. Interest bearing accounts at each institution were insured by FDIC up to \$250,000 per depositor. As of June 30, 2012, the Agency did not maintain interest bearing cash and deposit balances in excess of FDIC insured limits.

(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) *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 GAAP.

Level 1: Quoted prices in active markets for identical assets or liabilities the Agency has the ability to access.

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.

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.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(m) Fair Value Measurements - continued

Recurring Measurements

The following table presents the fair value hierarchy for those financial and non-financial assets measured at fair value on a recurring basis as of June 30, 2012.

Fair Value Measurements on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - restricted	\$ 85,477	\$ -	\$ -	\$ 85,477
Investments	<u>81,969</u>	<u>-</u>	<u>-</u>	<u>81,969</u>
	<u>\$ 167,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,446</u>

Based on the analysis of the nature and risks of its investments, the Agency has determined that presenting them as a single class is appropriate (see Note 3).

The Agency's policy is to recognize transfers into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the year ended June 30, 2012.

Non-recurring Measurements

The Agency is also required to apply the provisions of GAAP to fair value measurements for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Agency has no non-financial assets or liabilities required to be accounted for on a non-recurring basis as of June 30, 2012.

Financial Instruments

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.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(n) Fixed Assets and Depreciation

Land, buildings, building improvements, motor vehicles, equipment and software, 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.

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 and software	3-10 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, 2012.

(o) 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.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies - continued

(p) Goodwill and Other Intangible Assets

Goodwill is not subject to amortization. Management tests goodwill for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Deferred financing costs are recorded at cost and those assets that have a finite useful life are amortized using the straight-line method, which approximates the effective interest method, over the term of the related loan. Intangible assets that have an indefinite useful life are not amortized, but rather are assessed for impairment when events or changes in circumstances indicate the carrying amount may be recoverable. The Agency uses a variety of Level 3 inputs to determine the fair value of definite and indefinite-lived assets, including, but not limited to, discounted cash flow models, which are based on assumptions the Agency believes hypothetical marketplace participants would use. For indefinite lived intangible assets, if the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to the excess.

During the year ended June 30, 2012, the Agency recognized impairment losses of \$104,025 which is included in other increases (decreases) on the consolidated statement of activities (see Note 6(a)). No impairment losses were recognized in 2012 on other intangible assets.

(q) Reclassifications

Certain amounts in the prior year have been reclassified to conform with the current year presentation.

(r) Summarized Financial Information for 2011

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, the consolidated 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 GAAP. Accordingly, such information should be read in conjunction with the Agency's consolidated financial statements for the year ended June 30, 2011, from which the summarized information is derived.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(2) Restricted Deposits and Funded Reserves

(a) Citizens Bank Escrows

In a prior year, the Agency deposited funds into a non-interest bearing account with Citizens Bank as collateral for one of its buildings. As of June 30, 2012, the account balance amounted to \$356,825 and is included with other assets on the consolidated statement of financial position.

In a prior year, the Agency deposited \$62,159 into a non-interest bond expense escrow account with Citizens Bank. During 2012, the escrow account was closed and the \$62,159 was applied against the Agency's series 2010 bond payable and the related Citizen's term note payable principal balance (see Note 7(c)).

(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. As of June 30, 2012, the total balance of these reserves amounted to \$192,685 and is included in other assets on the accompanying consolidated statement of financial position.

(3) Investments

Investments are comprised of the following as of June 30, 2012:

	<u>Fair Value</u>
Marketable equity securities	\$ 81,969
Marketable equity securities - restricted (see Note 10 (b))	<u>85,477</u>
Total	\$ <u>167,446</u>

Investment return consisted of the following for the year ended June 30, 2012:

Interest on cash and cash equivalents	\$ 767
Dividends	2,373
Net unrealized gain	<u>974</u>
Total	\$ <u>4,114</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 Consolidated Financial Statements

June 30, 2012

(4) Property and Equipment

Property and equipment consists of the following as of June 30, 2012:

	<u>Agency Owned</u>	<u>Purchased with State Funds</u>	<u>Total</u>
Land	\$ 2,170,858	\$ -	\$ 2,170,858
Buildings	28,574,827	-	28,574,827
Building improvements	10,733,754	-	10,733,754
Work in process	1,575,312	-	1,575,312
Motor vehicles	146,127	171,156	317,283
Equipment and software	1,003,407	393,996	1,397,403
Furniture and office equipment	<u>2,233,965</u>	<u>7,963</u>	<u>2,241,928</u>
	<u>\$ 46,438,250</u>	<u>\$ 573,115</u>	<u>\$ 47,011,365</u>

Property and equipment purchased with state funds, for which title is held by the Agency and is used in Agency programs, consist of motor vehicles, equipment and furniture and office equipment. Depreciation amounted to \$1,916,273 for the year ended June 30, 2012.

(5) Work in Process

Work in process consists of the following as of June 30, 2012:

Lewis street apartments	\$ 1,430,888
Various other projects	<u>144,424</u>
Total work in process	<u>\$ 1,575,312</u>

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

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(6) Goodwill and Other Intangible Assets

(a) Goodwill

Goodwill is included in other assets on the consolidated statement of financial position and consists of the following as of June 30, 2012:

Beginning balance, net of accumulated losses of \$104,025	\$ 104,025
Loss on impairment	<u>(104,025)</u>
Ending balance	\$ <u> -</u>

The purchase of certain assets by CPI in 2008, resulted in the recognition of goodwill. As of June 30, 2012, fair value was determined based on the history and nature of the business; the economic outlook for CPI; and the earnings capacity and financial condition of CPI. As a result of this assessment, the carrying amount exceeded the fair value, and an impairment charge of \$104,025 was recognized in 2012.

(b) Other Intangible Assets

Other intangible assets that are subject to amortization consist of the following as of June 30, 2012:

Deferred financing costs	\$ 401,100
Licenses, certifications and other	<u>171,475</u>
	<u>572,575</u>
Less accumulated amortization	<u>(269,945)</u>
	\$ <u>302,630</u>

Amortization expense amounted to \$91,561 for the year ended June 30, 2012 and is included in interest expense. Estimated future amortization expense is as follows:

2013	\$ 86,268
2014	86,205
2015	86,205
2016	43,268
2017	-

(7) Debt

(a) Lines of Credit

The Agency has available a \$1,500,000 demand line of credit, with Citizens Bank, with interest at the prime rate. As of June 30, 2012 the prime rate was 3.25%. This line is secured by the Agency's real property. There were no borrowings against the line of credit as of June 30, 2012.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(7) Debt - continued

(b) Long-term debt

The following is a summary of long-term debt payable as of June 30, 2012:

	Interest	Term	Maturity Date	Balance
	<u>Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Balance</u>
Massachusetts Development Finance Agency (MDFA), Series 2010 Bond	3.75%	5 years	December, 2015	\$ 21,153,362
Citizens Bank	5.50%	5 years	January, 2016	3,156,387
Community Economic Development Assistance Corporation (CEDAC)	0.00%	30 years	January, 2037	455,355
CEDAC	0.00%	30 years	July, 2040	230,610
Massachusetts Housing Partnership Fund Board	0.00%	50 years	December, 2059	395,352
CEDAC	0.00%	30 years	December, 2039	470,171
CEDAC	0.00%	30 years	December, 2039	550,000
CEDAC	0.00%	30 years	October, 2038	392,571
CEDAC	0.00%	30 years	September, 2042	328,083
CEDAC	0.00%	30 years	August, 2030	200,250
CEDAC	0.00%	30 years	July, 2032	200,376
CEDAC	0.00%	30 years	March, 2039	364,177
City of Lowell	0.00%	20 years	October, 2028	320,000
North Shore HOME Consortium	0.00%	30 years	July, 2040	15,000
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
Wheeler Point Trust	7.00%	20 years	April, 2014	<u>496,489</u>
				<u>\$ 28,818,183</u>

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

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(7) Debt - continued

(c) *Series 2010 Bond Payable*

In December 2010, the Agency entered into a loan and security agreement with the MDFA, as issuer, and RBS Citizens Bank N.A., as bond owner, to issue a \$22,000,000 Revenue Bond, Bridgewell, Incorporated Issue, Series 2010 (Series 2010). The Series 2010 bond was issued to retire the Agency's Series 2005 and Series 2008 bonds payable and related obligations of the Agency, including a line of credit with KeyBank National Association, interest rate swap agreements, and to refinance the related capital projects.

The Series 2010 bond matures in December 2015 and bears interest at 3.75% per annum. Principal and interest payments of \$113,109, are due monthly, with a balloon payment of \$19,077,600 due December 2015. The effective interest rate on the loan taking into effect the loan cost amortization is 3.90%.

In conjunction with the retirement of the Series 2005 and Series 2008 bonds, and related obligations, the Agency entered into a \$3,274,897 term note agreement with Citizens Bank. The term loan is a five year loan and bears interest at 5.5% per annum. Principal and interest payments of \$20,111, are due monthly, with a balloon payment of \$2,923,551 due January 2016. The effective interest rate on the loan taking into effect the loan cost amortization is 5.66%.

The Series 2010 bond and the term note agreement are secured by a mortgage on certain of the Agency's real properties, deposit accounts, and accounts receivable.

(d) *Capital Lease Obligations*

The Agency leases software under capital lease arrangements. Capital leases are recorded at fair market value, and as of June 30, 2012 the Agency's monthly aggregate capital lease payments equal \$2,125. The corresponding interest rate is 5.0%. As of June 30, 2012, assets under capital leases amounted to \$540,239, net of accumulated depreciation, and were included in equipment and software on the accompanying consolidated statement of financial position. Total depreciation expense on assets under capital leases amounted to \$31,779 for the fiscal year ended June 30, 2012.

The future minimum lease payments for assets under capital leases amount to \$14,875, all of which will be paid during the year ended June 30, 2013.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(7) Debt - continued

(e) Debt Maturities and Interest

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

2013	\$ 629,445
2014	655,033
2015	1,178,174
2016	22,343,586
2017	-

Interest expense on all debt amounted to \$979,964 for year ended June 30, 2012.

(8) Noncash Investing and Financing Activities

During the year ended June 30, 2012, the Agency's noncash investing and financing activities consisted of: land and buildings transferred from work in process amounted to \$860,485, escrow funds released pay long-term debt amounted to \$69,159, mortgage note payable proceeds used to fund the purchase of land and building \$496,489, fixed asset and work in process additions included in accounts payable amounted to \$489,159.

(9) 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:

2013	\$ 934,692
2014	883,825
2015	837,922
2016	711,956
2017	634,708

Rent expense for the year ended June 30, 2012 was \$2,195,227.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(10) Employee Benefits

(a) 403(b) Plan

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 \$132,316 for the year ended June 30, 2012. The \$132,316 is included in accrued expenses on the consolidated statement of financial position as of June 30, 2012.

(b) Supplemental Executive Retirement Agreement (SERP)

The Agency has a non-qualified deferred compensation program as allowed under Section 457(f) of the Internal Revenue Code to reward a key employee. In connection with the SERP, the Agency is the trustee of an irrevocable grantor trust created to hold the assets of the unfunded investment account. The assets of the trust are subject to claims, if any, made by the Agency's creditors. Contributions to the SERP are discretionary and can only be made by the Agency.

During the year ended June 30, 2012, the Agency made contributions of \$80,000 to the SERP which are included in salary expense on the consolidated statement of activities. Net earnings for the year ended June 30, 2012, amounted to \$5,477 and are included in investment income on the consolidated statement of activities. As of June 30, 2012, the investment account balance was \$85,477 and is included in long-term investments on the consolidated statement of financial position. As of June 30, 2012 the related liability amounted to \$85,477 and is included in other liabilities on the consolidated statement of financial position.

(11) Union Employees

During the year ended June 30, 2012, the Agency entered into a collective bargaining agreement with Local 509, Services Employees International Union (SEIU). This agreement covers all full-time and regular part-time direct care employees, with the exception of those employees holding management positions or designated non-collective bargaining positions. The collective bargaining agreement covers approximately 77% of the labor force.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

(12) 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
Massachusetts Rehabilitation Commission
Massachusetts Board of Registration of Medicine
Massachusetts Operational Services Division
Massachusetts Commission for the Blind
U.S. Department of Housing and Urban Development
Medicaid

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, 2012, 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, 2012, complaints were filed against the Agency by various former employees, some of which were made through the Massachusetts Commission Against Discrimination, the Equal Employment Opportunity Commission or the National Labor Relations Board. These complaints are in various stages and the ultimate liability of the cases is presently uncertain. The accompanying consolidated 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 Consolidated Financial Statements

June 30, 2012

(12) 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 in a prior year it received \$400,000 in assistance payments used to pay for the construction costs of apartments for the homeless in the City. The grant was recorded as income when received. 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, March 2010. Failure to meet this requirement will result in a liability to the City. As of June 30, 2012, the Agency believes the remaining restriction will be met.

(13) 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	\$ 2,487,912
Contributions restricted for program use	<u>13,800</u>
Total	\$ <u>2,501,712</u>

(14) Schedule of Federal Awards

Determination of federal major program was made using a risk based approach. For the fiscal year ended June 30, 2012, the Agency qualified as a low-risk auditee. The major program tested is disclosed as such in the schedule of findings and questioned costs.

(15) Subsequent Events

The Agency has performed an evaluation of subsequent events through November 12, 2012, which is the date the Agency's consolidated financial statements were available to be issued. No material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in these consolidated financial statements.

BRIDGEWELL, INC. AND AFFILIATES

Schedule of Findings and Questioned Costs

June 30, 2012

(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 Program:

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

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 - continued

June 30, 2012

(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.

ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

Independent Auditors' Report on Schedule of Expenditures of Federal Awards

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

We have audited the consolidated financial statements of Bridgewell, Inc. (a nonprofit organization) and Affiliates, (the Agency), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the Agency 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Kevin P. Martin & Associates, P.C.

Braintree, Massachusetts
November 12, 2012

BRIDGEWELL, INC. AND AFFILIATES

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Major Program			
U.S. Department of Housing and Urban Development			
<i>Supportive Housing for Persons with Disabilities (Section 811)</i>	14.181	N/A	\$ 16,181
<i>Section 8 Housing Choice Vouchers (MA880)</i>		N/A	1,196,766
<i>Section 8 Housing Choice Vouchers (MA881)</i>		N/A	<u>675,303</u>
Total Major Program			\$ <u><u>1,888,250</u></u>
Non Major Programs			
U.S. Department of Housing and Urban Development			
<i>Supportive Housing Program</i>	14.235	N/A	\$ 967,580
<i>Community Development Block Grants</i>	14.218		
Passed through the City of Lynn Office of Economic and Community Development		N/A	10,739
<i>ARRA - Homelessness Prevention and Rapid Re-Housing</i>	14.257		
Passed through Community Team Work, Inc.		N/A	<u>12,040</u>
			<u>990,359</u>
U.S. Department of Education			
<i>Rehabilitation Services - Vocational</i>	84.126		
Passed through the Commonwealth of Massachusetts Massachusetts Rehabilitation Commission		N/A	<u>9,979</u>
Total Non Major Programs			\$ <u><u>1,000,338</u></u>
Total Expenditures of Federal Awards			\$ <u><u>2,888,588</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.

ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

Independent Auditors' Report on Supplemental Information

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

We have audited the consolidated financial statements of Bridgewell, Inc. (a nonprofit organization) and Affiliates (the Agency), for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Kevin P. Martin & Associates, P.C.

Braintree, Massachusetts
November 12, 2012

BRIDGEWELL, INC. AND AFFILIATES

Consolidating Schedule of Assets, Liabilities and Net Assets

As of June 30, 2012

	Bridgewell, Inc.	Bridgewell Danvers Housing Corporation	Bridgewell Lynn Housing Corporation	Bridgewell Merrimac Housing Corporation	Center for Professional Innovation	Forthill Avenue, Inc.	Middlesex North Resource Center, Inc.	Elimination	Consolidated
Current Assets									
Cash and cash equivalents	\$ 2,294,955	\$ 61,370	\$ 874,450	\$ 75,081	\$ 26,825	\$ 16,427	\$ -	\$ -	\$ 3,349,108
Accounts receivable, net of allowance	2,509,081	-	188,301	-	-	-	-	-	2,697,382
Prepaid expenses and other current assets	583,217	-	-	-	1,487	-	-	-	584,704
Deposits	40,964	-	-	1,359	-	-	-	-	42,323
Investments	81,969	-	-	-	-	-	-	-	81,969
Total current assets	5,510,186	61,370	1,062,751	76,440	28,312	16,427	-	-	6,755,486
Restricted Deposits and Funded Reserves									
Reserve for satisfaction of long term debt	356,825	-	-	-	-	-	-	-	356,825
Other reserves	-	3,119	-	9,292	-	180,274	-	-	192,685
Total restricted deposits and funded reserves	356,825	3,119	-	9,292	-	180,274	-	-	549,510
Fixed Assets									
Property and equipment	40,298,735	853,241	1,448,665	920,999	6,070	473,439	3,073,287	(204,040)	46,870,396
Less: accumulated depreciation	(15,686,524)	(23,535)	-	(53,239)	(5,181)	(285,143)	(681,848)	-	(16,735,470)
Total net fixed assets	24,612,211	829,706	1,448,665	867,760	889	188,296	2,391,439	(204,040)	30,134,926
Other Assets									
Deferred financing costs, net of amortization	281,620	-	-	-	-	-	-	-	281,620
Investments - restricted	85,477	-	-	-	-	-	-	-	85,477
Intangible assets, net of amortization	21,454	-	-	-	(444)	-	-	-	21,010
Due (to) from affiliates	1,880,408	-	(822,603)	(6,635)	(361,670)	(9,651)	(540,255)	(139,594)	-
Security deposits and other assets	49,069	-	-	-	-	201	-	-	49,270
Total other assets	2,318,028	-	(822,603)	(6,635)	(362,114)	(9,450)	(540,255)	(139,594)	437,377
Total Assets	\$ 32,797,250	\$ 894,195	\$ 1,688,813	\$ 946,857	\$ (332,913)	\$ 375,547	\$ 1,851,184	\$ (343,634)	\$ 37,877,299

See independent auditors' report on supplemental information.

BRIDGEWELL, INC. AND AFFILIATES

Consolidating Schedule of Assets, Liabilities and Net Assets - continued

As of June 30, 2012

	Bridgewell, Inc.	Bridgewell Danvers Housing Corporation	Bridgewell Lynn Housing Corporation	Bridgewell Merrimac Housing Corporation	Center for Professional Innovation	Forthill Avenue, Inc.	Middlesex North Resource Center, Inc.	Elimination	Consolidated
Current Liabilities									
Accounts payable	\$ 1,307,404	\$ 31,502	\$ 424,067	\$ 68,947	\$ 3,693	\$ 606	\$ -	\$ (80,005)	\$ 1,756,214
Accrued expenses	1,943,017	35,445	-	24,144	-	-	-	(59,589)	1,943,017
Capital lease obligations, current	14,630	-	-	-	-	-	-	-	14,630
Long term debt, current	629,445	-	-	-	-	-	-	-	629,445
Deferred revenue	44,905	-	-	-	64,581	207	-	-	109,693
Due to Commonwealth of Massachusetts	62,532	-	-	-	-	-	-	-	62,532
Total current liabilities	<u>4,001,933</u>	<u>66,947</u>	<u>424,067</u>	<u>93,091</u>	<u>68,274</u>	<u>813</u>	<u>-</u>	<u>(139,594)</u>	<u>4,515,531</u>
Long Term Liabilities									
Deferred compensation	85,477	-	-	-	-	-	-	-	85,477
Long term debt	25,104,719	245,610	328,083	374,177	-	200,376	1,935,773	-	28,188,738
Total long term liabilities	<u>25,190,196</u>	<u>245,610</u>	<u>328,083</u>	<u>374,177</u>	<u>-</u>	<u>200,376</u>	<u>1,935,773</u>	<u>-</u>	<u>28,274,215</u>
Total liabilities	<u>29,192,129</u>	<u>312,557</u>	<u>752,150</u>	<u>467,268</u>	<u>68,274</u>	<u>201,189</u>	<u>1,935,773</u>	<u>(139,594)</u>	<u>32,789,746</u>
Net Assets									
Unrestricted	3,591,321	(32,762)	(11,349)	(69,611)	(401,187)	(201,942)	(84,589)	(204,040)	2,585,841
Temporarily restricted	13,800	614,400	948,012	549,200	-	376,300	-	-	2,501,712
Total net assets	<u>3,605,121</u>	<u>581,638</u>	<u>936,663</u>	<u>479,589</u>	<u>(401,187)</u>	<u>174,358</u>	<u>(84,589)</u>	<u>(204,040)</u>	<u>5,087,553</u>
Total Liabilities and Net Assets	<u>\$ 32,797,250</u>	<u>\$ 894,195</u>	<u>\$ 1,688,813</u>	<u>\$ 946,857</u>	<u>\$ (332,913)</u>	<u>\$ 375,547</u>	<u>\$ 1,851,184</u>	<u>\$ (343,634)</u>	<u>\$ 37,877,299</u>

See independent auditors' report on supplemental information.

BRIDGEWELL, INC. AND AFFILIATES

Consolidating Schedule of Revenues and Expenses

For the Year Ended June 30, 2012

	<u>Bridgewell, Inc.</u>	<u>Bridgewell Danvers Housing Corporation</u>	<u>Bridgewell Lynn Housing Corporation</u>	<u>Bridgewell Merrimac Housing Corporation</u>	<u>Center for Professional Innovation</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	\$ 350,319	\$ -	\$ 948,012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,298,331
Program service fees	40,718,872	18,765	-	21,742	170,921	14,748	584,976	-	41,530,024
Rental revenue	3,374,742	19,730	-	17,258	-	16,709	-	-	3,428,439
Investment revenue	2,949	1	-	7	-	1,157	-	-	4,114
Revenue from commercial products and services	55,990	-	-	-	-	-	-	-	55,990
Gain on sale of property and equipment	240,704	-	-	-	-	-	-	(140,969)	99,735
Other	362,943	-	-	-	-	-	-	(17,777)	345,166
	<u>45,106,519</u>	<u>38,496</u>	<u>948,012</u>	<u>39,007</u>	<u>170,921</u>	<u>32,614</u>	<u>584,976</u>	<u>(158,746)</u>	<u>46,761,799</u>
Expenses									
Management and general	5,172,343	-	-	-	-	-	-	-	5,172,343
Fundraising	487,245	-	-	-	-	-	-	-	487,245
Program services	38,296,503	63,706	11,349	64,437	282,172	44,196	693,861	-	39,456,224
	<u>43,956,091</u>	<u>63,706</u>	<u>11,349</u>	<u>64,437</u>	<u>282,172</u>	<u>44,196</u>	<u>693,861</u>	<u>-</u>	<u>45,115,812</u>
Change in Net Assets from Operations	<u>1,150,428</u>	<u>(25,210)</u>	<u>936,663</u>	<u>(25,430)</u>	<u>(111,251)</u>	<u>(11,582)</u>	<u>(108,885)</u>	<u>(158,746)</u>	<u>1,645,987</u>
Other Changes									
Loss on impairment of goodwill	-	-	-	-	(104,025)	-	-	-	(104,025)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(104,025)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(104,025)</u>
Change in Net Assets	1,150,428	(25,210)	936,663	(25,430)	(215,276)	(11,582)	(108,885)	(158,746)	1,541,962
Net Assets at Beginning of Year	<u>2,454,693</u>	<u>606,848</u>	<u>-</u>	<u>505,019</u>	<u>(185,911)</u>	<u>185,940</u>	<u>24,296</u>	<u>(45,294)</u>	<u>3,545,591</u>
Net Assets at End of Year	<u>\$ 3,605,121</u>	<u>\$ 581,638</u>	<u>\$ 936,663</u>	<u>\$ 479,589</u>	<u>\$ (401,187)</u>	<u>\$ 174,358</u>	<u>\$ (84,589)</u>	<u>\$ (204,040)</u>	<u>\$ 5,087,553</u>

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