THE COMMUNITY FAMILY, INC.

INDEPENDENT AUDITOR'S REPORT ON AUDIT OF
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

Ercolini & Company

THE COMMUNITY FAMILY, INC.

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FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Community Family, Inc.
Everett, Massachusetts

We have audited the accompanying statements of financial position of The Community Family, Inc. (the "Organization") as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Family, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules shown on pages 22 through 29 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Ercolini & Company LLP

Boston, Massachusetts
March 29, 2012

THE COMMUNITY FAMILY, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents - operating	$ 1,456,124	$ 1,391,051
Certificates of deposit (including accrued interest receivable)	-	105,304
Accounts and pledges receivable, net	592,638	509,866
Prepaid expenses	35,003	18,317
Total current assets	2,083,765	2,024,538
PROPERTY AND EQUIPMENT		
Land	861,745	861,745
Buildings	3,078,922	3,078,922
Furniture, fixtures and equipment	674,671	607,571
Motor vehicles	450,519	410,099
Miscellaneous fixed assets	5,177	5,177
	5,071,034	4,963,514
Less - accumulated depreciation	1,086,923	889,901
Net property and equipment	3,984,111	4,073,613
OTHER ASSETS		
Investments - Board designated	610,470	621,297
Deferred financing costs, net of accumulated amortization of $1,671 and $1,333, respectively	5,594	5,932
Total other assets	616,064	627,229
TOTAL ASSETS	$ 6,683,940	$ 6,725,380

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Current maturities of long-term debt	61,913	45,331
Accounts payable and accrued expenses	99,048	76,095
Accrued payroll, vacation and payroll taxes	137,000	125,309
Deferred revenue	25,567	18,498
Total current liabilities	323,528	265,233
LONG-TERM DEBT		
Mortgage notes payable, net of current maturities	1,455,754	1,717,551
Total liabilities	1,779,282	1,982,784
NET ASSETS		
Unrestricted net assets:		
Unrestricted	4,294,188	4,111,299
Board designated for purpose	610,470	621,297
Temporarily restricted net assets	-	10,000
Total net assets	4,904,658	4,742,596
TOTAL LIABILITIES AND NET ASSETS	$ 6,683,940	$ 6,725,380

See notes to financial statements.

THE COMMUNITY FAMILY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Program	$ 2,305,638	$ 2,292,867
Transportation	773,680	743,515
USDA income	136,677	144,308
Interest and dividend income	18,924	16,868
Miscellaneous income	1,239	15,156
Grants and donations	170,916	261,630
Gain (loss) on disposition of property and equipment	-	(1,856)
Net assets released from restrictions	10,000	-
Total support and revenue	3,417,074	3,472,488
FUNCTIONAL EXPENSES:		
Program services	2,617,526	2,443,605
General and administrative	608,729	595,424
Development	1,858	3,811
Total functional expenses	3,228,113	3,042,840
Subtotal	188,961	429,648
Realized and unrealized gain (loss) on investments	(16,899)	36,437
Increase (decrease) in Unrestricted Net Assets	**172,062**	**466,085**
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	-	10,000
Net assets released from restrictions	(10,000)	-
Increase (decrease) in Temporarily Restricted Net Assets	**(10,000)**	**10,000**
Total Increase (Decrease) in Net Assets	**162,062**	**476,085**
Net Assets, Beginning of Year	4,742,596	4,266,511
Net Assets, End of Year	$ 4,904,658	$ 4,742,596

THE COMMUNITY FAMILY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
PROGRAM SERVICES:		
Payroll	$ 1,578,060	$ 1,515,055
Payroll taxes	114,873	110,575
Activities	20,458	18,491
Depreciation and amortization	191,902	161,504
Food	136,167	129,768
Fringe benefits	161,378	133,574
Insurance	65,604	69,578
Medical supplies	12,648	9,333
Rent	-	4,359
Staff training	1,159	720
Supplies	15,290	14,515
Taxes - Other	21,213	-
Transportation	240,154	216,976
Travel	520	342
Utilities	58,100	58,815
Total program services	2,617,526	2,443,605
GENERAL AND ADMINISTRATIVE:		
Payroll	175,966	190,114
Payroll taxes	13,248	14,028
Advertising - employment	376	779
Advertising - marketing	934	4,415
Audit	13,012	20,590
Bad debt	2,494	1,313
Board expense	3,530	2,202
Casual labor	2,920	1,880
Cleaning and janitorial	79,922	74,982
Consulting	3,135	6,950
Depreciation and amortization	5,458	5,776
Dues and subscriptions	8,355	8,090
Equipment leases	8,859	8,667
Food	1,494	1,029
Fringe benefits	18,830	13,729
Insurance	13,716	5,554
Interest	109,478	108,235
Legal	483	-
Office supplies and expenses	39,189	37,352
Payroll service and bank charges	27,474	31,596
Postage	5,360	5,601
Rent	-	900
Repairs and maintenance	53,528	32,712
Staff training	1,154	224
Telephone	18,227	16,773
Travel	1,587	1,360
Utilities	-	573
Total general and administrative	608,729	595,424

THE COMMUNITY FAMILY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
DEVELOPMENT:		
Dues and subscriptions	$ 275	$ 315
Fundraising	1,583	3,496
Total development	1,858	3,811
Total Functional Expenses	$ 3,228,113	$ 3,042,840

See notes to financial statements.

THE COMMUNITY FAMILY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 162,062	$ 476,085
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	197,022	166,942
Amortization	338	338
Net realized and unrealized (gains) losses on investments	16,899	(36,437)
Other adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities (include detail)		
(Gain)/ loss on disposal of property and equipment	-	1,856
Provision for doubtful accounts	-	(2,643)
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts and pledges receivable	(82,772)	(50,886)
Accrued certificate of deposit interest	-	(3,936)
Prepaid expenses	(16,686)	(7,612)
Deposits	-	3,289
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	36,332	14,612
Accrued payroll, vacation and payroll taxes	11,691	12,268
Deferred revenue	7,069	5,895
Net cash provided by (used in) operating activities	331,955	579,771
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of certificates of deposit	105,304	199,293
Purchase of investments	(70,818)	(101,332)
Sale or maturity of investments	64,746	95,420
Purchases of property and equipment	(120,899)	(490,776)
Net cash provided by (used in) investing activities	(21,667)	(297,395)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage principal payments	(245,215)	(271,372)
Proceeds from mortgages, notes and loans payable	-	215,600
Proceeds from (repayment of) line of credit, net	-	(117,722)
Net cash provided by (used in) financing activities	(245,215)	(173,494)
Net increase (decrease) in cash and cash equivalents	65,073	108,882
Cash and cash equivalents, beginning of year	1,391,051	1,282,169
Cash and cash equivalents, end of year	$ 1,456,124	$ 1,391,051

See notes to financial statements.

1. Organization and summary of significant accounting policies

Organization and nature of operations

The Community Family, Inc. (the "Organization") was formed in 1978 as a tax-exempt corporation under Chapter 180 of the laws of the Commonwealth of Massachusetts. The Organization provides adult day-care services in Everett, Massachusetts. The Organization also has two adult day-care centers, with a primary function of caring for clients suffering from Alzheimer's disease, located in Medford and Lowell, Massachusetts. The Organization provides transportation services for some of its clients.

The Organization is subject to revenue rates as established by the Division of Health Care Finance and Policy of the Commonwealth of Massachusetts for its Adult and Alzheimer's Disease Day Care Program contracts. The Commonwealth of Massachusetts Division of Medical Assistance has certified the Organization as a provider of Adult Day Health Care.

Following is a summary of significant accounting policies consistently applied in the preparation of the financial statements:

Financial statement presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets, in accordance with guidance issued by the Financial Accounting Standards Board (FASB). Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets	Net assets that are not subject to donor-imposed restrictions;
Temporarily restricted net assets	Net assets subject to explicit or implicit donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time; and
Permanently restricted net assets	Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Grants which are limited to the use of various Organization programs are reflected as unrestricted revenue if these funds are received and spent during the same year and if they support the activities of the Organization within the limits of the Organization's Articles of Organization. At December 31, 2011 and 2010, the Organization has no permanently restricted net assets.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

1. Organization and summary of significant accounting policies - continued

Risks and uncertainties

The Organization maintains an investment portfolio consisting of a combination of corporate bonds and mutual funds that are invested in equity securities, bonds, money market and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Organization’s account balances.

The Organization receives reimbursements from federal funding agencies, including Medicaid and USDA, and third party service providers which are public agencies for providing adult day health program services. Reimbursement rates are set by geographic region, federal and state regulations, and federal and state budgets. Due to the level of risk associated with certain reimbursement providers due to federal and state budgetary cuts, it is at least reasonably possible that changes in reimbursement rates will occur in the near term and such changes could materially affect the Organization's account balances.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation format.

Cash and cash equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less, as well as investments in interest bearing money market accounts, to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

Investments and investment pools

The Organization’s investments consist of investments in marketable securities with readily determinable fair values and investments in debt securities which are reported at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the changes in net assets. Gains and losses on the disposition of investments are determined based on the average cost method for mutual funds and specific identification of securities sold for corporate bonds. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Endowment

The Organization’s endowment consists of approximately 15 individual funds that are restricted by the Board of Directors as a working capital reserve. No funds have been restricted by donors to function as endowments as of December 31, 2011 and 2010. In conformity with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

1. Organization and summary of significant accounting policies - continued

Endowment - continued

Interpretation of relevant law

The Board of Directors has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (the Act), governing the Organization's net asset classification of restricted endowment funds, as requiring the preservation of the fair value of the restricted endowment funds absent of explicit stipulations to the contrary.

As a result of this interpretation, the Organization may accumulate so much of the annual net income as is deemed prudent to meet (1) the long and short term needs to the Organization in carrying out its mission, (2) problems specific to the Organization, (3) present and anticipated financial requirements, (4) expected total return on its investments, (5) price level trends, and (6) general economic conditions. In addition, the Organization may hold any or all such accumulated income for subsequent expenditure for the uses and purposes for which the endowment was established or may add any or all of the accumulated income to the principal endowment fund that is deemed prudent.

In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Organization and the restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation and deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Organization, and (vii) the investment policies of the Organization.

Investment and spending policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. At December 31, 2011 and 2010 there were no donor-restricted endowment funds. Under the investment and spending policies, as approved by the Board of Directors, the endowment assets are invested in a pre-approved listing of different types of securities that aim to preserve principal, generate income and provide the opportunity for conservative growth. The Organization expects its endowment funds, over time, to provide an average annual rate of return of approximately 4 – 5%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

The Organization has not adopted a policy to appropriate a portion of its endowment for distribution each year as the Organization's intent is to hold the endowment in perpetuity until such a time arises when the Board of Directors specifies a use for the funds. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

1. Organization and summary of significant accounting policies - continued

Accounts and pledges receivable

Accounts and pledges receivable are stated at the amount the Organization expects to collect from outstanding balances. Organization management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on historical collection experience and its assessment of current economic conditions. Balances that are still outstanding after Organization management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

The Organization does not have any policies requiring collateral or other security to secure accounts receivable. Federal funding agencies, including Medicaid and USDA, and third party providers which are public agencies, do not permit collateralization of their accounts. Consequently, the Organization does not believe any policy is necessary.

Property and equipment

Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. All acquisitions of property and equipment and expenditures for repairs, maintenance, renewals, and betterments in excess of $500 that materially prolong the useful lives of assets are capitalized. Building and improvements are being depreciated over their estimated useful lives ranging from 20 to 40 years utilizing the straight line method. Furnishings and equipment are being depreciated over their estimated useful lives ranging from 5 to 7 years utilizing the straight line method.

At December 31, 2011 and 2010, property and equipment with an original cost of approximately $472,300 and $457,100, respectively, was fully depreciated and still in service.

During the year ended December 31, 2011 the Organization did not dispose of any depreciated property. During 2010, the Organization disposed of depreciated property and equipment with an original cost of $57,189. A loss of $1,856 was recognized on the disposals during 2010.

Deferred financing costs

Costs related to obtaining the mortgage debt financing for the Lowell, Massachusetts facility and Everett, Massachusetts facility are amortized over the term of the related debt using the straight-line method.

Impairment

The Organization’s long-lived assets are reviewed for impairment when events or changes in circumstances indicate that such assets may be impaired. An evaluation is performed by measuring the estimated future undiscounted cash flows (without interest charges) associated with the asset to the asset’s carrying amount to determine if a write-down to fair value is required. If an impairment is present, the assets are reported at the lower of carrying value or fair value.

In 2011 and 2010, no events or circumstances occurred or existed which indicated that the Organization’s long-lived assets might be impaired; accordingly no such loss provision was included in the accompanying financial statements.

1. Organization and summary of significant accounting policies - continued

Contract revenue and client fees

Contract revenue and client fees are recognized as revenue in the year in which the services are performed. Contract revenue and client fees received in advance are deferred and reflected as prepaid revenue until the service is provided.

Contributions

Contributions, including grants, are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, the net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of the Organization. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received.

Contributed services

Contributed services that require specialized skills are recognized as revenue at estimated fair value when the service is received. During the years ended December 31, 2011 and 2010, the value of contributed services meeting the requirements for recognition in the financial statements under the FASB's accounting standards was not material and has not been recorded. In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

General and administrative expenses

The Organization allocates general and administrative expenses directly to programs for which separately identifiable costs can be attributed. All other general and administrative expenses are paid by the Home Office and allocated among program sites based on service units provided by location.

1. Organization and summary of significant accounting policies - continued

General and administrative expenses - continued

During the years ended December 31, 2011 and 2010, the allocations of general and administrative expenses were approximately as follows:

	2011	2010
Everett	38%	36%
Medford	30%	32%
Lowell	32%	32%
	100%	100%

Functional allocation of expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising and marketing

Advertising and marketing costs are expensed when incurred. Amounts incurred for the years ended December 31, 2011 and 2010 were $934 and $4,415, respectively.

Income taxes

The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization had no unrelated business income for the years ended December 31, 2011 and 2010. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of December 31, 2011. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Organization's income tax returns are subject to examination by taxing authorities generally for the years ended December 31, 2008, 2009 and 2010.

Recent accounting pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to recurring and non-recurring fair value measurements. The guidance requires new disclosures on significant transfers of assets and liabilities in and out of Level 1 (quoted prices in active markets for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires separate disclosure in the reconciliation of Level 3 fair value measurements (significant unobservable inputs) of information on purchases, sales, issuances, and settlements of the assets and liabilities measured using Level 3 inputs. The guidance also clarifies certain existing disclosures. The new

1. Organization and summary of significant accounting policies - continued

Recent accounting pronouncements - continued

disclosures and clarifications of existing disclosures are effective for fiscal years and interim periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the reconciliation of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption by the Organization of the applicable required disclosures in 2010 and 2011 had no material impact on the Organization's financial statements.

In May, 2011, the FASB issued guidance which further amends the measurement and disclosure requirements related to recurring and nonrecurring fair value measurements. The standard clarifies the fair value measurement guidance applicable to highest-and-best-use and valuation premise, measuring fair value of an instrument classified in equity and financial instruments managed within a portfolio, and the application of premiums and discounts in a fair value measurement. Additionally, the guidance requires expanded disclosure of fair value measurements categorized in Level 3, use of an asset in a way that differs from the asset's highest-and-best-use, and items not measured at fair value but for which fair value is required to be disclosed. These disclosures are effective for fiscal years and interim periods beginning after December 15, 2011. The Organization does not believe that its adoption of the guidance in 2012 will have a material impact on the Organization's 2012 financial statements.

Subsequent events

The Organization has evaluated subsequent events through March 29, 2012, the date the financial statements were available to be issued.

2. Certificates of deposit

As part of its cash management program, the Organization maintained a portfolio of marketable investment securities. These securities were held in certificate of deposit accounts whose fair value approximates cost plus accrued interest

The proceeds of the certificate of deposit held in the prior year totaled approximately $105,600 and at maturity on January 9, 2011, were rolled into a savings account with Lowell Five Cent Savings Bank. There are no certificates of deposit held as of December 31, 2011

At December 31, 2010, the Organization had an investment in bank certificates of deposit consisting of the following:

Financial Institution	Face Amount	Interest Rate	Maturity Date	Term
Lowell Five Cent Savings Bank	$ 103,493	1.75%	01/09/11	12 months

The certificate of deposit held at Lowell Five Cent Savings Bank provided additional collateral for the mortgage loan from the same bank (see Note 7).

3. Accounts and pledges receivable

Accounts and pledges receivable consists of the following at December 31, 2011 and 2010:

	2011	2010
Trade receivables		
Medicaid	$ 319,535	$ 291,634
Veterans Administration	120,775	82,086
Other providers	86,042	66,883
Private pay	76,802	59,754
USDA	11,841	21,866
Subtotal	614,995	522,223
Less: Allowance for doubtful accounts	(22,357)	(22,357)
	592,638	499,866
Grants and donations receivable	-	10,000
Total accounts receivable, net	$ 592,638	$ 509,866

All grants and donations receivable as of December 31, 2010 were due within one year and restricted for use in 2011.

4. Investments

The Organization maintains a portfolio of investments in a pooled account. The cost and fair market value of these investments at December 31, 2011 and 2010 are as follows:

Portfolio of Pooled Investments	2011 Cost	2011 Market Value	2010 Cost	2010 Market Value
Mutual Funds:				
Taxable fixed income	$ 292,327	$ 308,404	$ 303,322	$ 324,157
Domestic equities	117,616	149,050	114,441	154,827
International equities	74,182	101,180	73,952	105,373
Short-term investments and money market funds	51,836	51,836	36,940	36,940
	$ 535,961	$ 610,470	$ 528,655	$ 621,297

Realized and unrealized gains (losses) on investments for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Realized gain on investments	$ 1,234	$ 21,504
Realized loss on investments	-	-
Unrealized gain on investments	-	14,933
Unrealized loss on investments	(18,133)	-
Net realized and unrealized gain (loss) on investments	($ 16,899)	$ 36,437

4. Investments - continued

For the years ended December 31, 2011 and 2010, investment activity for the portfolio of pooled investments was as follows:

	2011	2010
Investments, beginning of year	$ 621,297	$ 578,948
Investment income:		
Dividends and interest, net of expenses totaling $8,454, and $9,808 respectively	6,072	5,912
Realized and unrealized gains (losses)	(16,899)	36,437
Investments, end of year	$ 610,470	$ 621,297

The endowment net asset composition by type of fund as of December 31, 2011 was as follows:

Fund Type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ -	$ -	$ -
Board-designated endowment	610,470	-	-	610,470
	$ 610,470	$ -	$ -	$ 610,470

Changes in the endowment net assets for the year ended December 31, 2011 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 621,297	$ -	$ -	$ 621,297
Investment return:				
Investment Income	14,526	-	-	14,526
Appreciation (depreciation), realized and unrealized	(16,899)	-	-	(16,899)
Total investment return	(2,373)	-	-	(2,373)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Investment management fees	(8,454)	-	-	(8,454)
Endowment net assets, end of year	$ 610,470	$ -	$ -	$ 610,470

The endowment net asset composition by type of fund as of December 31, 2010 was as follows:

Fund Type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ -	$ -	$ -
Board-designated endowment	621,297	-	-	621,297
	$ 621,297	$ -	$ -	$ 621,297

4. Investments - continued

Changes in the endowment net assets for the year ended December 31, 2010 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 578,948	$ -	$ -	$ 578,948
Investment return:				
Investment Income	15,720	-	-	15,720
Appreciation (depreciation), realized and unrealized	36,437	-	-	36,437
Total investment return	52,157	-	-	52,157
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Investment management fees	(9,808)	-	-	(9,808)
Endowment net assets, end of year	$ 621,297	$ -	$ -	$ 621,297

5. Fair value measurements

The Organization follows FASB's guidance on fair value measurements. The guidance framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance establishes a three-level hierarchy based upon observable and non-observable inputs.

The fair value hierarchy under the guidance is as follows:

Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance requires the use of observable data if such data is available without undue cost and effort.

5. Fair value measurements - continued

The fair value of assets measured on a recurring basis at December 31, 2011 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Investments - endowment				
Money market funds	$ 51,836	$ 51,836	$ -	$ -
Fixed income	308,404	308,404	-	-
Domestic equities	149,050	149,050	-	-
International equities	101,180	101,180.	-	-
Contributions receivable	-	-	-	-
Total assets	$ 610,470	$ 610,470	$ -	$ -

The fair value of assets measured on a recurring basis at December 31, 2010 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Investments - endowment				
Money market funds	$ 36,940	$ 36,940	-	-
Fixed income	324,157	324,157	-	-
Domestic equities	154,827	154,827	-	-
International equities	105,373	105,373	-	-
Contributions receivable	-	-	-	-
Total assets	$ 621,297	$ 621,297	$ -	$ -

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level III inputs) at December 31, 2011 and 2010.

6. Line of credit

The Organization had a revolving line of credit with a bank. The line of credit provided for borrowings up to $125,000 with interest payable monthly in arrears at 1% above the bank's floating base lending rate. The line of credit was secured by all assets of the Organization and is renewable annually on May 31. The Organization repaid the line of credit in full in March 2010. The line of credit was not renewed upon maturity in May 2011.

7. Mortgage notes payable

Long-term debt consists of the following at December 31:

	2011	2010
Mortgage note payable, Everett Cooperative Bank, secured by real estate in Everett, Massachusetts and other assets of the Organization, payable in monthly installments of interest only, at a fixed rate of 6.50%, through April 13, 2010. Final draws totaling $215,600 were received during 2010 resulting in a total loan of $1,376,958. Payments of principal and interest, at a fixed rate of 6.50%, in monthly installments of $9,456 commenced in April 2010. During December, 2011, the Organization made an optional prepayment in the amount of $200,000. The loan is scheduled to mature in October 2034. Interest of $88,984 was incurred and no interest was capitalized during 2011. Interest of $85,731 was incurred during 2010, of which $628 was capitalized. There was no accrued interest payable at December 31, 2011 and 2010.	$ 1,137,197	$ 1,361,679
Mortgage note payable, Lowell Five Cent Savings Bank, secured by real estate in Lowell, Massachusetts and maturing October 2024. Interest from inception of the loan through September 2011 was at 5.5% per annum. Commencing on October 6, 2011, the interest rate was changed to 4.5% per annum. The rate will be adjusted every five years thereafter to a rate equal to the bank's prime rate plus 1.25%. Monthly payments through September 2011 were $3,513. Commencing October 2011, the monthly payment was changed to $3,257. Interest of $20,494 and $23,132 was incurred during 2011 and 2010, respectively. Accrued interest payable at December 31, 2011 and 2010 totaled $1,453 and $1,874, respectively. The Lowell Five Cent Savings Bank loan requires funds equal to 20% of the outstanding balance be maintained at the bank as additional collateral. This requirement has been met by funds held by the financial institution in a cash account at December 31, 2011 in the amount of $105,890 and by funds held in a certificate of deposit at December 31, 2010 (See Note 2).	380,470	401,203
Total mortgage note payable	$ 1,517,667	$ 1,762,882

7. Mortgage notes payable – continued

	2011	2010
Current portion	$ 61,913	$ 45,331
Long-term portion	1,455,754	1,717,551
Total mortgage note payable	$ 1,517,667	$ 1,762,882

Annual principal payments on the mortgage notes payable for the next five years and in the aggregate as of December 31, 2011 are as follows:

2012	$ 61,913
2013	65,841
2014	69,524
2015	74,000
2016	78,281
Thereafter	1,168,108
Total mortgage notes payable	$ 1,517,667

8. Board designated assets

At December 31, 2011 and 2010, $610,470 and $621,297, respectively, of investments are held in a Board designated endowment fund as a working capital reserve.

9. Operating lease commitments

Office and facility leases

The Organization was a tenant-at-will for its Everett facilities through January 10, 2010. Rent expense for the Everett facility totaled $4,359 for the year ended December 31, 2010.

Effective January 18, 2010, the Organization moved its adult day health program and administrative office to their new Everett facility and terminated its Everett facility and office leases. Rent expense for the administrative offices totaled $900 for the year ended December 31, 2010.

Office equipment

The Organization leases certain office equipment under various operating leases. Terms of the leases generally are for terms ranging from 12-51 months and expire at various dates through October 2013. Payments range from $30 to $306 per month plus excess usage charges. Total office equipment lease expense for the years ended December 31, 2011 and 2010 totaled $8,859 and $8,667, respectively.

10. Concentrations of economic risk

A significant portion of total support and revenue is derived from the Commonwealth of Massachusetts Division of Medical Assistance and various agencies of the Commonwealth. Billings for these services are rendered on a semi-monthly or monthly basis. The 2011 and 2010, earned revenues from these payors were approximately as follows:

10. Concentrations of economic risk - continued

	2011	2010
Percent of earned revenue:		
Medicaid/USDA	58%	58%
Veterans Administration	11%	9%
Other Providers	15%	13%
	84%	80%
Percent of accounts receivable:		
Medicaid/USDA	56%	63%
Veterans Administration	20%	17%
Other	15%	13%
	91%	93%

11. Commitments and contingencies

The Organization receives a significant portion of its funding from contracts with governmental agencies and third-party payors. These contracts are subject to laws and regulations governing the programs contractual agreements and medical assessment; all of which are subject to interpretation. The contracts provide the appropriate agencies the right to audit the Organization, and could result in the recapture of revenue previously reported by the Organization.

In the opinion of management, the results of such audits, if any, should not have a material effect on the Organization's financial position or results of operations.

In November 2008, the Organization entered into a construction contract as part of the Organization's $2,528,000 project for the new Everett facility location. The work began in the spring of 2009 and was substantially completed at December 31, 2009. The Organization funded this expansion through a combination of grants, donations, a bank loan and cash on hand. The Organization had received $351,072 in donations and incurred costs of $2,668, through 2010, for this project. No amounts were due to the contractor at December 31, 2010.

12. Concentration of credit risk

The Organization maintains operating cash balances at financial institutions located in Massachusetts. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. In addition, all funds in a non-interest bearing transaction deposit account are fully insured by the FDIC from December 31, 2010 through December 31, 2012. This temporary unlimited insurance coverage is in addition to and separate from the coverage of at least $250,000 available under the FDIC's general deposit insurance rules.

In addition, the Organization's financial institutions participate in either the Share Insurance Fund (SIF) which insures all deposits at co-operative banks in Massachusetts above FDIC limits or the Depositors Insurance Fund which insures all deposits above FDIC limits at Massachusetts chartered savings banks. As of December 31, 2011 and 2010, the Organization's cash balances were fully insured under these programs.

12. Concentration of credit risk - continued

The Organization has not experienced any losses on its accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash and cash equivalent balances.

13. Supplemental cash flow information

	2011	2010
Schedule of noncash investing and financing activities:		
Costs incurred for property and equipment, including construction in progress	($ 107,520)	($ 275,623)
Amounts included in accounts payable at end of year	-	13,379
Amounts included in accounts payable at beginning of year	(13,379)	(228,532)
	($ 120,899)	($ 490,776)
Cash paid during the year for interest, net of amounts capitalized	($ 109,899)	($ 113,488)

ADDITIONAL INFORMATION

THE COMMUNITY FAMILY, INC.

SCHEDULES OF REVENUE AND EXPENSES

EVERETT FACILITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Program	$ 842,536	$ 776,157
Transportation	336,359	292,196
USDA income	56,340	57,142
Miscellaneous income	-	13,310
Grants and donations	60,458	169,487
Total support and revenue	1,295,693	1,308,292
FUNCTIONAL EXPENSES:		
Program services	880,919	748,709
General and administrative	253,293	233,712
Development	-	1,364
Total functional expenses	1,134,212	983,785
Subtotal	1,134,212	983,785
Increase (decrease) in unrestricted net assets	161,481	324,507
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	-	10,000
Increase (decrease) in temporarily restricted net assets	-	10,000
Increase (decrease) in Net Assets	$ 161,481	$ 334,507

THE COMMUNITY FAMILY, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

EVERETT FACILITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
PROGRAM SERVICES:		
Payroll	$ 508,488	$ 459,137
Payroll taxes	36,393	33,047
Activities	11,363	7,557
Depreciation and amortization	83,572	55,261
Food	55,179	49,650
Fringe benefits	63,569	50,011
Insurance	22,272	19,818
Medical supplies	2,695	2,241
Rent	-	4,359
Staff training	234	125
Supplies	5,470	4,754
Taxes - Other	21,213	-
Transportation	58,212	48,823
Travel	253	-
Utilities	12,006	13,926
Total program services	880,919	748,709
GENERAL AND ADMINISTRATIVE:		
Advertising - employment	370	525
Advertising - marketing	71	1,136
Bad debt	1,798	313
Casual labor	1,840	510
Cleaning and janitorial	31,635	28,271
Dues and subscriptions	1,786	893
Equipment leases	3,405	3,100
Home office allocation	107,635	113,076
Interest	67,208	56,309
Office supplies and expenses	7,663	7,602
Payroll service and bank charges	4,561	4,092
Postage	166	216
Repairs and maintenance	19,373	13,103
Telephone	5,782	4,566
Total general and administrative	253,293	233,712
DEVELOPMENT		
Office supplies and expenses	-	1,364
Total development	-	1,364
Total Functional Expenses	$ 1,134,212	$ 983,785

THE COMMUNITY FAMILY, INC.

SCHEDULES OF REVENUE AND EXPENSES

MEDFORD FACILITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Program	$ 716,475	$ 768,215
Transportation	205,511	212,036
USDA income	39,125	42,099
Miscellaneous income	1,000	1,338
Grants and donations	76,640	61,290
Total support and revenue	1,038,751	1,084,978
FUNCTIONAL EXPENSES:		
Program services	857,062	820,972
General and administrative	185,491	185,705
Development	984	1,029
Total functional expenses	1,043,537	1,007,706
Increase (decrease) in Unrestricted Net Assets	$ (4,786)	$ 77,272

THE COMMUNITY FAMILY, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

MEDFORD FACILITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
PROGRAM SERVICES:		
Payroll	$ 572,380	$ 560,060
Payroll taxes	42,652	41,862
Activities	5,476	6,015
Depreciation and amortization	48,600	39,517
Food	37,577	37,682
Fringe benefits	34,700	26,229
Insurance	23,294	26,621
Medical supplies	8,266	5,358
Staff training	726	130
Supplies	3,887	4,360
Transportation	56,868	48,490
Travel	29	175
Utilities	22,607	24,473
Total program services	857,062	820,972
GENERAL AND ADMINISTRATIVE:		
Advertising - employment	-	(42)
Advertising - marketing	71	1,064
Bad debt	696	1,000
Casual labor	-	150
Cleaning and janitorial	30,605	27,510
Dues and subscriptions	2,046	690
Equipment leases	3,344	3,098
Home office allocation	86,802	101,445
Interest	14,825	17,477
Office supplies and expenses	12,461	9,055
Payroll service and bank charges	2,910	3,388
Postage	870	901
Repairs and maintenance	26,186	15,316
Telephone	4,675	4,653
Total general and administrative	185,491	185,705
DEVELOPMENT:		
Fundraising	984	1,029
Total development	984	1,029
Total Functional Expenses	$ 1,043,537	$ 1,007,706

THE COMMUNITY FAMILY, INC.

SCHEDULES OF REVENUE AND EXPENSES

LOWELL FACILITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Program	$ 746,627	$ 748,495
Transportation	231,810	239,283
USDA income	41,212	45,067
Miscellaneous income	239	508
Grants and donations	33,818	30,853
Total support and revenue	1,053,706	1,064,206
FUNCTIONAL EXPENSES:		
Program services	879,545	872,560
General and administrative	157,542	166,907
Development	150	2,467
Total functional expenses	1,037,237	1,041,934
Subtotal	16,469	22,272
Increase (decrease) in Net Assets	$ 16,469	$ 22,272

THE COMMUNITY FAMILY, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

LOWELL FACILITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
PROGRAM SERVICES:		
Payroll	$ 497,192	$ 495,858
Payroll taxes	35,828	35,666
Activities	3,619	3,555
Depreciation and amortization	59,730	66,726
Food	43,411	42,436
Fringe benefits	63,109	57,334
Insurance	20,038	23,139
Medical supplies	1,687	1,734
Staff training	199	465
Supplies	5,933	5,401
Transportation	125,074	119,663
Travel	238	167
Utilities	23,487	20,416
Total program services	879,545	872,560
GENERAL AND ADMINISTRATIVE:		
Advertising - employment	-	296
Advertising - marketing	370	2,144
Casual labor	760	900
Cleaning and janitorial	17,682	19,201
Dues and subscriptions	1,333	332
Equipment leases	1,048	1,618
Home office allocation	91,208	99,041
Interest	20,494	23,132
Office supplies and expenses	8,249	5,648
Payroll service and bank charges	2,678	4,637
Postage	1,178	1,413
Repairs and maintenance	7,969	4,269
Telephone	4,573	4,276
Total general and administrative	157,542	166,907
DEVELOPMENT:		
Fundraising	150	2,467
Total development	150	2,467
Total Functional Expenses	$ 1,037,237	$ 1,041,934

THE COMMUNITY FAMILY, INC.

SCHEDULES OF REVENUE AND EXPENSES

HOME OFFICE

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Interest and dividend income	$ 18,924	$ 16,868
Gain (loss) on disposition of property and equipment	-	(1,856)
Total support and revenue	18,924	15,012
FUNCTIONAL EXPENSES:		
General and administrative	298,048	322,662
Development	724	315
Total functional expenses	298,772	322,977
Less: home office allocation	(285,645)	(313,562)
Subtotal	13,127	9,415
Realized and unrealized gain (loss) on investments	(16,899)	36,437
Increase (decrease) in unrestricted net assets	(11,102)	42,034
Increase (decrease) in Net Assets	$ (11,102)	$ 42,034

THE COMMUNITY FAMILY, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

HOME OFFICE

YEARS ENDED DECEMBER 31, 2011 AND 2010

		2011		2010
GENERAL AND ADMINISTRATIVE:				
Payroll		175,966		190,114
Payroll taxes		13,248		14,028
Advertising - employment		6		-
Advertising - marketing		422		71
Audit		13,012		20,590
Board expense		3,530		2,202
Casual labor		320		320
Consulting		3,135		6,950
Depreciation and amortization		5,458		5,776
Dues and subscriptions		3,190		6,175
Equipment leases		1,062		851
Food		1,494		1,029
Fringe benefits		18,830		13,729
Insurance		13,716		5,554
Interest		6,951		11,317
Legal		483		-
Office supplies and expenses		10,816		15,047
Payroll service and bank charges		17,325		19,479
Postage		3,146		3,071
Rent		-		900
Repairs and maintenance		-		24
Staff training		1,154		224
Telephone		3,197		3,278
Travel		1,587		1,360
Utilities		-		573
Total general and administrative		298,048		322,662
DEVELOPMENT:				
Dues and subscriptions		275		315
Fundraising		449		-
Total development		724		315
Total Functional Expenses	$	298,772	$	322,977
Less home office allocation:				
Everett	$	107,635	$	113,076
Medford		86,802		101,445
Lowell		91,208		99,041
Total department allocation		285,645		313,562
Total Expenses After Allocation	$	13,127	$	9,415