



**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

BRIDGEWELL, INC. AND AFFILIATES

Contents
June 30, 2016 and 2015

	<u>Pages</u>
Independent Auditor's Report	1 - 1A
Combined Financial Statements:	
Combined Statements of Financial Position	2
Combined Statements of Activities	3
Combined Statements of Changes in Net Assets	4
Combined Statements of Cash Flows	5
Combined Statements of Functional Expenses	6 - 7
Notes to Combined Financial Statements	8 - 23
Supplemental Information:	
Combining Statements of Financial Position	24 - 25
Combining Statements of Activities	26 - 27

Independent Auditor's Report

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

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Bridgewell, Inc. and Affiliates (Massachusetts corporations, not for profit), which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Bridgewell, Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplemental information shown on pages 24 through 27 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
January 13, 2017

BRIDGEWELL, INC. AND AFFILIATESCombined Statements of Financial Position
June 30, 2016 and 2015

Assets	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 874,954	\$ 2,265,644
Funds held by others	1,642,600	-
Investments	89,355	99,702
Contracts, grants and other receivables	4,529,976	4,692,414
Patient accounts receivable, net	1,346,976	1,025,132
Prepaid expenses and other current assets	791,624	723,781
Investments - restricted	309,955	-
Client funds held in trust	493,463	528,934
Total current assets	<u>10,078,903</u>	<u>9,335,607</u>
Other Assets:		
Restricted cash	1,010,280	963,240
Financing fees, net	325,415	412,777
Investments - restricted	-	316,966
Security deposits and other assets	120,210	116,517
Total other assets	<u>1,455,905</u>	<u>1,809,500</u>
Property and Equipment, net	<u>37,657,136</u>	<u>34,421,383</u>
Total assets	<u>\$ 49,191,944</u>	<u>\$ 45,566,490</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of notes payable to a bank	\$ 1,438,392	\$ -
Current portion of capital lease obligation	81,632	209,899
Current portion of long-term debt	284,930	495,169
Accounts payable	1,267,609	976,576
Accrued expenses	3,459,115	2,775,542
Deferred compensation	309,955	-
Client funds held in trust	493,463	528,934
Other current liabilities	71,471	90,152
Total current liabilities	<u>7,406,567</u>	<u>5,076,272</u>
Long-Term Liabilities:		
Notes payable to a bank, net of current portion	4,767,500	2,473,674
Deferred compensation	-	316,966
Capital lease obligation, net of current portion	-	81,632
Long-term debt, net of current portion	24,755,744	25,101,290
Total long-term liabilities	<u>29,523,244</u>	<u>27,973,562</u>
Contingent Debt	<u>5,211,914</u>	<u>5,227,914</u>
Total liabilities	<u>42,141,725</u>	<u>38,277,748</u>
Net Assets:		
Unrestricted:		
Operating	4,999,211	5,206,518
Property and equipment	(1,164,935)	(1,140,818)
Total unrestricted	<u>3,834,276</u>	<u>4,065,700</u>
Temporarily restricted	<u>3,215,943</u>	<u>3,223,042</u>
Total net assets	<u>7,050,219</u>	<u>7,288,742</u>
Total liabilities and net assets	<u>\$ 49,191,944</u>	<u>\$ 45,566,490</u>

The accompanying notes are an integral part of these combined statements.

Page 2

BRIDGEWELL, INC. AND AFFILIATESCombined Statements of Activities
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets:		
Operating revenue and support:		
Program service fees	\$ 55,825,012	\$ 53,633,733
Patient service revenue, net	10,197,776	8,210,478
Other	488,762	348,594
Contributions, grants and special events	476,265	471,155
Net assets released from purpose restrictions	19,457	82,453
	<u>67,007,272</u>	<u>62,746,413</u>
Total operating revenue and support		
Operating expenses:		
Program services	59,701,085	54,495,622
Management and general	7,673,166	7,833,764
Fundraising	371,911	444,270
	<u>67,746,162</u>	<u>62,773,656</u>
Total operating expenses		
Changes in unrestricted net assets from operations	<u>(738,890)</u>	<u>(27,243)</u>
Non-operating revenues and expenses:		
Gain (loss) on sale of property and equipment	308,824	(1,640)
Capital grant	100,000	-
Forgiveness of contingent debt	16,000	106,000
Insurance gain	-	129,167
Net assets released from purpose restrictions - capital	82,642	-
	<u>507,466</u>	<u>233,527</u>
Total non-operating revenues and expenses		
Changes in unrestricted net assets	<u>(231,424)</u>	<u>206,284</u>
Temporarily Restricted Net Assets:		
Contributions and grants	95,000	107,642
Net assets released from purpose restrictions	(102,099)	(82,453)
	<u>(7,099)</u>	<u>25,189</u>
Changes in temporarily restricted net assets		
Changes in net assets	<u>\$ (238,523)</u>	<u>\$ 231,473</u>

BRIDGEWELL, INC. AND AFFILIATESCombined Statements of Changes in Net Assets
For the Years Ended June 30, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ 3,859,416	\$ 3,197,853	\$ 7,057,269
Changes in net assets	<u>206,284</u>	<u>25,189</u>	<u>231,473</u>
Balance, June 30, 2015	4,065,700	3,223,042	7,288,742
Changes in net assets	<u>(231,424)</u>	<u>(7,099)</u>	<u>(238,523)</u>
Balance, June 30, 2016	<u><u>\$ 3,834,276</u></u>	<u><u>\$ 3,215,943</u></u>	<u><u>\$ 7,050,219</u></u>

BRIDGEWELL, INC. AND AFFILIATES

 Combined Statements of Cash Flows
 For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (238,523)	\$ 231,473
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,490,903	2,412,891
Bad debts	40,850	18,449
Capital grants	(190,000)	(82,642)
Insurance gain	-	(129,167)
Forgiveness of contingent debt	(16,000)	(106,000)
(Gain) loss on sale of property and equipment	(308,824)	1,640
Net realized and unrealized (gains) losses on investments	7,528	(8,737)
Changes in operating assets and liabilities:		
Funds held by others	(1,642,600)	-
Contracts, grants and other receivables	162,438	1,427,801
Patient accounts receivable, net	(362,694)	205,259
Prepaid expenses and other current assets	(67,843)	(103,486)
Security deposits and other assets	(3,693)	(538)
Accounts payable	125,059	(615,319)
Accrued expenses	683,573	285,311
Other current liabilities	(18,681)	(2,399)
Net cash provided by operating activities	<u>661,493</u>	<u>3,534,536</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(5,545,340)	(3,621,634)
Proceeds from sale of property and equipment	432,447	8,764
Insurance proceeds	-	129,167
Proceeds from sales of investments	2,819	2,136
Cash paid for financing fees	(51,603)	(41,413)
Deposits to restricted cash	(47,040)	(2,580)
Net cash used in investing activities	<u>(5,208,717)</u>	<u>(3,525,560)</u>
Cash Flows from Financing Activities:		
Capital grants	190,000	82,642
Net proceeds from note payable to a bank	3,732,218	1,610,528
Principal payments on capital lease obligation	(209,899)	(78,707)
Proceeds from long-term debt	310,332	-
Principal payments on long-term debt	(866,117)	(471,186)
Net cash provided by financing activities	<u>3,156,534</u>	<u>1,143,277</u>
Net Change in Cash and Cash Equivalents	(1,390,690)	1,152,253
Cash and Cash Equivalents:		
Beginning of year	<u>2,265,644</u>	<u>1,113,391</u>
End of year	<u>\$ 874,954</u>	<u>\$ 2,265,644</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 935,266</u>	<u>\$ 882,063</u>
Supplemental Disclosure of Non-Cash Transactions:		
Property and equipment financed through capital lease obligation	<u>\$ -</u>	<u>\$ 370,238</u>
Forgiveness of debt (contingent)	<u>\$ 16,000</u>	<u>\$ 106,000</u>
Cost basis of property and equipment disposed or sold	<u>\$ 22,821</u>	<u>\$ -</u>
Property and equipment financed through accounts payable	<u>\$ 221,974</u>	<u>\$ 56,000</u>

The accompanying notes are an integral part of these combined statements.

BRIDGEWELL, INC. AND AFFILIATES

Combined Statement of Functional Expenses

For the Year Ended June 30, 2016

(With Summarized Comparative Totals for the Year Ended June 30, 2015)

	2016											2015	
	Program Services							Supporting Services				Total	
	Development Disabilities Residential Services	Development Disabilities Day Services	Outpatient Services	Affordable Housing	Community Services	Homelessness Services	Center for Professional Innovation	Total Program Services	Management and General	Facilities	Fundraising	Total	Total
Salaries and Related:													
Salaries and wages	\$ 26,357,630	\$ 4,483,815	\$ 4,226,243	\$ 402,715	\$ 1,307,491	\$ 467,862	\$ 54,565	\$ 37,300,321	\$ 3,633,123	\$ 312,866	\$ 148,423	\$ 41,394,733	\$ 38,078,215
Payroll taxes and fringe benefits	4,761,909	812,503	747,800	71,350	241,514	84,742	9,428	6,729,246	1,142,575	57,417	31,109	7,960,347	6,632,064
Total salaries and related	31,119,539	5,296,318	4,974,043	474,065	1,549,005	552,604	63,993	44,029,567	4,775,698	370,283	179,532	49,355,080	44,710,279
Operating Expenses:													
Occupancy	1,090,099	748,587	221,233	1,909,846	65,469	19,224	22,826	4,077,284	216,896	1,124	-	4,295,304	4,144,313
Repairs and maintenance	856,338	142,425	95,157	314,303	5,610	37,192	1,478	1,452,503	88,257	79,463	-	1,620,223	1,761,242
Office	412,093	70,526	81,472	129,838	35,165	11,551	21,876	762,521	756,929	9,354	28,720	1,557,524	1,304,119
Transportation	641,620	45,495	79,648	4,382	503,688	11,784	4,403	1,291,020	38,845	39,177	427	1,369,469	1,223,673
Utilities	703,418	152,318	59,825	227,621	4,071	42,678	2,627	1,192,558	67,232	5,157	-	1,264,947	1,251,572
Insurance	564,289	95,580	54,924	86,567	256,492	7,211	1,308	1,066,371	130,135	31,806	1,214	1,229,526	1,002,808
Interest	644,591	87,415	39,804	59,203	6,051	-	-	837,064	90,022	8,180	-	935,266	882,063
Contracted services	81,285	171,307	119,762	4,542	2,295	164,561	588	544,340	216,605	500	19,236	780,681	764,357
Food	686,829	31,674	2,049	2,294	2,335	18,892	4,704	748,777	6,772	403	325	756,277	792,353
Supplies	432,664	88,313	10,111	15,925	25,408	9,453	20,389	602,263	85,920	9,646	1,833	699,662	651,764
Professional fees	6,446	7,693	2,150	81,816	2,335	-	74,389	174,829	358,635	-	76,201	609,665	674,037
Minor equipment	153,892	17,762	7,562	22,298	20,656	4,219	1,408	227,797	57,771	8,175	-	293,743	669,237
Training	797	291	30	-	-	-	126,296	127,414	64,469	2,771	1,500	196,154	174,361
Miscellaneous	11,632	8,126	1,814	13,575	1,783	587	-	37,517	81,037	14	15	118,583	99,242
Advertising	-	-	-	-	-	-	2,600	2,600	65,478	1,319	10,218	79,615	112,309
Event	-	-	-	-	-	-	-	-	-	-	52,690	52,690	124,587
Bad debts	-	18,568	22,282	-	-	-	-	40,850	-	-	-	40,850	18,449
Total operating expenses before depreciation and amortization and facilities allocation	37,405,532	6,982,398	5,771,866	3,346,275	2,480,363	879,956	348,885	57,215,275	7,100,701	567,372	371,911	65,255,259	60,360,765
Depreciation and Amortization	1,184,604	237,227	48,826	429,836	13,248	10,050	2,026	1,925,817	553,328	11,758	-	2,490,903	2,412,891
Total expenses before facilities allocation	38,590,136	7,219,625	5,820,692	3,776,111	2,493,611	890,006	350,911	59,141,092	7,654,029	579,130	371,911	67,746,162	62,773,656
Facilities Allocation	335,978	34,175	27,878	140,989	1,775	19,198	-	559,993	19,137	(579,130)	-	-	-
Total expenses	\$ 38,926,114	\$ 7,253,800	\$ 5,848,570	\$ 3,917,100	\$ 2,495,386	\$ 909,204	\$ 350,911	\$ 59,701,085	\$ 7,673,166	\$ -	\$ 371,911	\$ 67,746,162	\$ 62,773,656

BRIDGEWELL, INC. AND AFFILIATES

 Combined Statement of Functional Expenses
 For the Year Ended June 30, 2015

	Program Services							Supporting Services				
	Development Disabilities Residential Services	Development Disabilities Day Services	Outpatient Services	Affordable Housing	Community Services	Homelessness Services	Center for Professional Innovation	Total Program Services	Management and General	Facilities	Fundraising	Total
Salaries and Related:												
Salaries and wages	\$ 24,141,038	\$ 3,894,729	\$ 3,436,628	\$ 443,680	\$ 1,009,171	\$ 472,790	\$ 53,700	\$ 33,451,736	\$ 4,207,570	\$ 244,032	\$ 174,877	\$ 38,078,215
Payroll taxes and fringe benefits	4,195,501	687,079	619,718	80,200	177,490	81,099	9,771	5,850,858	702,659	46,558	31,989	6,632,064
Total salaries and related	28,336,539	4,581,808	4,056,346	523,880	1,186,661	553,889	63,471	39,302,594	4,910,229	290,590	206,866	44,710,279
Operating Expenses:												
Occupancy	1,072,814	703,603	316,016	1,824,738	3,253	25,980	16,960	3,963,364	179,552	1,397	-	4,144,313
Repairs and maintenance	1,026,383	171,049	59,724	282,646	5,757	35,063	3,054	1,583,676	102,086	75,480	-	1,761,242
Office	368,633	77,661	78,069	108,076	6,987	12,873	10,293	662,592	607,913	2,513	31,101	1,304,119
Transportation	667,162	33,962	58,158	2,872	343,520	10,738	3,412	1,119,824	42,479	60,949	421	1,223,673
Utilities	721,642	141,717	36,383	249,579	3,718	38,647	1,979	1,193,665	51,200	6,707	-	1,251,572
Insurance	509,393	67,614	37,515	59,070	174,975	7,144	864	856,575	118,855	26,683	695	1,002,808
Interest	569,694	100,743	-	57,125	5,469	-	-	733,031	139,188	9,844	-	882,063
Contracted services	51,693	186,429	141,498	26,095	-	177,660	1,400	584,775	179,382	200	-	764,357
Food	726,205	30,109	1,071	2,091	3,064	17,039	919	780,498	10,688	444	723	792,353
Supplies	396,591	96,539	11,354	39,476	9,347	8,703	12,028	574,038	64,294	6,621	6,811	651,764
Professional fees	23,601	2,172	730	41,388	-	3,210	62,506	133,607	479,415	-	61,015	674,037
Minor equipment	204,974	92,911	67,669	34,428	29,330	18,303	1,527	449,142	215,665	4,242	188	669,237
Training	6,876	8,770	1,325	225	1,190	25	98,882	117,293	55,227	276	1,565	174,361
Miscellaneous	13,310	5,161	5,787	3,632	5	402	-	28,297	67,056	271	3,618	99,242
Advertising	-	-	-	195	-	195	1,400	1,790	103,839	-	6,680	112,309
Event	-	-	-	-	-	-	-	-	-	-	124,587	124,587
Bad debts	2,122	-	2,568	-	-	-	-	4,690	13,759	-	-	18,449
Total operating expenses before depreciation and amortization and facilities allocation	34,697,632	6,300,248	4,874,213	3,255,516	1,773,276	909,871	278,695	52,089,451	7,340,827	486,217	444,270	60,360,765
Depreciation and Amortization	1,117,827	258,650	31,456	485,536	19,086	9,686	2,062	1,924,303	474,730	13,858	-	2,412,891
Total expenses before facilities allocation	35,815,459	6,558,898	4,905,669	3,741,052	1,792,362	919,557	280,757	54,013,754	7,815,557	500,075	444,270	62,773,656
Facilities Allocation	309,348	29,388	10,454	116,150	2,382	14,146	-	481,868	18,207	(500,075)	-	-
Total expenses	\$ 36,124,807	\$ 6,588,286	\$ 4,916,123	\$ 3,857,202	\$ 1,794,744	\$ 933,703	\$ 280,757	\$ 54,495,622	\$ 7,833,764	\$ -	\$ 444,270	\$ 62,773,656

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

1. OPERATIONS AND NONPROFIT STATUS

Bridgewell, Inc. (Bridgewell) is a Massachusetts nonprofit corporation formed in 1958 and operates the following programs:

Developmental Disabilities Residential Services - The Developmental Disabilities Residential Services program provides support to individuals with developmental and physical disabilities. The core purpose is assisting people to lead and direct their own lives.

Developmental Disabilities Day Services - The Developmental Disabilities Day Services program provides education, training and expressive therapy for individuals with developmental and physical disabilities in order to teach coping, communication and life skills.

Outpatient Services - The Outpatient Services program provides outpatient diagnostic assessments, individual, family and group psychotherapy; alcohol and substance abuse counseling, medication management; psychiatric day treatment; and psychiatric emergency coordination for Bridgewell and community residents.

Affordable Housing - The Affordable Housing program provides safe and affordable housing in Lowell and Lynn for individuals with disabilities, the homeless and individuals with a dual diagnosis and individuals in recovery from alcohol and substance abuse.

Community Services - The Community Services program provides transportation and recreation services.

Homelessness Services - The Homelessness Services program provides support to individuals with psychiatric disabilities. The core purpose is assisting people to lead and direct their own lives. The program also provides education, training and expressive therapy for individuals with psychiatric disabilities in order to teach coping, communication and life skills.

Center for Professional Innovation - The Center for Professional Innovation program provides continuing education for mental health and healthcare professionals and educators.

Bridgewell and its Affiliates (as defined in Note 2) (collectively, the Agency) are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Agency prepares its combined financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Combination

The combined financial statements include the net assets of Bridgewell, Project Cope, Inc. (Project Cope), Bridgewell Danvers Housing Corporation (BDHC), Bridgewell Lynn Housing Corporation (BLHC), Bridgewell Merrimac Housing Corporation (BMHC), Community Program Innovations, Inc., d/b/a Center for Professional Innovation (CPI), Forthill Avenue, Inc. (Forthill), and Middlesex North Resource Center, Inc. (MNRC) (collectively, the Affiliates). The entities are related through common Board of Director control. All significant inter-company accounts and transactions have been eliminated in the accompanying combined financial statements.

Project Cope provides drug and alcohol counseling, residential drug and alcohol counseling and rehabilitation, vocational skills training and related human services.

BDHC, BLHC, BMHC, Forthill and MNRC were founded to foster the creation of additional affordable housing opportunities. Programs of Bridgewell occupy the property owned by these agencies.

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

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents, except those funds that the Agency is required to maintain in separate accounts (see Note 4) and money market funds held in the restricted investment account (see Notes 5 and 12).

Funds Held by Others

Funds held by others represents amounts held by a third service provider to be used to satisfy an accrued payroll obligation.

Investments

The Agency carries investments in marketable securities with readily determinable values at their fair values in the combined statements of financial position. Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible. The allowance is based upon collection experience, third-party contracts and other circumstances which may affect the ability of the Agency to collect. The Agency writes off uncollectible patient accounts receivable, contracts, grant and other receivables upon determining they will not be collected. The Agency recorded \$19,973 and \$59,156 for the years ended June 30, 2016 and 2015, respectively.

Financing Fees and Amortization

Financing fees consist of intangible costs of financing transactions and licenses, certifications and other costs which have been capitalized and are amortized on the straight-line basis over the term of the related debt (see Notes 9 and 10).

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments that cost \$5,000 or more are capitalized, while repairs and maintenance are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

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

Construction in Process

Construction in process is included in property and equipment in the accompanying combined statements of financial position and represents costs incurred in connection with the pre-acquisition, acquisition and construction of properties the Agency intends on using in its programs as well as costs associated with information technology development. Real estate project development costs are recorded at cost. Management believes these projects could take anywhere from one to two years to completely develop and rent-up. All properties are located in Massachusetts. These assets are not depreciated until they are placed in service (see Note 6).

Net Asset Classifications

Unrestricted Net Assets

Unrestricted net assets represent those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

Operating net assets represent funds available to carry on the operations of the Agency.

Property and equipment net assets represent funds used in activities relating to the Agency's property and equipment and financing fees, net of related debt.

Temporarily Restricted Net Assets

The Agency receives contributions and grants which are designated by donors for specific purposes. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes.

Temporarily restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
HUD 811 Capital Advances (see Note 14)	\$ 3,115,400	\$ 3,115,400
Capital restricted	90,000	82,642
Purpose restricted	<u>10,543</u>	<u>25,000</u>
	<u>\$ 3,215,943</u>	<u>\$ 3,223,042</u>

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

The Agency follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The carrying value of investments, restricted investments and cash does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Revenue Recognition

Program service fees are recorded when services are provided and costs are incurred. Net patient service revenue is recorded as services are provided. Unrestricted contributions, grants and special events are recorded as revenue when received or unconditionally committed. All other revenues are recognized as earned.

Restricted contributions and grants are recorded as temporarily restricted support and revenues and net assets when received or unconditionally committed. Transfers are made to unrestricted net assets as costs are incurred or as time restrictions or program restrictions lapse. Donor restricted contributions and grants received and satisfied in the same period are included in unrestricted net assets.

Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances were approximately \$4,001,000 and \$2,957,000 for the years ended June 30, 2016 and 2015, respectively.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Combined Statements of Activities

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenue and support and operating expenses in the accompanying combined statements of activities. Non-operating revenues and expenses include capital activity and insurance gain.

Expense Allocation

Expenses related directly to a program or function are distributed to that program or function, while other expenses are allocated based upon management's estimate of the percentage attributable to each program or function.

Advertising Costs

The Agency expenses advertising costs as they are incurred.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at June 30, 2016 and 2015.

Subsequent Events

Subsequent events have been evaluated through January 13, 2017, which is the date the combined financial statements were available to be issued. See Note 17 for events that met the criteria for recognition or disclosure in the combined financial statements.

3. FUNDING

The Agency receives significant funding under unit-rate and cost reimbursable government contracts. These reimbursements are subject to audit by the appropriate governmental agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined financial position of the Agency as of June 30, 2016 and 2015, or on the changes in its net assets for the years then ended.

The Agency receives the majority of its contract funding from the Commonwealth of Massachusetts (the Commonwealth) Department of Developmental Services. This funding source represented approximately 65% and 63% of the Agency's total operating revenue and support and approximately 73% and 65% of the Agency's contracts, grants and other receivables as of and for the years ended June 30, 2016 and 2015, respectively.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

3. FUNDING (Continued)

Additionally, the Agency received approximately 10% and 9% of its revenue from Medicaid for the years ended June 30, 2016, and 2015, respectively.

4. RESTRICTED CASH

Reserve – Long Term Debt

During 2014, the Agency deposited \$730,000 into a non-interest bearing account with a bank as collateral for one of its buildings, in accordance with the continuing covenants agreement associated with the Agency's tax exempt bond (see Note 9). The escrow funds are held by the bank and can only be drawn upon with prior permission from the bank. As of June 30, 2016 and 2015, the account balance was \$730,000, and is included in restricted cash in the accompanying combined statements of financial position.

Reserve – Other

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 a 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, 2016 and 2015, the total balance of these reserves was \$280,280 and \$233,240, respectively, and is included in restricted cash in the accompanying combined statements of financial position.

5. INVESTMENTS

The following is a summary of the investments as of June 30:

	<u>2016</u>	<u>2015</u>
Domestic equities	\$ 70,170	\$ 48,753
S&P 500 Index Fund	19,185	48,496
Mutual funds – stock funds	<u>-</u>	<u>2,453</u>
Total investments	<u>\$ 89,355</u>	<u>\$ 99,702</u>

Investment income is included in other in the accompanying combined statements of activities and consists of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 8,438	\$ 2,289
Net realized and unrealized gains (losses) on investments	<u>(7,528)</u>	<u>8,737</u>
	<u>\$ 910</u>	<u>\$ 11,026</u>

Investments are not insured and are subject to on-going market fluctuations. Investments are available to fund short-term cash needs of the Agency, as needed, and accordingly, are reflected as current assets in the accompanying combined statements of financial position. Investments – restricted are invested in money market accounts and bond and equity mutual funds and are available to fund deferred compensation to a key employee (see Note 12).

BRIDGEWELL, INC. AND AFFILIATESNotes to Combined Financial Statements
June 30, 2016 and 2015**6. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2016:

	<u>Agency Owned</u>	<u>Purchased with State Funds</u>	<u>Total</u>
Land	\$ 3,100,897	\$ -	\$ 3,100,897
Buildings	38,652,200	-	38,652,200
Building improvements	12,665,058	-	12,665,058
Vehicles	230,838	107,756	338,594
Equipment and software	1,783,746	59,745	1,843,491
Furniture and office equipment	3,115,716	343,782	3,459,498
Construction in process	<u>1,855,434</u>	<u>-</u>	<u>1,855,434</u>
	61,403,889	511,283	61,915,172
Less - accumulated depreciation	<u>24,121,821</u>	<u>136,215</u>	<u>24,258,036</u>
	<u>\$ 37,282,068</u>	<u>\$ 375,068</u>	<u>\$ 37,657,136</u>

Property and equipment consist of the following at June 30, 2015:

	<u>Agency Owned</u>	<u>Purchased with State Funds</u>	<u>Total</u>
Land	\$ 2,739,891	\$ -	\$ 2,739,891
Buildings	36,446,706	-	36,446,706
Building improvements	11,990,924	-	11,990,924
Vehicles	222,596	171,156	393,752
Equipment and software	1,681,010	59,745	1,740,755
Furniture and office equipment	3,021,078	343,782	3,364,860
Construction in process	<u>332,578</u>	<u>-</u>	<u>332,578</u>
	56,434,783	574,683	57,009,466
Less - accumulated depreciation	<u>22,403,246</u>	<u>184,837</u>	<u>22,588,083</u>
	<u>\$ 34,031,537</u>	<u>\$ 389,846</u>	<u>\$ 34,421,383</u>

Property and equipment purchased with contract funds from the Commonwealth in prior years totaled \$511,283 and \$574,683 as of June 30, 2016 and 2015, respectively. Title is held by the Agency and is used in Agency programs, and the assets consist of vehicles, equipment and furniture and office equipment. The Commonwealth retains a revisionary interest in these assets. All state owned assets disposed of in fiscal year 2016 were given back to the state.

Depreciation expense for the years ended June 30, 2016 and 2015, was \$2,351,938 and \$2,283,340, respectively, and is included in depreciation and amortization in the accompanying combined statements of functional expenses.

For the year ended June 30, 2016, there was a gain recognized on the sale of property and equipment in the amount of \$308,824. There was no gain on the sale of property and equipment for the year ended June 30, 2015.

BRIDGEWELL, INC. AND AFFILIATESNotes to Combined Financial Statements
June 30, 2016 and 2015

7. FINANCING FEES AND AMORTIZATION

Financing fees consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Financing fees	\$ 697,112	\$ 645,509
Licenses, certifications and other	<u>161,725</u>	<u>161,725</u>
	858,837	807,234
Less - accumulated amortization	<u>533,422</u>	<u>394,457</u>
	<u>\$ 325,415</u>	<u>\$ 412,777</u>

Amortization expense was \$138,965 and \$129,551 for the years ended June 30, 2016 and 2015, respectively, and is included in depreciation and amortization in the accompanying combined statements of functional expenses. Annual amortization expense over the next five years is expected to be as follows:

2017	\$ 146,762
2018	\$ 139,235
2019	\$ 20,621
2020	\$ 702
2021	\$ 702

8. NOTES PAYABLE TO A BANK***Operating Line of Credit***

The Agency has available a \$1,500,000 line of credit with a bank. This line of credit requires monthly payments of interest only and is due on demand. Interest on unpaid balances accrues at LIBOR plus 3% (3.46% and 3.19% as of June 30, 2016 and 2015, respectively). This line of credit is secured by all of the Agency's assets and cross-collateralized with long-term debt agreements (see Note 9). As of June 30, 2016, there was an outstanding balance of \$1,438,392. As of June 30, 2015, there were no amounts outstanding under this agreement. Subsequent to year end, the line of credit agreement was amended (see Note 17).

Facility Line of Credit

The Agency has available a \$5,000,000 facility line of credit with a bank through April 2018. This line of credit requires monthly payments of interest only and the principal balance and any accrued interest are due upon maturity. Interest on unpaid balances accrues at LIBOR plus 3% (3.46% and 3.19% as of June 30, 2016 and 2015, respectively). This line of credit is secured by a mortgage on certain real property. As of June 30, 2016 and 2015, there was \$4,767,500 and \$2,473,674, respectively, outstanding under this agreement, which is reflected as a long-term liability in the accompanying combined statements of financial position as the principal balance is not due until maturity. Subsequent to year end, the facility line of credit was refinanced and this agreement was terminated (see Note 17).

BRIDGEWELL, INC. AND AFFILIATESNotes to Combined Financial Statements
June 30, 2016 and 2015**9. LONG-TERM DEBT**

Long-term debt consists of the following as of June 30:

Bridgewell:

On August 1, 2013, Bridgewell entered into a \$20,359,600 tax exempt bond agreement (Bridgewell, Incorporated Issue, Series 2013), issued by Massachusetts Development Finance Agency through a bank (the bond owner), maturing on August 1, 2043. Outstanding principal accrues interest at 3% per annum. The agreement requires interest-only payments through August 2018, at which time the rate and payment will adjust to 68% of the LIBOR Advantage Rate, plus 4.5%. Although no principal payments were due under the terms of this agreement, Bridgewell elected to make principal payments on this bond during fiscal years 2016 and 2015. On August 27, 2018 (the purchase date), the outstanding bond, including any accrued interest, is required to be purchased from the bond owner, unless 180 days prior to the purchase date, the bond owner issues a written irrevocable waiver of the mandatory purchase. This note is secured by a mortgage on certain property and a reserve account held by the bank (see Note 4). Subsequent to year end, the bond was refinanced (see Note 17).

<u>2016</u>	<u>2015</u>
\$ 19,710,600	\$ 20,085,600

4% note payable to a bank, due in monthly payments of principal and interest of \$48,374 through September 2018, at which time a balloon payment of approximately \$2,182,000 is due. This note is secured by a mortgage on certain real property. Subsequent to year end, the note was refinanced (see Note 17).

3,203,206	3,643,666
-----------	-----------

2.5% note payable to a bank, due in monthly payments of principal and interest of \$2,120 through October 2030. This note is secured by a mortgage on certain real property.

<u>307,396</u>	<u>-</u>
----------------	----------

Total Bridgewell

<u>23,221,202</u>	<u>23,729,266</u>
-------------------	-------------------

Project Cope:

4% note payable to a bank, due in monthly payments of principal and interest of \$10,113 through April 2019, at which time a balloon payment of approximately \$1,679,000 is due. This note is secured by a mortgage on certain real property. Subsequent to year end, the note was refinanced (see Note 17).

1,814,972	1,862,693
-----------	-----------

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

9. LONG-TERM DEBT (Continued)

<i>Project Cope:</i>	<u>2016</u>	<u>2015</u>
Non-interest bearing note payable to an organization. Monthly principal payments of \$500 are due through maturity, July 31, 2015, with any outstanding principal due on demand. This note is unsecured.	4,500	4,500
Total Project Cope	<u>1,819,472</u>	<u>1,867,193</u>
Total long-term debt	25,040,674	25,596,459
Less - current portion	<u>284,930</u>	<u>495,169</u>
	<u>\$ 24,755,744</u>	<u>\$ 25,101,290</u>

Maturities of long-term debt over the next five years, which includes the effects of the refinancing that occurred subsequent to year end (see Note 17), are as follows:

2017	\$ 284,930
2018	\$ 90,572
2019	\$ 534,079
2020	\$ 642,696
2021	\$ 667,563

Certain long-term debt agreements require the Agency to maintain certain financial ratios and covenants. The Agency was in compliance with these financial ratios and covenants at June 30, 2016, except for one for which they obtained a waiver from the bank.

Long-term debt and the operating line of credit (see Note 8) are all cross-collateralized and secured by mortgages on all of the Agency's properties.

10. CONTINGENT DEBT

Contingent debt consists of the following as of June 30:

	<u>Term</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>
Bridgewell, Inc.:				
Community Economic Development Assistance Corporation (CEDAC)	30 years	April 2044	\$ 477,000	\$ 477,000
CEDAC	30 years	January 2037	455,355	455,355
CEDAC	30 years	March 2043	441,415	441,415
CEDAC	30 years	October 2038	392,571	392,571
North Shore HOME Consortium (NSC)	20 years	July 2024	50,000	50,000
NSC	15 years	December 2018	<u>30,000</u>	<u>30,000</u>
Total Bridgewell			<u>1,846,341</u>	<u>1,846,341</u>

BRIDGEWELL, INC. AND AFFILIATES

 Notes to Combined Financial Statements
 June 30, 2016 and 2015

10. CONTINGENT DEBT (Continued)

	<u>Term</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>
Middlesex North Resource Center, Inc.:				
CEDAC	30 years	December 2039	550,000	550,000
CEDAC	30 years	December 2039	470,171	470,171
Massachusetts Housing Partnership Fund Board	50 years	December 2059	395,352	395,352
City of Lowell	20 years	October 2028	208,000	224,000
CEDAC	30 years	August 2030	<u>200,250</u>	<u>200,250</u>
Total MNRC			<u>1,823,773</u>	<u>1,839,773</u>
Bridgewell Lynn Housing Corporation:				
CEDAC	30 years	September 2042	536,637	536,637
Lynn Housing Authority	30 years	October 2041	<u>50,000</u>	<u>50,000</u>
Total BLHC			<u>586,637</u>	<u>586,637</u>
Bridgewell Merrimac Housing Corporation:				
CEDAC	30 years	March 2039	<u>364,177</u>	<u>364,177</u>
Bridgewell Danvers Housing Corporation:				
CEDAC	30 years	July 2040	230,610	230,610
NSC	30 years	July 2040	<u>15,000</u>	<u>15,000</u>
Total BDHC			<u>245,610</u>	<u>245,610</u>
Forthill Avenue, Inc.:				
CEDAC	30 years	July 2032	<u>200,376</u>	<u>200,376</u>
Project Cope, Inc.:				
Lynn Housing Authority	10 years	July 2020	100,000	100,000
Westford Housing Authority	40 years	May 2029	<u>45,000</u>	<u>45,000</u>
Total Project Cope			<u>145,000</u>	<u>145,000</u>
Total contingent debt			<u>\$ 5,211,914</u>	<u>\$ 5,227,914</u>

All of the Agency's contingent debt is non-interest bearing and is secured by mortgages on certain property. Principal on the CEDAC notes above and on page 17, will be due and payable annually, equal to the amount by which gross cash receipts exceeds 105% of gross cash expenditures, as defined in the agreements. There were no principal payments due during fiscal years 2016 and 2015.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

10. CONTINGENT DEBT (Continued)

During fiscal years 2016 and 2015, a portion of MNRC's note payable to the City of Lowell totaling \$16,000 and \$96,000, respectively, was forgiven. During fiscal year 2015, a portion of BMHC's note payable to NSC under the Home program totaling \$10,000 was also forgiven. These amounts are reflected as non-operating forgiveness of contingent debt income in the accompanying combined statements of activities.

The CEDAC notes on pages 17 and 18 have an option to extend the term for an additional period of up to ten years. The NSC notes on pages 17 and 18 and note with Westford Housing Authority above have an option to extend the term for an additional period of up to the original term of the notes.

Management's understanding is that these loans are not required to be repaid unless the related property fails to comply with other conditions in the agreement. It is the intention of the Board of Directors and management to maintain the properties for their intended purpose.

11. LEASES

Facility

The Agency occupies office and program related space under non-cancelable lease agreements with terms ranging from two to twenty years and various expiration dates through April 2035. The approximate monthly payments range from \$360 to \$21,900 under these agreements. The Agency is also liable for certain real estate tax increases and operating cost adjustments as outlined in the agreements. Rent expense under these agreements for the years ended June 30, 2016 and 2015, totaled \$2,351,038 and \$2,298,024, respectively, and is included in occupancy on the combined statements of functional expenses. Several of these lease agreements include a right of first refusal and option to buy the leased premises at a defined purchase price, as outlined in the agreements.

Also included in occupancy on the combined statements of functional expenses for the years ended June 30, 2016 and 2015, is \$1,651,760 and \$1,573,063, respectively, of rental expenses paid by Bridgewell on behalf of its consumers.

Vehicles

The Agency leases vehicles for program use under non-cancelable operating lease agreements with approximate monthly payments ranging from \$360 to \$800 and various expiration dates ranging from September 2016 to May 2021, respectively. Vehicle expense for the years ended June 30, 2016 and 2015, was \$766,146 and \$579,478, respectively, and is included in transportation in the accompanying combined statements of functional expenses.

The future minimum annual operating lease commitments for the Agency are as follows:

	<u>Facility</u>	<u>Vehicles</u>
2017	\$ 1,865,762	\$ 760,583
2018	\$ 1,689,725	\$ 693,345
2019	\$ 1,554,090	\$ 589,971
2020	\$ 1,280,069	\$ 455,451
2021	\$ 716,522	\$ 335,301
Thereafter	\$ 4,052,013	\$ -

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

11. LEASES (Continued)

Capital Lease

In fiscal year 2015, the Agency entered into two capital lease agreements for office equipment, with an aggregate cost of \$370,238. These agreements expire through November 2016. Future minimum lease payments under these agreements to be made in fiscal year 2017 are \$81,632.

Depreciation expense on these assets was \$36,612 and \$21,357 for the years ended June 30, 2016 and 2015, respectively, and is included in the depreciation and amortization in the accompanying combined statements of functional expenses.

12. EMPLOYEE BENEFITS

403(b) Plan

The Agency maintains an IRC Section 403(b) Retirement Plan (the 403(b) Plan) for all eligible employees. Employees may make contributions to the 403(b) Plan up to the maximum allowed by law. The Agency can elect to make discretionary matching contributions to the 403(b) Plan. For the year ended June 30, 2016, the employer contribution authorized and accrued for was \$250,000. This amount is included in accrued expenses in the accompanying combined statement of financial position as of June 30, 2016. This contribution was funded in early fiscal year 2017. For the year ended June 30, 2015, there were no employer contributions made to the 403(b) Plan.

Supplemental Executive Retirement Agreement (SERP)

The Agency has a non-qualified deferred compensation program as allowed under Section 457(f) of the IRC 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 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.

No contributions were made to the SERP for the year ended June 30, 2016. During the year ended June 30, 2015, the Agency made contributions totaling \$60,000, which are included in salaries and wages in the accompanying 2015 combined statement of functional expenses. As of June 30, 2016 and 2015, the investment account balance was \$309,955 and \$316,966, respectively, and is reflected as investments - restricted, and the related liability equal to the same amount is reflected as deferred compensation in the accompanying combined statements of financial position (see Note 5). As of June 30, 2016, the deferred compensation became fully vested in accordance with the terms of the SERP. Accordingly, the aforementioned asset and liability are reflected as current on the accompanying combined statement of financial position at June 30, 2016.

13. UNION EMPLOYEES

The Agency entered into a collective bargaining agreement with Local 509, Services Employees International Union (SEIU), that became effective November 1, 2014. 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 covered approximately 72% and 73% of the labor force at June 30, 2016 and 2015, respectively. The agreement has an expiration date of June 30, 2017.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

14. COMMITMENTS AND CONTINGENCIES

Due to the Commonwealth of Massachusetts

As of June 30, 2016 and 2015, the Agency owes certain departments within the Commonwealth of Massachusetts \$71,471 and \$90,152, respectively, for non-reimbursable costs that were billed under certain contracts in previous years. A portion of this liability, \$12,439 and \$30,018 at June 30, 2016 and 2015, respectively, will be offset by future services provided by the Agency. There are no repayment terms for the remainder of the balance due. This entire amount is reflected as other current liabilities in the accompanying combined statement of financial position.

Other

In the ordinary course of the Agency's business, the Agency is, from time-to-time, a defendant in litigation. While the counterparties are seeking damages in connection with these disputes, the Agency denies any wrongdoing in these cases and is taking the appropriate legal steps in defense of these disputes. It is the Agency's opinion that any potential settlement would not be material to the accompanying combined financial statements.

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 twenty 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, 2016 and 2015, the Agency believes the remaining restriction will be met.

Capital Advances – HUD

BDHC, BLHC and BMHC have each entered into a capital advance program regulatory agreement with HUD. The capital advances bear no interest and are not required to be repaid so long as the housing remains available to eligible very low-income households for a period of forty years and that BDHC, BLHC and BMHC operate the program in accordance with Section 811 of the National Affordable Housing Act. The advances are secured by a first mortgage on each applicable property. Failure to meet these requirements will result in an actual liability owed to HUD for the entire capital advance outstanding, plus interest. As of June 30, 2016 and 2015, the Agency believes the remaining restrictions will be met. The balance of these advances is included in temporarily restricted net assets and totaled \$3,115,400 as of June 30, 2016 and 2015 (see Note 2).

15. CONCENTRATION OF CREDIT RISK

The Agency maintains its cash balances in four Massachusetts banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on its operating cash balance.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

16. RELATED PARTY TRANSACTIONS

Bridgewell provides property management services to BDHC, BLHC, BMHC and Forthill for which it is entitled to an annual management fee under the terms of the agreements with each entity. These agreements will remain in effect until cancelled by HUD, Bridgewell or the affiliate. Bridgewell billed BDHC, BLHC, BMHC, and Forthill a total of \$13,379 and \$28,646 for property management services for the years ended June 30, 2016 and 2015, respectively. Bridgewell also provides administrative and management services to Project Cope. During the fiscal years ended June 30, 2016 and 2015, Bridgewell billed Project Cope \$275,000 annually for these services. These amounts have been eliminated in the accompanying combined financial statements.

A member of the Agency's Board of Directors holds a management position at a bank. The Agency has a note payable and operating cash accounts with this bank.

The Agency purchased two buildings from a nonprofit organization in which the Agency's Chief Financial Officer is a member of the Board of Directors. The individual recused himself from any discussions or votes taken by the seller organization. The combined purchase price for the two properties approximated fair value, approximately \$670,000.

The above mentioned Board members abstain from discussions and voting on matters related to their respective employers.

17. SUBSEQUENT EVENTS

On July 29, 2016, the Agency sold the land and a building located at 471 Broadway, Lynnfield, Massachusetts. The sale price was \$3,000,000, and the net proceeds were used to fund a portion of the purchase of the land and building located at 10 Dearborn Road, Peabody, Massachusetts (see below). The Agency also entered into a lease-back agreement with the purchaser of the building it sold through April 2017, with payments of \$16,875 due monthly.

On August 1, 2016, the Agency purchased land and a building in Peabody, Massachusetts (see above) from a bank for approximately \$3,500,000. The Agency made a \$150,000 deposit on this property as of June 30, 2016. This amount is included in property and equipment, net in the accompanying 2016 combined statement of financial position. The Agency acquired the property using the net proceeds from the sale of the properties mentioned above and below as well as from borrowings on its facility line of credit (see Note 8). Management obtained conventional financing via a term note payable and tax exempt bonds to finance the acquisitions and pay off the facility line of credit (see below).

On August 5, 2016, the Agency sold the land and a building located at 495 Broadway, Lynnfield, Massachusetts for \$445,000.

On December 29, 2016, the Agency entered into the following financing agreements with a bank to refinance its line of credit, facility line of credit (see Note 8), and a portion of its long-term debt (see Note 9):

- The Agency entered into a \$25,505,000 tax exempt bond agreement (Bridgewell Incorporated Issue, Series 2016), issued by MDFA through a bank (the bond owner), maturing on December 27, 2046. Outstanding principal accrues interest at 65% of LIBOR plus 2.85%. The agreement requires monthly interest-only payments through August 2018. Beginning September 2018, monthly payments of principal of \$43,905 (escalating annually) plus interest are due through maturity. This bond is secured by a mortgage on certain property.

BRIDGEWELL, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2016 and 2015

17. SUBSEQUENT EVENTS (Continued)

- The Agency entered into a term note with a bank for \$5,116,760. This note bears interest at LIBOR plus 2.85% and is due in monthly installments of principal of \$5,850 (escalating annually) plus interest, as defined in the agreement, through December 29, 2026, at which time the entire principal balance is due.
- The Agency's operating line of credit was amended to include an available balance of \$2,500,000 with the same terms and conditions. This line of credit is renewable annually in January.

18. RECLASSIFICATIONS

Certain amounts in the fiscal year 2015 combined financial statements have been reclassified to conform with the fiscal year 2016 presentation.

BRIDGEWELL, INC. AND AFFILIATES

Combining Statement of Financial Position
June 30, 2016

Assets	Bridgewell, Inc.	Project Cope, 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.	Eliminations	Total
Current Assets:										
Cash and cash equivalents	\$ 689,286	\$ 105,828	\$ 5,887	\$ 17,405	\$ 3,352	\$ 37,292	\$ 15,904	\$ -	\$ -	\$ 874,954
Funds held by others	1,642,600	-	-	-	-	-	-	-	-	1,642,600
Investments	89,355	-	-	-	-	-	-	-	-	89,355
Contracts, grants and other receivables	4,368,992	154,588	-	-	-	4,325	2,071	-	-	4,529,976
Patient accounts receivable, net	1,300,943	46,033	-	-	-	-	-	-	-	1,346,976
Prepaid expenses and other current assets	790,303	-	-	-	-	1,321	-	-	-	791,624
Investments - restricted	309,955	-	-	-	-	-	-	-	-	309,955
Client funds held in trust	493,463	-	-	-	-	-	-	-	-	493,463
Total current assets	9,684,897	306,449	5,887	17,405	3,352	42,938	17,975	-	-	10,078,903
Other Assets:										
Restricted cash	730,000	-	29,476	44,190	28,605	-	178,009	-	-	1,010,280
Financing fees, net	289,742	35,673	-	-	-	-	-	-	-	325,415
Due (to) from affiliates	723,979	532,083	(47,755)	(37,948)	(71,699)	(551,115)	(4,134)	(543,411)	-	-
Security deposits and other assets	120,016	194	-	-	-	-	-	-	-	120,210
Total other assets	1,863,737	567,950	(18,279)	6,242	(43,094)	(551,115)	173,875	(543,411)	-	1,455,905
Property and Equipment, net	29,853,220	2,467,249	737,305	1,943,946	761,154	4,460	138,712	1,983,551	(232,461)	37,657,136
Total assets	\$ 41,401,854	\$ 3,341,648	\$ 724,913	\$ 1,967,593	\$ 721,412	\$ (503,717)	\$ 330,562	\$ 1,440,140	\$ (232,461)	\$ 49,191,944
Liabilities and Net Assets										
Current Liabilities:										
Current portion of notes payable to a bank	\$ 1,438,392	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,438,392
Current portion of capital lease obligation	81,632	-	-	-	-	-	-	-	-	81,632
Current portion of long-term debt	235,269	49,661	-	-	-	-	-	-	-	284,930
Accounts payable	1,246,883	7,448	966	3,522	1,361	4,615	2,814	-	-	1,267,609
Accrued expenses	3,459,115	-	-	-	-	-	-	-	-	3,459,115
Deferred compensation	309,955	-	-	-	-	-	-	-	-	309,955
Client funds held in trust	493,463	-	-	-	-	-	-	-	-	493,463
Other current liabilities	71,471	-	-	-	-	-	-	-	-	71,471
Total current liabilities	7,336,180	57,109	966	3,522	1,361	4,615	2,814	-	-	7,406,567
Long-Term Liabilities:										
Notes payable to a bank, net of current portion	4,767,500	-	-	-	-	-	-	-	-	4,767,500
Long-term debt, net of current portion	22,985,933	1,769,811	-	-	-	-	-	-	-	24,755,744
Total long-term liabilities	27,753,433	1,769,811	-	-	-	-	-	-	-	29,523,244
Contingent Debt	1,846,341	145,000	245,610	586,637	364,177	-	200,376	1,823,773	-	5,211,914
Total liabilities	36,935,954	1,971,920	246,576	590,159	365,538	4,615	203,190	1,823,773	-	42,141,725
Net Assets:										
Unrestricted:										
Operating	5,074,436	826,278	(13,358)	20,125	(41,103)	(512,792)	189,036	(543,411)	-	4,999,211
Property and equipment	(704,079)	538,450	(122,705)	(218,191)	(152,223)	4,460	(437,964)	159,778	(232,461)	(1,164,935)
Total unrestricted	4,370,357	1,364,728	(136,063)	(198,066)	(193,326)	(508,332)	(248,928)	(383,633)	(232,461)	3,834,276
Temporarily restricted	95,543	5,000	614,400	1,575,500	549,200	-	376,300	-	-	3,215,943
Total net assets	4,465,900	1,369,728	478,337	1,377,434	355,874	(508,332)	127,372	(383,633)	(232,461)	7,050,219
Total liabilities and net assets	\$ 41,401,854	\$ 3,341,648	\$ 724,913	\$ 1,967,593	\$ 721,412	\$ (503,717)	\$ 330,562	\$ 1,440,140	\$ (232,461)	\$ 49,191,944

BRIDGEWELL, INC. AND AFFILIATES

Combining Statement of Financial Position
June 30, 2015

Assets	Bridgewell, Inc.	Project Cope, 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.	Eliminations	Total
Current Assets:										
Cash and cash equivalents	\$ 1,863,977	\$ 120,574	\$ 33,890	\$ 86,148	\$ 72,700	\$ 81,138	\$ 7,217	\$ -	\$ -	\$ 2,265,644
Investments	99,702	-	-	-	-	-	-	-	-	99,702
Contracts, grants and other receivables	4,109,313	552,971	2,555	-	-	23,465	4,110	-	-	4,692,414
Patient accounts receivable, net	974,226	50,906	-	-	-	-	-	-	-	1,025,132
Prepaid expenses and other current assets	717,987	-	-	1,794	-	4,000	-	-	-	723,781
Client funds held in trust	528,934	-	-	-	-	-	-	-	-	528,934
Total current assets	8,294,139	724,451	36,445	87,942	72,700	108,603	11,327	-	-	9,335,607
Other Assets:										
Restricted cash	730,000	-	15,881	25,880	16,654	-	174,825	-	-	963,240
Financing fees, net	364,874	47,903	-	-	-	-	-	-	-	412,777
Investments - restricted	316,966	-	-	-	-	-	-	-	-	316,966
Due (to) from affiliates	1,266,846	201,827	(58,083)	(98,620)	(121,743)	(645,336)	(4,636)	(540,255)	-	-
Security deposits and other assets	116,323	194	-	-	-	-	-	-	-	116,517
Total other assets	2,795,009	249,924	(42,202)	(72,740)	(105,089)	(645,336)	170,189	(540,255)	-	1,809,500
Property and Equipment, net	26,283,113	2,560,155	768,971	2,017,335	788,284	6,466	155,545	2,080,408	(238,894)	34,421,383
Total assets	\$ 37,372,261	\$ 3,534,530	\$ 763,214	\$ 2,032,537	\$ 755,895	\$ (530,267)	\$ 337,061	\$ 1,540,153	\$ (238,894)	\$ 45,566,490
Liabilities and Net Assets										
Current Liabilities:										
Current portion of capital lease obligation	\$ 209,899	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 209,899
Current portion of long-term debt	442,952	52,217	-	-	-	-	-	-	-	495,169
Accounts payable	955,707	9,306	1,809	5,385	2,644	249	1,476	-	-	976,576
Accrued expenses	2,775,542	-	-	-	-	-	-	-	-	2,775,542
Client funds held in trust	528,934	-	-	-	-	-	-	-	-	528,934
Other current liabilities	90,152	-	-	-	-	-	-	-	-	90,152
Total current liabilities	5,003,186	61,523	1,809	5,385	2,644	249	1,476	-	-	5,076,272
Long-Term Liabilities:										
Note payable to a bank	2,473,674	-	-	-	-	-	-	-	-	2,473,674
Deferred compensation	316,966	-	-	-	-	-	-	-	-	316,966
Capital lease obligation, net of current portion	81,632	-	-	-	-	-	-	-	-	81,632
Long-term debt, net of current portion	23,286,314	1,814,976	-	-	-	-	-	-	-	25,101,290
Total long-term liabilities	26,158,586	1,814,976	-	-	-	-	-	-	-	27,973,562
Contingent Debt	1,846,341	145,000	245,610	586,637	364,177	-	200,376	1,839,773	-	5,227,914
Total liabilities	33,008,113	2,021,499	247,419	592,022	366,821	249	201,852	1,839,773	-	38,277,748
Net Assets:										
Unrestricted:										
Operating	5,219,331	917,166	(7,566)	9,817	(35,033)	(536,982)	180,040	(540,255)	-	5,206,518
Property and equipment	(962,825)	595,865	(91,039)	(144,802)	(125,093)	6,466	(421,131)	240,635	(238,894)	(1,140,818)
Total unrestricted	4,256,506	1,513,031	(98,605)	(134,985)	(160,126)	(530,516)	(241,091)	(299,620)	(238,894)	4,065,700
Temporarily restricted	107,642	-	614,400	1,575,500	549,200	-	376,300	-	-	3,223,042
Total net assets	4,364,148	1,513,031	515,795	1,440,515	389,074	(530,516)	135,209	(299,620)	(238,894)	7,288,742
Total liabilities and net assets	\$ 37,372,261	\$ 3,534,530	\$ 763,214	\$ 2,032,537	\$ 755,895	\$ (530,267)	\$ 337,061	\$ 1,540,153	\$ (238,894)	\$ 45,566,490

BRIDGEWELL, INC. AND AFFILIATES

 Combining Statement of Activities
 For the Year Ended June 30, 2016

	<u>Bridgewell, Inc.</u>	<u>Project Cope, 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>Eliminations</u>	<u>Total</u>
Unrestricted Net Assets:										
Operating revenue and support:										
Program service fees	\$ 53,320,151	\$ 2,024,725	\$ 37,866	\$ 82,220	\$ 39,000	\$ 279,175	\$ 41,875	\$ -	\$ -	\$ 55,825,012
Patient service revenue, net	9,694,003	503,773	-	-	-	-	-	-	-	10,197,776
Other	762,982	13,171	-	988	-	-	-	-	(288,379)	488,762
Contributions, grants and special events	378,640	58,446	-	-	291	37,900	988	-	-	476,265
Net assets released from purpose restrictions	19,457	-	-	-	-	-	-	-	-	19,457
Total operating revenue and support	<u>64,175,233</u>	<u>2,600,115</u>	<u>37,866</u>	<u>83,208</u>	<u>39,291</u>	<u>317,075</u>	<u>42,863</u>	<u>-</u>	<u>(288,379)</u>	<u>67,007,272</u>
Operating expenses:										
Program services	56,527,588	2,447,168	75,324	146,289	72,491	294,891	50,700	100,013	(13,379)	59,701,085
Management and general	7,553,349	401,250	-	-	-	-	-	-	(281,433)	7,673,166
Fundraising	371,911	-	-	-	-	-	-	-	-	371,911
Total operating expenses	<u>64,452,848</u>	<u>2,848,418</u>	<u>75,324</u>	<u>146,289</u>	<u>72,491</u>	<u>294,891</u>	<u>50,700</u>	<u>100,013</u>	<u>(294,812)</u>	<u>67,746,162</u>
Changes in unrestricted net assets from operations	<u>(277,615)</u>	<u>(248,303)</u>	<u>(37,458)</u>	<u>(63,081)</u>	<u>(33,200)</u>	<u>22,184</u>	<u>(7,837)</u>	<u>(100,013)</u>	<u>6,433</u>	<u>(738,890)</u>
Non-operating revenues and expenses:										
Gain on sale of property and equipment	308,824	-	-	-	-	-	-	-	-	308,824
Capital grant	-	100,000	-	-	-	-	-	-	-	100,000
Net assets released from purpose restrictions - capital	82,642	-	-	-	-	-	-	-	-	82,642
Forgiveness of contingent debt	-	-	-	-	-	-	-	16,000	-	16,000
Total non-operating revenues and expenses	<u>391,466</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,000</u>	<u>-</u>	<u>507,466</u>
Changes in unrestricted net assets	<u>113,851</u>	<u>(148,303)</u>	<u>(37,458)</u>	<u>(63,081)</u>	<u>(33,200)</u>	<u>22,184</u>	<u>(7,837)</u>	<u>(84,013)</u>	<u>6,433</u>	<u>(231,424)</u>
Temporarily Restricted Net Assets:										
Contributions and grants	90,000	5,000	-	-	-	-	-	-	-	95,000
Net assets released from purpose restrictions	(102,099)	-	-	-	-	-	-	-	-	(102,099)
Changes in temporarily restricted net assets	<u>(12,099)</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,099)</u>
Changes in net assets	<u>\$ 101,752</u>	<u>\$ (143,303)</u>	<u>\$ (37,458)</u>	<u>\$ (63,081)</u>	<u>\$ (33,200)</u>	<u>\$ 22,184</u>	<u>\$ (7,837)</u>	<u>\$ (84,013)</u>	<u>\$ 6,433</u>	<u>\$ (238,523)</u>

BRIDGEWELL, INC. AND AFFILIATES

 Combining Statement of Activities
 For the Year Ended June 30, 2015

	<u>Bridgewell, Inc.</u>	<u>Project Cope, 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>Eliminations</u>	<u>Total</u>
Unrestricted Net Assets:										
Operating revenue and support:										
Program service fees	\$ 50,844,903	\$ 1,754,496	\$ 44,785	\$ 82,060	\$ 39,000	\$ 257,381	\$ 40,383	\$ 570,725	\$ -	\$ 53,633,733
Patient service revenue, net	8,021,998	188,480	-	-	-	-	-	-	-	8,210,478
Other	628,186	23,718	-	336	-	-	-	-	(303,646)	348,594
Contributions, grants and special events	441,963	15,242	-	-	-	13,950	-	-	-	471,155
Net assets released from purpose restrictions	82,453	-	-	-	-	-	-	-	-	82,453
Total operating revenue and support	60,019,503	1,981,936	44,785	82,396	39,000	271,331	40,383	570,725	(303,646)	62,746,413
Operating expenses:										
Program services	51,975,840	1,248,079	84,141	140,593	63,863	284,533	52,593	674,626	(28,646)	54,495,622
Management and general	7,485,219	629,996	-	-	-	-	-	-	(281,451)	7,833,764
Fundraising	444,270	-	-	-	-	-	-	-	-	444,270
Total operating expenses	59,905,329	1,878,075	84,141	140,593	63,863	284,533	52,593	674,626	(310,097)	62,773,656
Changes in unrestricted net assets from operations	114,174	103,861	(39,356)	(58,197)	(24,863)	(13,202)	(12,210)	(103,901)	6,451	(27,243)
Non-operating revenues and expenses:										
Loss on sale of property and equipment	3,809	-	(875)	(4,574)	-	-	-	-	-	(1,640)
Forgiveness of contingent debt	-	-	-	-	10,000	-	-	96,000	-	106,000
Insurance gain	129,167	-	-	-	-	-	-	-	-	129,167
Total non-operating revenues and expenses	132,976	-	(875)	(4,574)	10,000	-	-	96,000	-	233,527
Changes in unrestricted net assets	247,150	103,861	(40,231)	(62,771)	(14,863)	(13,202)	(12,210)	(7,901)	6,451	206,284
Temporarily Restricted Net Assets:										
Contributions and grants	107,642	-	-	-	-	-	-	-	-	107,642
Net assets released from purpose restrictions	(82,453)	-	-	-	-	-	-	-	-	(82,453)
Changes in temporarily restricted net assets	25,189	-	-	-	-	-	-	-	-	25,189
Changes in net assets	\$ 272,339	\$ 103,861	\$ (40,231)	\$ (62,771)	\$ (14,863)	\$ (13,202)	\$ (12,210)	\$ (7,901)	\$ 6,451	\$ 231,473