

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

**CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
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YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cambridge Family and Children's Service, Inc.
Cambridge, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Cambridge Family and Children's Service, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

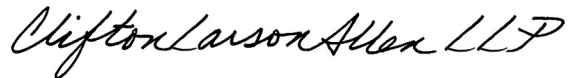
Board of Directors
Cambridge Family and Children's Service, Inc.

Opinion

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Management's discussion and analysis, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Boston, Massachusetts
January 17, 2017

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

WHO WE SERVE

Cambridge Family and Children's Service (CFCS) believes that every child should be raised in a loving family that will provide a lifetime of support. CFCS provides a continuum of services to strengthen families to ensure that children can be raised safely in their home.

The individuals we serve include children who have been or are at risk of being removed from their families due to abuse or neglect, families who face a number of challenges including poverty, language and cultural differences, and clients with developmental disabilities and their families.

Our clients represent a wide diversity of ethnicities, races, ages, religions, and beliefs. The majority of our clients live in Cambridge, Boston, Somerville, Malden, Medford and other nearby communities.

Agency Highlights

We said a fond farewell and congratulations to our Executive Director of six years, Maria Mossaides, who is continuing her work supporting the families and children of Massachusetts as the Commonwealth's Child Advocate, appointed by Governor Baker, and we welcomed our new Executive Director, Bob Gittens, who has many years of experience in the public and private sectors, including as the State's Commissioner of the Department of Youth Services, Secretary of the Executive Office of Health and Human Services and most recently as the Vice President of Northeastern University.

We saw expansion in our Family Support and Stabilization program, doubling the number of clients, staff and revenue and incorporating a new series for parents.

Our Developmental Disabilities Program introduced the "Neighborhood Memory Café," for community residents and care-givers, and through a grant from the Cambridge Foundation, we increased our parent training to include not only our foster parents and staff but also all parents and families in the Cambridge community.

In honor of one of CFCS most beloved foster parents, the agency established the Vivienne Campbell Award and presented it to a mother and daughter who have been providing foster care for over 20 years. Our group homes received a number of referrals to serve young refugees from countries around the world. This experience has required the staff to specialize in issues related to trauma, violence, immigration, multiple languages, and many ethnic and cultural practices.

At CFCS, our families and youth continue to be at the center of all our efforts. Our programs are strengths-based, holistic, inclusive and empowering. We partner with our families and youth to ensure their full participation in all decision-making.

Our Vision, Values & Beliefs

All programming at CFCS is based on the concept of permanency.

Our vision is a world in which all children are able to reach their full potential.

We believe that children deserve to live and grow within a family – if not with their birth family, then with one that will embrace them and make a permanent, life-long commitment to love and care for them.

Our goal is to ensure that every child develops a sense of belonging and the continuity of family connections to support and sustain them throughout their lives.

Our focus is to provide support to children who have been or are at risk of being removed from their families due to abuse, neglect, behavioral health needs or developmental disabilities.

We honor the extraordinary generosity of families who open their hearts and their homes to children in need.

We work to nurture and support strong healthy families, in the context of strong, healthy communities.





ADOPTION SERVICES

In many ways, 2016 has been a year characterized by change for the Adoption Program. We've successfully adapted to the fluctuating landscape, including shifting priorities on the part of the Department of Children and Families (DCF) that resulted in a reduced emphasis on adoption statewide, ending the fiscal year on a strong footing.

Child Case Management

There was a decrease in adoption referrals reflecting the State's decision to prioritize the licensing of foster families. Despite this, CFCS had a very successful year in providing service to those children already on referral. Twelve children achieved legal permanency this year, the highest number in three years. Additionally, our program placed five children with pre-adoptive families, including one set of siblings who were placed together. Notably, by the close of FY16 on June 30, 100% of the children assigned to CFCS for adoption case management services had been matched with adoptive families. This accomplishment is unprecedented.

Waiting Families

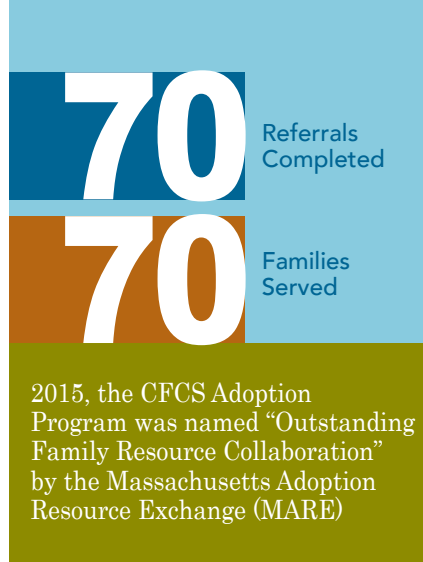
Twenty-two prospective adoptive families applied to the program this year, and we provided Massachusetts Approach to Partnerships in Parenting (MAPP) training to a total of 69 individuals, including referrals. MAPP training is mandated for all prospective parents adopting from foster care.

Sibling Groups

The adoption unit has remained focused on helping siblings to grow up together. While keeping brothers and sisters together is more challenging than separating children, requiring a greater investment of staff time and support, we have maintained our strong commitment to keeping siblings together whenever possible. This year we placed 2 sibling group of 2 children each, finalized the adoptions of 2 sibling groups by CFCS pre-adoptive families; supported 5 additional sibling groups, including two sibling groups of 3, in their pre-adoptive families while awaiting legalization, and prepared and approved 7 pre-adoptive families who accepted placement of siblings groups from other agencies.

Preferred Adoption Provider

The CFCS adoption program has remained a preferred provider of adoption services statewide. The number of referrals to the agency has expanded. CFCS was asked by the Commonwealth to provide informal guidance and explanation of adoption contract practices. We remain proud of our reputation as a provider of exceptional adoption services.



FAMILY SUPPORT AND STABILIZATION

The Family Support and Stabilization (FSS) program is designed to help prevent out-of-home placement or to support families during reunification from placement. The program currently provides in-home Family Support and Stabilization services and Supervised Family Visitation. Our FSS team has multi-lingual capacity and serves families in the Greater Boston area.

FSS provides a range of highly focused, in-home services to aid in resolving conflicts and promote a safe, stable home life. Through twice-weekly face to face, intensive clinical support, parent support, conflict resolution and behavior management, our team works closely with parents and children to find creative solutions to their problems. FSS assists parents in navigating other systems, such as school or the courts, and provides information and referral for connections to long-term community resources and supports.

We continue to focus on working with diverse families who have challenges accessing other support services due to language or legal status. These families can have complex needs. However, our efforts to develop relationships with community providers and participation in trainings focused on immigration and culturally competent interventions have had a positive impact on the families we serve. Both clients and staff in the FSS Program represent a diverse population.



DEVELOPMENTAL DISABILITIES

Through contracts with the Department of Developmental Disabilities (DDS) CFCS provides intensive support services to individuals and their families to help them remain in their homes and communities. CFCS staff provide information, referral and guidance in child development, behavioral support, parenting support, and special needs and community support to these families.

CFCS is also the DDS Family Support Center for the Charles River West Area (Cambridge, Somerville, Waltham, Watertown and Belmont) providing a variety of support to families including a resource reading library, home visits, life skill-building programs and family activities. Through the Specialized Home Care Program, we provide case management and support services for developmentally disabled adults who are unable to live in their own homes.

During the year, our case managers assisted approximately 180 clients with various services, working with clients, their families and other supports. Family Support Center activities and special events were well-attended and enjoyed including a dance attended by 140 clients, their siblings and families.

The Adult Social Group continues to be an active group as each member looks forward to not only the activities, but to seeing each other. What began as a group of individuals who had little connection with each other has grown into a group of friends.

Each case manager is committed to providing quality case management to all of our clients in a professional and sensitive manner never sacrificing quality.

In May, CFCS was awarded a competitive grant from the Department of Developmental Disabilities to develop a Memory Café, a place for individuals with memory loss issues to meet, to socialize and to feel comfortable with others who have memory loss.

46%

Of referrals for placement were ages 10-17; 50% were ages 18+. Foster parent inquiries were up 25% from last year.

INTENSIVE FOSTER CARE

Intensive Foster Care (IFC) provides transitional, therapeutic foster care for children referred by the DCF. The IFC team of foster parents and social workers provides specialized, round-the-clock care, support and guidance for the children placed in the program. Through this collaborative effort, IFC supports the child's successful transition into a permanent placement: reunification with their birth family, guardianship, kinship care, adoption, or independent living.

Over the last year, as families and children continued to struggle with reduced community-based resources, an increase in substance abuse and violence in our communities and other crises in the child welfare community contributed to an unprecedented strain on our staff, foster parents, and the youth we serve.

The Intensive Foster Care program was heavily impacted by changes to the Department of Children and Families' structure, staffing, and policies as well as the opioid crisis. The Governor, the Secretary of Health and Human Services, and the new DCF Commissioner called for sweeping changes in light of ongoing media scrutiny and additional child deaths.

All of these factors have substantially taxed the child welfare system with a clear trickle-down effect. Ultimately, these changes have created stress for foster parents and IFC program staff as they work collaboratively to navigate this increasingly complex system.

We continue to focus on ensuring that foster parents receive more training, in-the-moment feedback, and ongoing support to ensure placement stability.

Recruitment and Retention

Throughout the year there was a focus on the recruitment of new foster families as well as a focus on the retention of current foster parents by ensuring that foster parents receive more training, in-the-moment feedback, and ongoing support to reduce crisis and ensure placement stability.

The majority of foster parents report that they:

- Enjoy being a foster parent
- Feel supported by IFC program staff
- Feel comfortable giving feedback to the program staff
- Would recommend CFCS to a friend

897

Individuals served in 397 families

We are committed to supporting the goals of those we serve by developing innovative and real opportunities for self-sufficiency and self-realization, and by supporting and empowering our consumers as they become valued members of their neighborhoods and communities.





CFCS Special Events



Young adults were enrolled in a program to increase employment opportunities; 18 were on track for a high school or secondary degree or equivalent.

RESIDENTIAL PROGRAMS FOR ADOLESCENTS

Putnam Place and Teens Learning Choices (TLC) are group homes for youth aged 16-21 that provide a range of services and supports to assist in the transition to successful adulthood. Residents live in a diverse community where they are valued and given personalized attention according to their needs and abilities. The program provides a healthy space to develop confidence and become contributing members of the community. There is an emphasis on lifelong connections to supportive family members and friends, education, vocational skills, and personal responsibility.

During the year we created a stronger relationship with Ascentria (formerly Lutheran Services) and received six times the number of referrals that we have in the past. We have provided Ascentria with a safe and nurturing environment to refer clients from the Unaccompanied Minor Refugee Program.

Curriculum-based

The eight-week Life Skills curriculum was updated and presented at both homes to help the residents build a positive self-image. The program serves as a tangible extension of services that drive toward specific, long-term outcomes for young adults. Based on research and best practice in the field and guided by a program

logic model that is definitive and realistic, the program establishes specific, measurable long-term goals for participants. These are: to develop a transition plan that includes resources and tasks necessary to achieve specific vocational and life goals; to attend individual meetings with the Life Skills Case Manager; to attend weekly group meetings on subjects necessary to live a healthy and successful life; and to create a portfolio that includes legal documents and other resource information.

ANNUAL CIRCLE OF FRIENDS GALA

Held in May, the Annual Circle of Friends Gala and Auction is CFCS's largest single fundraising effort and 2016 marked the 24th anniversary of this signature event. The critical success of our gala is made possible with the generous support of corporate and private sponsors and more than 400 attendees. Proceeds from the evening directly support our programs, helping us provide the children and families we serve in more than 100 Massachusetts communities with the opportunities they deserve throughout the year.

The evening includes a cocktail hour, silent and live auctions, and a delicious dinner where we honor an individual from the community who has impacted our organization. In 2016 the Avon Children's Friend Award was presented to Susan Lapierre of Cambridge Savings Bank. We invite you to join our circle of friends by attending the feel-good event of the year! The 2017 Gala is scheduled for Tuesday, May 9, so save the date!



CFCS YOUNG PROFESSIONALS COUNCIL

The CFCS Young Professionals Council (YPC) connects millennial-aged professionals to the community through social, service, and professional networking opportunities. YPC members are philanthropic-minded young professionals between the ages of 21 and 40. Members represent a range of backgrounds and professions, and contribute a variety of skill sets and perspectives, essential to the growing success of our YPC. While individually diverse, all members are unified in their commitment to helping our communities' most vulnerable youth. YPC members share the core beliefs of CFCS' mission and since the group's inception in March 2015, the YPC has raised more than \$15,000 in support of our residential programs for teens aging out of foster care. The YPC is free to join! For more information: ypc@cfcs.org or sign up for the YPC newsletter at cfcs.org.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	\$ 137,871	\$ 19,631
Accounts Receivable - Less Allowance for Doubtful		
Accounts of \$5,000 in both 2016 and 2015	607,162	583,618
Promises to Give	24,500	33,830
Prepaid Expenses and Other Assets	70,259	42,697
Total Current Assets	839,792	679,776
INVESTMENTS	3,872,586	4,261,650
PROPERTY AND EQUIPMENT, Net	4,454,347	4,573,321
BOND ISSUE COSTS, Net	82,418	85,509
Total Assets	\$ 9,249,143	\$ 9,600,256
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of Credit	\$ -	\$ 275,000
Accounts Payable	214,618	218,886
Accrued Expenses	421,116	277,008
Current Portion of Long-Term Debt	68,816	67,343
Total Current Liabilities	704,550	838,237
TENANT SECURITY DEPOSITS	7,823	7,823
LONG-TERM DEBT, Net of Current Portion	2,521,567	2,581,910
Total Liabilities	3,233,940	3,427,970
NET ASSETS		
Unrestricted:		
Operations	2,907,121	2,687,656
Board Designated	3,007,371	3,396,435
Total Unrestricted	5,914,492	6,084,091
Temporarily Restricted	100,711	88,195
Total Net Assets	6,015,203	6,172,286
Total Liabilities and Net Assets	\$ 9,249,143	\$ 9,600,256

See accompanying Notes to Financial Statements.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Operations	Board Designated	Total Unrestricted	Temporarily Unrestricted	Total
PROGRAM SERVICE REVENUE					
Government Fees and Grants -					
Commonwealth of Massachusetts	\$ 5,167,422	\$ -	\$ 5,167,422	\$ -	\$ 5,167,422
Total Program Service Revenue	<u>5,167,422</u>	<u>-</u>	<u>5,167,422</u>	<u>-</u>	<u>5,167,422</u>
PRIVATE DONATIONS					
Individuals and Fundraising Events	502,317	-	502,317	34,355	536,672
Foundations	-	-	-	58,500	58,500
Donated Goods and Services	1,528	-	1,528	56,426	57,954
Net Assets Released from Restrictions	136,765	-	136,765	(136,765)	-
Total Private Donations	<u>640,610</u>	<u>-</u>	<u>640,610</u>	<u>12,516</u>	<u>653,126</u>
OTHER					
United Way	77,837	-	77,837	-	77,837
Investment Income	151,992	-	151,992	-	151,992
Rental Income	116,380	-	116,380	-	116,380
Interest Income	449	-	449	-	449
Miscellaneous	4,088	-	4,088	-	4,088
Client Fees	225	-	225	-	225
Total Other	<u>350,971</u>	<u>-</u>	<u>350,971</u>	<u>-</u>	<u>350,971</u>
REALIZED AND UNREALIZED					
GAIN (LOSS) ON INVESTMENTS	<u>(151,992)</u>	<u>7,890</u>	<u>(144,102)</u>	<u>-</u>	<u>(144,102)</u>
Total Revenues before Board Designations	<u>6,007,011</u>	<u>7,890</u>	<u>6,014,901</u>	<u>12,516</u>	<u>6,027,417</u>
EXPENSES					
Program Services Expenses	4,824,360	-	4,824,360	-	4,824,360
Fundraising	376,423	-	376,423	-	376,423
Rental Activities	140,160	-	140,160	-	140,160
Management and General	824,604	18,954	843,558	-	843,558
Total Expenses	<u>6,165,546</u>	<u>18,954</u>	<u>6,184,500</u>	<u>-</u>	<u>6,184,500</u>
INCREASE (DECREASE) IN NET ASSETS					
BEFORE BOARD DESIGNATIONS	(158,535)	(11,064)	(169,599)	12,516	(157,083)
Investment Return Applied to Operations	<u>378,000</u>	<u>(378,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	219,465	(389,064)	(169,599)	12,516	(157,083)
Net Assets - Beginning of Year	<u>2,687,656</u>	<u>3,396,435</u>	<u>6,084,091</u>	<u>88,195</u>	<u>6,172,286</u>
NET ASSETS - END OF YEAR	<u>\$ 2,907,121</u>	<u>\$ 3,007,371</u>	<u>\$ 5,914,492</u>	<u>\$ 100,711</u>	<u>\$ 6,015,203</u>

See accompanying Notes to Financial Statements.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	<u>Operations</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>	<u>Temporarily Unrestricted</u>	<u>Total</u>
PROGRAM SERVICE REVENUE					
Government Fees and Grants -					
Commonwealth of Massachusetts	\$ 4,769,672	\$ -	\$ 4,769,672	\$ -	\$ 4,769,672
Total Program Service Revenue	<u>4,769,672</u>	<u>-</u>	<u>4,769,672</u>	<u>-</u>	<u>4,769,672</u>
PRIVATE DONATIONS					
Individuals and Fundraising Events	500,933	-	500,933	74,350	575,283
Foundations	-	-	-	35,000	35,000
Donated Goods and Services	6,260	-	6,260	32,331	38,591
Net Assets Released from Restrictions	86,118	-	86,118	(86,118)	-
Total Private Donations	<u>593,311</u>	<u>-</u>	<u>593,311</u>	<u>55,563</u>	<u>648,874</u>
OTHER					
United Way	81,589	-	81,589	-	81,589
Investment Income	190,127	-	190,127	-	190,127
Rental Income	110,223	-	110,223	-	110,223
Interest Income	168	-	168	-	168
Miscellaneous	782	-	782	-	782
Total Other	<u>382,889</u>	<u>-</u>	<u>382,889</u>	<u>-</u>	<u>382,889</u>
REALIZED AND UNREALIZED LOSS ON INVESTMENTS					
	<u>(103,537)</u>	<u>(43,339)</u>	<u>(146,876)</u>	<u>-</u>	<u>(146,876)</u>
Total Revenues before Board Designations	5,642,335	(43,339)	5,598,996	55,563	5,654,559
EXPENSES					
Program Services Expenses	4,698,400	-	4,698,400	-	4,698,400
Fundraising	337,344	-	337,344	-	337,344
Rental Activities	123,313	-	123,313	-	123,313
Management and General	781,654	-	781,654	-	781,654
Total Expenses	<u>5,940,711</u>	<u>-</u>	<u>5,940,711</u>	<u>-</u>	<u>5,940,711</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE BOARD DESIGNATIONS					
	(298,376)	(43,339)	(341,715)	55,563	(286,152)
Investment Return Applied to Operations	<u>171,000</u>	<u>(171,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(127,376)	(214,339)	(341,715)	55,563	(286,152)
Net Assets - Beginning of Year	<u>2,815,032</u>	<u>3,610,774</u>	<u>6,425,806</u>	<u>32,632</u>	<u>6,458,438</u>
NET ASSETS - END OF YEAR	<u>\$ 2,687,656</u>	<u>\$ 3,396,435</u>	<u>\$ 6,084,091</u>	<u>\$ 88,195</u>	<u>\$ 6,172,286</u>

See accompanying Notes to Financial Statements.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services					Supporting Services				Total
	Residential	Developmental Disabilities	Family Support & Stabilization	Adoption Services	Intensive Foster Care	Total Program Services	Fundraising	Rental Activities	Management and General	
Employee Compensation										
Salaries	\$ 946,403	\$ 444,646	\$ 208,304	\$ 236,628	\$ 326,386	\$ 2,162,367	\$ 179,834	\$ 12,586	\$ 469,607	\$ 2,824,395
Fringe Benefits and Taxes	208,390	84,864	39,107	56,208	76,853	465,422	41,972	960	113,383	621,737
Total Employee Compensation	1,154,793	529,510	247,411	292,835	403,239	2,627,789	221,806	13,546	582,990	3,446,131
Operating Expenses										
Advertising	2,825	557	553	351	2,731	7,018	2,978	-	152	10,148
Annual Event	-	-	-	-	-	-	67,828	-	-	67,828
Bad Debt Expense	-	-	-	-	-	-	3,380	-	2,600	5,980
Client Expense and Assistance	74,170	756,554	10,841	2,432	661,822	1,505,819	9,176	-	763	1,515,758
Data Processing	11,131	14,551	7,435	9,755	18,852	61,723	6,127	-	13,603	81,453
Depreciation and Amortization	48,029	15,461	7,900	10,365	19,416	101,172	7,471	25,766	15,026	149,435
Dues and Membership and National Affiliations	5,499	3,861	894	1,677	2,147	14,079	881	-	1,223	16,183
Equipment Rental, Purchase and Repair	940	-	-	-	-	940	-	-	-	940
Interest	18,786	10,849	5,543	7,273	13,624	56,076	4,569	23,503	10,143	94,290
Insurance	26,715	5,632	2,247	2,948	5,522	43,063	1,852	-	4,642	49,557
Lease and Occupancy	110,327	31,865	26,314	19,229	38,211	225,944	12,153	77,344	27,314	342,756
Legal and Audit	-	-	-	-	-	-	-	-	39,872	39,872
Meetings	1,475	214	62	11	506	2,269	4,791	-	6,305	13,364
Miscellaneous	1,114	7	4	4	524	1,653	1,006	-	16,114	18,772
Office Supplies and Expense	7,053	452	942	44	615	9,107	695	-	8,851	18,652
Postage and Delivery	132	2,728	97	600	663	4,220	2,815	-	1,009	8,044
Printing and Copying	497	3,849	1,101	1,424	3,786	10,657	6,817	-	798	18,272
Professional Development	7,075	1,500	1,115	1,152	4,573	15,416	309	-	151	15,877
Professional Fees and Contract Services	11,915	14,594	235	1,985	1,751	30,481	20,533	-	108,618	159,632
Staff and Non-Staff Travel	28,292	5,442	13,797	12,064	24,613	84,208	436	-	1,777	86,421
Subscriptions and Publications	-	-	-	-	-	-	79	-	-	79
Telephone	8,262	3,117	2,839	2,251	6,257	22,727	719	-	1,609	25,054
Total Operating Expenses	364,241	871,232	81,918	73,567	805,613	2,196,571	154,616	126,613	260,568	2,738,368
Total Expenses	\$ 1,519,034	\$ 1,400,742	\$ 329,329	\$ 366,402	\$ 1,208,852	\$ 4,824,360	\$ 376,423	\$ 140,160	\$ 843,558	\$ 6,184,500

See accompanying Notes to Financial Statements.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services					Supporting Services				Total
	Residential	Developmental Disabilities	Family Support & Stabilization	Adoption Services	Intensive Foster Care	Total Program Services	Fundraising	Rental Activities	Management and General	
Employee Compensation										
Salaries	\$ 928,946	\$ 446,854	\$ 143,903	\$ 243,282	\$ 343,497	\$ 2,106,482	\$ 177,576	\$ 10,821	\$ 456,082	\$ 2,750,961
Fringe Benefits and Taxes	198,309	86,034	32,467	52,547	89,381	458,738	31,755	2,236	89,680	582,409
Total Employee Compensation	1,127,255	532,888	176,370	295,829	432,878	2,565,220	209,331	13,057	545,762	3,333,370
Operating Expenses										
Advertising	2,220	570	232	-	767	3,789	2,888	-	14,743	21,420
Annual Event	-	-	-	-	-	-	61,093	-	-	61,093
Bad Debt Expense	-	848	-	-	100	948	850	-	-	1,798
Client Expense and Assistance	71,036	685,994	6,287	1,542	690,686	1,455,545	2,005	-	462	1,458,012
Data Processing	7,804	16,974	6,947	10,698	20,441	62,864	6,414	466	15,757	85,501
Depreciation and Amortization	48,161	16,007	6,625	10,769	19,546	101,108	6,446	26,242	15,595	149,391
Dues and Membership and National Affiliations	4,795	2,955	497	1,007	1,465	10,719	1,009	34	1,994	13,756
Equipment Rental, Purchase and Repair	936	-	-	-	-	936	-	-	-	936
Interest	20,573	11,461	4,746	7,714	13,999	58,493	4,102	23,950	10,757	97,302
Insurance	29,101	4,606	1,907	3,100	5,626	44,340	1,649	130	4,854	50,973
Lease and Occupancy	129,164	29,856	12,568	18,543	35,723	225,854	9,861	58,733	33,414	327,862
Legal and Audit	-	-	-	-	-	-	-	561	45,392	45,953
Meetings	1,376	64	50	12	452	1,954	851	-	6,638	9,443
Miscellaneous	872	40	37	248	597	1,794	397	47	9,243	11,481
Office Supplies and Expense	6,074	498	292	-	493	7,357	1,070	-	8,347	16,774
Postage and Delivery	170	3,159	55	682	646	4,712	2,813	-	1,121	8,646
Printing and Copying	685	2,487	1,543	4,202	3,976	12,893	11,188	43	1,658	25,782
Professional Development	4,705	954	997	488	2,139	9,283	3,037	-	539	12,859
Professional Fees and Contract Services	17,235	9,080	2,425	3,003	4,551	36,294	11,450	-	61,785	109,529
Staff and Non-Staff Travel	27,310	5,735	8,972	13,312	18,130	73,459	221	-	1,471	75,151
Subscriptions and Publications	-	-	-	-	-	-	77	-	488	565
Telephone	7,335	2,779	1,975	2,696	6,053	20,838	592	50	1,634	23,114
Total Operating Expenses	379,552	794,067	56,155	78,016	825,390	2,133,180	128,013	110,256	235,892	2,607,341
Total Expenses	\$ 1,506,807	\$ 1,326,955	\$ 232,525	\$ 373,845	\$ 1,258,268	\$ 4,698,400	\$ 337,344	\$ 123,313	\$ 781,654	\$ 5,940,711

See accompanying Notes to Financial Statements.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (157,083)	\$ (286,152)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operations:		
Depreciation and Amortization	149,435	149,390
Realized and Unrealized Loss on Investments, Net	144,102	146,876
Bad Debt Expense	5,980	1,798
(Increase) Decrease in Assets:		
Accounts Receivable	(29,524)	43,555
Promises to Give	9,330	12,842
Prepaid Expenses and Other Assets	(27,562)	11,615
Increase (Decrease) in Liabilities:		
Accounts Payable	(4,268)	(56,389)
Accrued Expenses	144,108	28,221
Tenant Security Deposits	-	1,598
Net Cash Provided by Operating Activities	234,518	53,354
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(27,370)	(61,637)
Purchases of Investments	(848,504)	(739,594)
Proceeds from Sales of Investments	1,093,466	736,651
Net Cash Provided (Used) by Investing Activities	217,592	(64,580)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(58,870)	(57,535)
Advances (Payments) on Line of Credit, Net	(275,000)	80,000
Net Cash Provided (Used) by Financing Activities	(333,870)	22,465
NET INCREASE IN CASH	118,240	11,239
Cash - Beginning of Year	19,631	8,392
CASH - END OF YEAR	\$ 137,871	\$ 19,631
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 94,290	\$ 97,301

See accompanying Notes to Financial Statements.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 NATURE OF BUSINESS

Cambridge Family and Children's Service, Inc. (the Service) is a nonprofit corporation located in Cambridge, Massachusetts. The Service provides intensive foster care, adoption services, services to individuals with developmental disabilities and their families, residential facilities for teenagers, and parent and child mentoring services. The Service is exempt from federal and state income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Donors may deduct contributions to the Service within the IRC regulations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Service prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Use of Estimates

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

Basis of Presentation

Under FASB ASC 958-205, Presentation of *Financial Statements of Not-for-Profit Entities*, the Service is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor imposed restrictions.

To ensure observance of limitations and restrictions that may be placed on the use of resources available to the Service, its accounts are maintained in the following net asset categories:

Unrestricted Net Assets - Unrestricted net assets represent those assets not subject to donor-imposed stipulations. The Service further subdivides this classification into a) Board-designated net assets, which have been designated by the Board for specific purposes; and b) other operating net assets.

Temporarily Restricted Net Assets - Temporarily restricted net assets are those assets subject to donor-imposed stipulations that may or will be met whether by actions of the Organization and/or the passage of time.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted Net Assets - Permanently restricted net assets are those assets subject to donor-imposed stipulations 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. There were no permanently restricted net assets as of June 30, 2016 and 2015.

Contributions

The Service reports unrestricted grants and contributions as unrestricted revenue and net assets when received or unconditionally promised. Grants and contributions are reported as temporarily restricted support if they are received or unconditionally promised with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, restricted and unrestricted. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Donated Goods and Services

Volunteers and other organizations may contribute goods and services to the Service in support of various aspects of its programs. Donated goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or by management, and amounted to \$41,646 and \$38,591 during the years ended June 30, 2016 and 2015, respectively. Donated goods and services received during the years ended June 30, 2016 and 2015 consisted primarily of donated toys, event tickets, and gift cards.

Unconditional Promises to Give and Grants Receivable

Contributions and grants receivable representing unconditional promises to give generally are recognized as revenues when the promise is received. Receivables under cost reimbursement and performance grants are recognized when the grant criteria are met. Contributions and grants receivable that are expected to be collected in less than one year are recorded at net realizable value. Contributions and grants receivable that are not expected to be collected in less than one year are recorded at fair value on the date of promise. Fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized in contribution revenue. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional promises to give or grants receivable.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of reporting cash flows, the Service considers all highly liquid financial investments purchased with an original maturity of three months or less to be cash and cash equivalents.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for operations are recorded as additions to temporarily restricted net assets at fair value at the date of receipt and as net assets released from restrictions when the assets are placed in service. Depreciation and amortization of property and equipment are provided over the estimated useful lives of the respective assets on a straight-line basis, using estimated lives ranging from three to forty years.

Purchases are determined to be capital expenditures based on the Service's policy of capitalizing assets acquired at a cost (or, if donated, at fair value) exceeding \$500. Those items which are not capital expenditures are immediately expensed.

The Service regularly assesses all of its long-lived assets for impairment and recognizes a loss when the carrying value of an asset exceeds its fair value. The Service determined that no impairment loss need be recognized for applicable assets for the years ended June 30, 2016 and 2015.

Bond Issue Costs

Bond issue costs are amortized over the period the obligation is outstanding using the straight-line method. Amortization expense was \$3,091 for each of the years ended June 30, 2016 and 2015.

Income Taxes

The Service is a nonprofit corporation as described in Section 501(c)(3) of the IRC and is exempt from federal income taxes on related income pursuant to Section 501(a) of IRC. The Service is, however, subject to the tax on unrelated business income, if any such income exists. In addition, the Service qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Service is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The cost of providing the Service's 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. Expenses that are common to several functions are allocated based on various statistical bases.

Promotional Advertising

The Service expenses promotional advertising costs as incurred. Promotional advertising costs were \$3,013 and \$3,226 for the years ended June 30, 2016 and 2015, respectively.

Reclassifications

Certain amounts relating to the prior year have been reclassified to conform to the current year presentation. There is no effect on the change in net assets previously reported.

Subsequent Events

Management has evaluated subsequent events through January 17, 2017, which is the date the financial statements were available to be issued. No events requiring disclosure or recognition in the financial statements were identified.

NOTE 3 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Unconditional Promises to Give Expected to be Collected in:		
Less than One Year	\$ 24,500	\$ 33,830
Total Unconditional Promises to Give	<u>\$ 24,500</u>	<u>\$ 33,830</u>

All unconditional promises to give are deemed collectible by management.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 INVESTMENTS

Investments are stated at fair value and consist of the following:

	June 30, 2016		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Stock Mutual Funds	\$ 2,502,368	\$ 2,463,458	\$ (38,910)
Bond Mutual Funds	833,372	828,534	(4,838)
Corporate Bonds	447,026	468,968	21,942
Money Market Funds	111,626	111,626	-
Total	<u>\$ 3,894,392</u>	<u>\$ 3,872,586</u>	<u>\$ (21,806)</u>
	June 30, 2015		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Stock Mutual Funds	\$ 2,562,133	\$ 2,697,133	\$ 135,000
Bond Mutual Funds	979,295	958,462	(20,833)
Corporate Bonds	447,027	439,402	(7,625)
Money Market Funds	166,653	166,653	-
Total	<u>\$ 4,155,108</u>	<u>\$ 4,261,650</u>	<u>\$ 106,542</u>

NOTE 5 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30:

	2016	2015
Buildings	\$ 2,845,611	\$ 2,845,611
Land	1,864,909	1,864,909
Building Improvements	1,131,950	1,111,781
Furniture and Fixtures	79,511	78,944
Office Equipment	260,050	253,416
Subtotal	6,182,031	6,154,661
Less: Accumulated Depreciation	(1,727,684)	(1,581,340)
Total	<u>\$ 4,454,347</u>	<u>\$ 4,573,321</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$146,344 and \$146,300, respectively.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 RELATED PARTY TRANSACTIONS

The Service hired a single vendor that employed a family member of management. Amounts paid for the service provided by the vendor totaled approximately \$22,500 and \$31,000 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7 RETIREMENT PLANS

The Service provides a defined contribution (money purchase) retirement plan for employees through Professional Pensions Incorporated. An employee is eligible to participate in the Plan after one year of service. The Service contributes 3% of the employee's salary, plus an additional 2%, up to the employee's contribution.

In addition, the Service offers a tax deferred annuity plan. Employees may provide tax deferred contributions up to the IRC limit. The plan covers all employees meeting eligibility criteria.

The Service's contributions to the Plans were \$89,577 and \$93,405 during the years ended June 30, 2016 and 2015, respectively.

NOTE 8 LINE OF CREDIT

The Service has a line of credit with a bank, which provides short-term borrowings of up to \$400,000. Interest is payable monthly at bank's current prime rate plus 1% (4.50% and 4.25% at June 30, 2016 and 2015, respectively). Any borrowings against the line of credit are secured by an interest in all assets of the Service. Additionally, the security agreement requires the Service to maintain \$450,000 in investments that are unencumbered by any other debt obligations. The outstanding balance at June 30, 2016 and 2015 was \$-0- and \$275,000, respectively. The balance is due and payable on demand.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 LONG-TERM DEBT

Long-term debt as of June 30 is summarized as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
On March 8, 2013, the Service borrowed \$2,500,000 from a bank through the sale of MDFA bonds to refinance the buildings at 60 Gore Street, Cambridge, Massachusetts and 20 Main Park Street, Malden, Massachusetts. The bonds are payable in monthly installments of \$11,086, including interest at 3.35% until the first interest rate adjustment in 2023. There will be an additional interest rate adjustment in 2033. The bonds mature on March 18, 2043 and are secured by substantially all assets of the Service.	\$ 2,337,974	\$ 2,390,383
On October 4, 2006, the Service borrowed \$300,000 from a bank to refinance the bridge loan on the building at 78 Glendale Street, Dorchester, Massachusetts. The mortgage is payable in monthly installments of \$1,677, including interest at 5.25%, through October 31, 2036. The mortgage is secured by the building and all equipment, machinery, fixtures and rent therein.	252,409	258,870
Total	<u>\$ 2,590,383</u>	<u>\$ 2,649,253</u>

Maturities of long-term debt for each of the five years succeeding June 30, 2016 and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 68,816
2018	70,331
2019	71,892
2020	73,497
2021	75,148
Thereafter	2,230,699
Total	<u>\$ 2,590,383</u>

Total interest expense amounted to \$94,290 and \$97,301 for the years ended June 30, 2016 and 2015, respectively.

The bonds require the Service to maintain various covenants, including a leverage ratio of not less than 0.75 to 1.00 pursuant to and defined in the loan agreement.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	2016	2015
Tuition Assistance	\$ 5,909	\$ 5,614
Putnam Place Renovations	6,061	-
Donated Items for Clients	3,239	5,260
Client Activities	24,414	13,605
Services and Support to Young Adult Client Transitioning to Adulthood	61,088	63,716
Total	<u>\$ 100,711</u>	<u>\$ 88,195</u>

NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of events specified by the donors for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Tuition Assistance	\$ 2,705	\$ -
Emergency Heat Assistance	-	841
Donated Items for Clients	18,330	8,270
Client Activities	51,734	70,748
Putnam Place Renovations	18,939	-
Lifeskills	35,000	-
Services and Support to Young Adult Client Transitioning to Adulthood	10,057	6,259
Total	<u>\$ 136,765</u>	<u>\$ 86,118</u>

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12 OPERATING LEASES AND RENTALS UNDER OPERATING LEASES

The Service leases parking spaces at 60 Gore Street under a noncancelable operating lease which expires on July 31, 2017. Rent expense for the years ended June 30, 2016 and 2015 for this parking lease was \$26,682 and \$19,391, respectively.

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 31,323
2018	2,281
Total Minimum Future Rentals	<u>\$ 33,604</u>

During the years ended June 30, 2016 and 2015, the Service leased a portion of its building to three unaffiliated lessees. Rental income was \$116,380 and \$110,223 during the years ended June 30, 2016 and 2015, respectively.

Future minimum lease income under these leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 74,191
2018	41,890
2019	20,021
Total Minimum Future Lease Income	<u>\$ 136,102</u>

NOTE 13 SELF-INSURANCE

The Service has chosen to act as a self-insurer for unemployment claims. Claims of \$-0- and \$476 were incurred during the years ended June 30, 2016 and 2015, respectively.

NOTE 14 CONCENTRATION OF CREDIT RISK

The Service maintains cash balances at regional financial institutions in Massachusetts. Balances at these institutions are insured by Federal Deposit Insurance Corporation, up to \$250,000. At various times during the year, balances may have exceeded the maximum FDIC insured amount.

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and the statements of activities.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 CONCENTRATION OF CREDIT RISK (CONTINUED)

The Service received approximately 89% of its support and revenue in 2016 from contracts with the Commonwealth of Massachusetts, which also comprises 98% of accounts receivable at year end. Significant reductions in Commonwealth funding could have an adverse effect on the Service's programs and operations.

NOTE 15 FAIR VALUE MEASUREMENTS

The Service has established a framework for measuring fair value, based on a fair value hierarchy contained in Accounting Standards Codifications (ASC 820) that is intended to increase consistency and comparability in fair value measurements and related disclosures. This hierarchy maximizes the use of observable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing an asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Service's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Fair Value Hierarchy

In accordance with this guidance, the Service groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value:

Level 1 - Valuation is based on quoted market prices in active markets for identical assets or liabilities that the Service has the ability to access at the measurement date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation must be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 Assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 15 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Service believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Corporate Bonds: The fair value of corporate obligations is estimated using recently executed transactions, market price quotations (where observable), bond spreads or other available data. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond swap spreads, and other available inputs.

Fair values of financial instruments measured on a recurring basis at June 30, 2016 and 2015 are as follows:

June 30, 2016	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Equity Mutual Funds	\$ 2,463,458	\$ -	\$ -	\$ 2,463,458
Fixed Income Mutual Funds	828,534	-	-	828,534
Corporate Bonds	-	468,968	-	468,968
Money Market Funds	111,626	-	-	111,626
Total	<u>\$ 3,403,618</u>	<u>\$ 468,968</u>	<u>\$ -</u>	<u>\$ 3,872,586</u>

June 30, 2015	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Equity Mutual Funds	\$ 2,697,133	\$ -	\$ -	\$ 2,697,133
Fixed Income Mutual Funds	958,460	-	-	958,460
Corporate Bonds	-	439,404	-	439,404
Money Market Funds	166,653	-	-	166,653
Total	<u>\$ 3,822,246</u>	<u>\$ 439,404</u>	<u>\$ -</u>	<u>\$ 4,261,650</u>

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 16 BOARD DESIGNATED ENDOWMENT

The board of directors has interpreted Massachusetts Law Chapter 180A as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Service would classify, upon receipt of donor restricted endowment funds, as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Service in a manner consistent with the standard of prudence prescribed by Massachusetts Law Chapter 180A.

In accordance with Massachusetts Law Chapter 180A, the Service considers the following facts in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Service and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Service
- (7) The investment policies of the Service

Endowment net asset composition by type of fund as of June 30:

	Unrestricted	
	2016	2015
Board Designated - Endowment Funds	\$ 3,007,371	\$ 3,396,435

Changes in endowment net assets for the years ended June 30:

	Unrestricted	
	2016	2015
Endowment Net Assets, Beginning of Year	\$ 3,396,435	\$ 3,610,774
Net Appreciation (Depreciation), net of fees	(11,064)	(43,339)
Appropriation of Endowment Assets for Expenditure	(378,000)	(171,000)
Endowment Net Assets, End of Year	\$ 3,007,371	\$ 3,396,435

CAMBRIDGE FAMILY AND CHILDREN'S SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 16 BOARD DESIGNATED ENDOWMENT (CONTINUED)

Return Objectives and Risk Parameters

Board designated endowment assets are comprised of funds to be used for long-term purposes. The return objective is to maximize the contribution to operating income while at the same time preserving the purchasing power of the principal. The Service invests primarily in bond and stock mutual funds.

Strategies Employed for Achieving Objectives

To satisfy its rate-of-return objectives, the Service 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 Service maintains a diversified asset allocation that includes equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The board of directors has authorized an investment spending policy under which the Service may spend up to 5% of the average fair value of its investment portfolio over the previous twelve quarters, net of investment management fees. However, during 2016 the board of directors authorized a one-time additional drawdown to cover prior year losses.