

The Community Family, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2017 and 2016

The Community Family, Inc.

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Independent Auditor's Report

To the Board of Directors
The Community Family, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Community Family, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

Auditor's 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 auditor's 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 Organization'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 Organization'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.

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, 2017 and 2016, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 24 to 31 is presented for purposes of additional analysis and is 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.

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

Boston, Massachusetts
May 30, 2018

The Community Family, Inc.

Statements of Financial Position
December 31, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents - operating	\$ 1,384,215	\$ 1,507,621
Accounts and pledges receivable, net	500,889	512,473
Prepaid expenses	37,303	35,539
	<u>1,922,407</u>	<u>2,055,633</u>
Total current assets		
Property and equipment		
Land	861,745	861,745
Buildings	3,089,842	3,089,842
Furniture, fixtures and equipment	932,717	849,810
Motor vehicles	541,993	630,690
Miscellaneous fixed assets	12,289	12,289
	<u>5,438,586</u>	<u>5,444,376</u>
Less - accumulated depreciation	<u>(1,943,178)</u>	<u>(2,068,524)</u>
	<u>3,495,408</u>	<u>3,375,852</u>
Net property and equipment		
Other assets		
Investments - board-designated	<u>1,208,924</u>	<u>1,091,565</u>
	<u>1,208,924</u>	<u>1,091,565</u>
Total other assets		
Total assets	<u>\$ 6,626,739</u>	<u>\$ 6,523,050</u>

The Community Family, Inc.

Statements of Financial Position
December 31, 2017 and 2016

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current liabilities		
Current maturity of long-term debt	\$ 226,299	\$ 148,376
Accounts payable and accrued expenses	98,398	95,047
Accrued payroll, vacation and payroll taxes	73,390	96,114
Capital lease obligations, current	36,960	14,556
Deferred revenue	5,296	1,942
	<u>440,343</u>	<u>356,035</u>
Total current liabilities		
Long-term debt		
Capital lease obligations, net of current maturities	120,888	65,846
Mortgage notes payable, net of current maturities	-	231,806
	<u>120,888</u>	<u>297,652</u>
Total long-term liabilities		
Total liabilities	<u>561,231</u>	<u>653,687</u>
Net assets		
Unrestricted net assets		
Unrestricted	4,856,584	4,757,798
Board-designated for purpose	1,208,924	1,091,565
Temporarily restricted net assets	-	20,000
	<u>6,065,508</u>	<u>5,869,363</u>
Total net assets		
Total liabilities and net assets	<u>\$ 6,626,739</u>	<u>\$ 6,523,050</u>

See Notes to Financial Statements.

The Community Family, Inc.
Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Support and revenue		
Program	\$ 1,938,230	\$ 1,890,863
Transportation	756,230	700,559
USDA income	141,884	131,114
Interest and dividend income	31,309	25,439
Miscellaneous income	1,446	592
Grants and donations	158,372	144,289
Net assets released from restrictions	20,000	20,000
Total support and revenue	3,047,471	2,912,856
Functional expenses		
Program services	2,311,348	2,217,497
General and administrative	611,998	592,459
Total functional expenses	2,923,346	2,809,956
Subtotal	124,125	102,900
Realized and unrealized gain (loss) on investments	92,020	49,600
Increase (decrease) in unrestricted net assets	216,145	152,500
Temporarily restricted net assets		
Net assets released from restrictions	(20,000)	(20,000)
Increase (decrease) in temporarily restricted net assets	(20,000)	(20,000)
Total increase (decrease) in net assets	196,145	132,500
Net assets, beginning of year	5,869,363	5,736,863
Net assets, end of year	\$ 6,065,508	\$ 5,869,363

See Notes to Financial Statements.

The Community Family, Inc.

Statements of Functional Expenses
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Program services		
Payroll	\$ 1,445,417	\$ 1,421,213
Payroll taxes	106,798	114,155
Activities	26,503	22,575
Depreciation	160,395	150,361
Food	143,520	141,855
Fringe benefits	114,332	90,138
Insurance	75,060	75,186
Medical supplies	15,171	10,970
Staff training	5,906	6,567
Supplies	18,725	18,425
Transportation	152,125	117,450
Travel	68	906
Utilities	47,328	47,696
	<u>2,311,348</u>	<u>2,217,497</u>
 General and administrative		
Payroll	230,368	227,077
Payroll taxes	16,768	18,962
Advertising - employment	2,056	1,052
Advertising - marketing	462	250
Audit	20,160	19,937
Bad debt	1,270	3,037
Board expense	3,515	3,100
Casual labor	-	519
Cleaning and janitorial	70,510	68,175
Consulting	11,413	9,934
Depreciation	4,083	4,207
Dues and subscriptions	14,926	16,042
Equipment leases	9,335	9,806
Food	67	-
Fringe benefits	40,164	26,543
Fundraising	499	999
Insurance	5,220	5,157
Interest	22,917	33,837
Office supplies and expenses	37,047	37,669
Payroll service and bank charges	29,029	24,000
Postage	4,173	4,649
Repairs and maintenance	74,272	61,396
Staff training	25	70
Telephone	11,710	14,587
Travel	2,009	1,454
	<u>611,998</u>	<u>592,459</u>
 Total functional expenses	<u>\$ 2,923,346</u>	<u>\$ 2,809,956</u>

The Community Family, Inc.

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 196,145	\$ 132,500
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	164,478	154,568
Amortization of debt issuance costs	128	128
Net realized and unrealized (gains) losses on investments	(92,020)	(49,600)
Contributions restricted for long-term purposes	(60,000)	-
Changes in assets and liabilities		
(Increase) decrease in assets		
Accounts and pledges receivable	11,584	34,342
Prepaid expenses	(1,764)	3,051
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	3,351	3,516
Accrued payroll, vacation and payroll taxes	(22,724)	22,704
Deferred revenue	3,354	(8,913)
	<u>202,532</u>	<u>292,296</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchase of investments	(252,537)	(661,709)
Sale or maturity of investments	227,198	641,005
Purchases of property and equipment	(178,877)	(56,871)
	<u>(204,216)</u>	<u>(77,575)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Mortgage principal payments	(154,011)	(17,520)
Collections on contributions restricted for long-term purposes:		
Van purchase	60,000	-
Capital lease payments	(27,711)	(5,802)
	<u>(121,722)</u>	<u>(23,322)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	(123,406)	191,399
Cash and cash equivalents, beginning of year	<u>1,507,621</u>	<u>1,316,222</u>
Cash and cash equivalents, end of year	<u>\$ 1,384,215</u>	<u>\$ 1,507,621</u>

See Notes to Financial Statements.

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Note 1 - Organization

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.

Note 2 - Summary of significant accounting policies

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:

<i>Unrestricted net assets</i>	Net assets that are not subject to donor-imposed restrictions;
<i>Temporarily restricted net assets</i>	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
<i>Permanently restricted net assets</i>	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, 2017 and 2016, the Organization has no permanently restricted net assets.

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.

The Community Family, Inc.

Notes to Financial Statements December 31, 2017 and 2016

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. Buildings and improvements are being depreciated over their estimated useful lives, ranging from 20 to 40 years, utilizing the straight-line method. Furnishings and equipment and motor vehicles are being depreciated over their estimated useful lives, ranging from five to seven years, utilizing the straight-line method.

Investments

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 20 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, 2017 and 2016. 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.

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.

The Community Family, Inc.

Notes to Financial Statements December 31, 2017 and 2016

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 of 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, 2017 and 2016, 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.

Impairment of long-lived assets

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 2017 and 2016, no events or circumstances occurred or existed which indicated that the Organization's long-lived assets might be impaired; accordingly, no such loss provision has been included in the accompanying financial statements.

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

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 deferred 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 the estimated fair value when the service is received. During the years ended December 31, 2017 and 2016, 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.

The Community Family, Inc.

Notes to Financial Statements December 31, 2017 and 2016

During the years ended December 31, 2017 and 2016, the allocations of general and administrative expenses were approximately as follows:

	<u>2017</u>	<u>2016</u>
Everett	44%	44%
Medford	33%	33%
Lowell	23%	23%
	<u>100%</u>	<u>100%</u>

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, 2017 and 2016 were \$462 and \$250, 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, 2017 and 2016. 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 12 months of December 31, 2017. 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, 2014, 2015 and 2016.

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.

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

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 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

Subsequent events

Management evaluated the activity of the Organization through May 30, 2018 (the date the financial statements were available to be issued). Management has concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Note 3 - Accounts and pledges receivable

Accounts and pledges receivable consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Trade receivables		
Medicaid	\$ 255,900	\$ 232,158
Veterans Administration	33,786	49,168
Other providers	176,311	157,703
Private pay	40,916	50,608
USDA	<u>12,224</u>	<u>21,084</u>
Subtotal	519,137	510,721
Less: Allowance for doubtful accounts	<u>(18,248)</u>	<u>(18,248)</u>
	500,889	492,473
Pledges receivable	<u>-</u>	<u>20,000</u>
Total accounts and pledges receivable, net	<u>\$ 500,889</u>	<u>\$ 512,473</u>

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

There are no pledges receivable due for the year ended December 31, 2017.

Pledges receivable are due as follows at December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Total</u>
Receivables due in less than one year	\$ -	\$ 20,000	\$ 20,000
Receivables due in one to five years	-	-	-
Receivables due in more than five years	-	-	-
	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Note 4 - Investments

The Organization maintains a portfolio of investments. The cost and fair market value of these investments at December 31, 2017 and 2016 are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair market value</u>	<u>Cost</u>	<u>Fair market value</u>
Mutual funds				
Fixed income	\$ 215,897	\$ 214,085	\$ 229,784	\$ 222,383
Equities	682,720	815,884	656,922	702,332
Other securities				
Real estate investment trusts	105,678	107,838	99,015	102,490
Short-term investments and money market funds	71,117	71,117	64,360	64,360
	<u>\$ 1,075,412</u>	<u>\$ 1,208,924</u>	<u>\$ 1,050,081</u>	<u>\$ 1,091,565</u>

Realized and unrealized gains (losses) on investments for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Realized gain (loss) on investments	\$ (8)	\$ (33,049)
Unrealized gain (loss) on investments	92,028	82,649
Net realized and unrealized gain (loss) on investments	<u>\$ 92,020</u>	<u>\$ 49,600</u>

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

For the years ended December 31, 2017 and 2016, investment activity for the portfolio was as follows:

	2017	2016
Investments, beginning of year	\$ 1,091,565	\$ 1,021,261
Investment income		
Dividends and interest, net of expenses totaling \$9,955 and \$8,696, respectively	25,339	20,193
Realized and unrealized gains (losses)	92,020	49,600
Deposit transfers	-	511
Investments, end of year	\$ 1,208,924	\$ 1,091,565

The investments are invested in several funds and industry segments. At December 31, 2017 and 2016, a fund comprising greater than 10% of the fair value of investments was as follows:

	2017	2016
Ishares Trust Minvolatility ETF USA	25.95%	24.17%

The endowment net asset composition by type of fund as of December 31, 2017 was as follows:

Fund type	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	\$ -	\$ -	\$ -	\$ -
Board-designated endowment	1,208,924	-	-	1,208,924
	\$ 1,208,924	\$ -	\$ -	\$ 1,208,924

Changes in the endowment net assets for the year ended December 31, 2017 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 1,091,565	\$ -	\$ -	\$ 1,091,565
Investment return:				
Investment income	35,294	-	-	35,294
Appreciation (depreciation), realized and unrealized	92,020	-	-	92,020
Total investment return	127,314	-	-	127,314
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Investment management fees	(9,955)	-	-	(9,955)
Endowment net assets, end of year	\$ 1,208,924	\$ -	\$ -	\$ 1,208,924

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

The endowment net asset composition by type of fund as of December 31, 2016 was as follows:

Fund type	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	\$ -	\$ -	\$ -	\$ -
Board-designated endowment	1,091,565	-	-	1,091,565
	<u>\$ 1,091,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,091,565</u>

Changes in the endowment net assets for the year ended December 31, 2016 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 1,021,261	\$ -	\$ -	\$ 1,021,261
Investment return:				
Investment income	28,889	-	-	28,889
Appreciation (depreciation), realized and unrealized	49,600	-	-	49,600
Total investment return	78,489	-	-	78,489
Contributions	-	-	-	-
Deposit transfers	511	-	-	511
Appropriation of endowment assets for expenditure	-	-	-	-
Investment management fees	(8,696)	-	-	(8,696)
Endowment net assets, end of year	<u>\$ 1,091,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,091,565</u>

Note 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 hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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 Community Family, Inc.

Notes to Financial Statements December 31, 2017 and 2016

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.

The fair value of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair value	Level I	Level II	Level III
Investments - endowment				
Money market funds	\$ 71,117	\$ 71,117	\$ -	\$ -
Fixed income	214,085	214,085	-	-
Equities	815,884	815,884	-	-
Real estate investment trust	107,838	-	107,838	-
	<u>1,208,924</u>	<u>-</u>	<u>107,838</u>	<u>-</u>
Total assets	<u>\$ 1,208,924</u>	<u>\$ 1,101,086</u>	<u>\$ 107,838</u>	<u>\$ -</u>

The fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	Fair value	Level I	Level II	Level III
Investments - endowment				
Money market funds	\$ 64,360	\$ 64,360	\$ -	\$ -
Fixed income	222,383	222,383	-	-
Equities	702,332	702,332	-	-
Real estate investment trust	102,490	-	102,490	-
	<u>1,091,565</u>	<u>-</u>	<u>102,490</u>	<u>-</u>
Total assets	<u>\$ 1,091,565</u>	<u>\$ 989,075</u>	<u>\$ 102,490</u>	<u>\$ -</u>

Fair values for investments are determined by reference to quoted market prices for Level I inputs and other relevant information generated by market transactions for Level II inputs.

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level III inputs) at December 31, 2017 and 2016.

Note 6 - Mortgage notes payable

Everett Cooperative Bank provided construction financing to the Organization in the form of a note, dated October 13, 2009, in the maximum amount of \$1,500,000. The note is secured by real estate in Everett, Massachusetts and other assets of the Organization. Final draws totaling \$215,600 were received by the Organization during 2010, resulting in a total loan of \$1,376,958. Monthly payments of principal and interest, at a fixed rate of 6.50%, commenced in April 2010. The initial monthly payment was \$9,456. During January 2014, the Organization made an optional prepayment in the amount of \$250,000. In addition, the loan balance was re-amortized and the monthly payment was changed to \$4,336. During October 2015, the Organization made an optional prepayment in the amount of \$160,000. Subsequent to the 2015 optional prepayment, the parties entered into a revision to the promissory note which modified the interest rate to 5.75% and changed the monthly payment to \$3,362, which amortizes the loan over a 15-year period. The loan is scheduled to mature in October 2030. During 2017, the Organization made an optional prepayment in the amount of \$132,454. Interest, including debt issuance costs, of \$19,628 and \$23,055 was incurred during 2017 and 2016, respectively. There was no accrued interest payable at December 31, 2017 and 2016. On January 9, 2018, the outstanding balance on the loan was paid in full and as a result, the remaining balance on the loan has been presented as a current liability on the accompanying statement of financial position at December 31, 2017.

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Mortgage notes payable as of December 31, 2017 and 2016, consist of the following:

	2017	2016
Principal balance	\$ 228,443	\$ 382,454
Less unamortized debt issuance costs	(2,144)	(2,272)
Balance	226,299	380,182
Current maturities	(226,299)	(148,376)
Balance, net of current maturities	\$ -	\$ 231,806
Interest expense per note agreement	\$ 19,500	\$ 22,927
Amortization of debt issuance costs reported as interest expense	128	128
Total interest expense	\$ 19,628	\$ 23,055
Effective interest rate	5.88%	5.88%

In accordance with the mortgage note payable with Everett Cooperative Bank, the Organization is required to maintain a debt service coverage ratio, as defined in the note. The debt service coverage ratio was met for the years ended December 31, 2017 and 2016, respectively.

Note 7 - Restricted and board-designated assets

Temporarily restricted

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Program activities	\$ -	\$ 20,000
Total	\$ -	\$ 20,000

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by the donor during the years ended December 31, 2017 and 2016, as follows:

	2017	2016
Program activities	\$ 20,000	\$ 20,000
Total	\$ 20,000	\$ 20,000

Board-designated - unrestricted

At December 31, 2017 and 2016, \$1,208,924 and \$1,091,565, respectively, of investments are held in a Board-designated endowment fund as a working capital reserve.

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Note 8 - Lease commitments

Office equipment

The Organization leases certain office equipment under various operating leases. Terms of the leases generally are for terms ranging from 48-60 months and expire at various dates through December 2018. Payments range from \$76 to \$184 per month plus excess usage charges. Total office equipment lease expense for the years ended December 31, 2017 and 2016 totaled \$9,335 and \$9,806, respectively.

Vehicles

In December 2014, the Organization entered into a master lease agreement to lease two wheelchair-accessible vans. Delivery of the vans occurred in July 2015. The term of the lease is for a period of five years commencing in August 2015. Monthly payments of principal and interest totaling \$1,382 commenced in August 2015. In addition, a residual payment of \$26,400 is due at the end of the lease term.

In March and October 2017, the Organization entered into two separate master lease agreements to lease two wheelchair-accessible vans. The terms of the leases are for a period of five years each, commencing March 2017 and October 2017, respectively. Monthly payments of principal and interest totaling \$1,180 and \$691, commenced in April 2017 and November 2017, respectively.

Interest incurred under the lease agreements during the years ended December 31, 2017 and 2016 totaled \$3,289 and \$10,782, respectively.

In accordance with FASB guidance, the Organization has recognized each of the leases as capital leases.

A schedule by year of future minimum payments required under the vehicle leases, together with their present value as of December 31, 2017, is as follows:

2018	\$	39,525
2019		39,670
2020		59,854
2021		24,494
2022		<u>14,506</u>
Total minimum lease payments		178,049
Less: amount representing interest		<u>(20,201)</u>
Present value of minimum lease payments	\$	<u><u>157,848</u></u>

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Note 9 - 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 semimonthly or monthly basis. The 2017 and 2016 earned revenues and accounts receivable at December 31, 2017 and 2016, from these payers were approximately as follows:

	<u>2017</u>	<u>2016</u>
Percent of earned revenue		
Medicaid/USDA	53%	54%
Veterans Administration	5%	6%
Other	<u>28%</u>	<u>27%</u>
	<u>86%</u>	<u>87%</u>
Percent of accounts receivable		
Medicaid/USDA	53%	51%
Veterans Administration	6%	10%
Other	<u>41%</u>	<u>32%</u>
	<u>100%</u>	<u>93%</u>

Note 10 - Commitments and contingencies

The Organization receives a significant portion of its funding from contracts with governmental agencies and third-party payers. 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.

Note 11 - Concentration of credit risk

The Organization maintains its cash balances in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government-provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2017 and 2016.

In addition, the Organization's financial institutions participate in either the Share Insurance Fund ("SIF"), which insures all deposits at cooperative banks in Massachusetts above FDIC limits, or the Depositors Insurance Fund ("DIF"), which insures all deposits above FDIC limits at Massachusetts chartered savings banks. As of December 31, 2017 and 2016, the Organization's cash balances were fully insured under these programs.

The Community Family, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Note 12 - Supplemental cash flow information

Schedule of noncash investing and financing activities:

	<u>2017</u>	<u>2016</u>
Costs incurred for the purchase of property and equipment	\$ 284,034	\$ 56,871
Acquisition of equipment through issuance of capital lease	<u>(105,157)</u>	<u>-</u>
Payments for property and equipment additions	<u>\$ 178,877</u>	<u>\$ 56,871</u>
Cash paid for interest	<u>\$ 22,917</u>	<u>\$ 33,755</u>

Supplementary Information

The Community Family, Inc.
Schedules of Revenue and Expenses
Everett Facility
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Support and revenue		
Program	\$ 874,411	\$ 872,033
Transportation	385,522	378,519
USDA income	83,811	79,107
Miscellaneous income	265	-
Grants and donations	14,781	20,785
Total support and revenue	1,358,790	1,350,444
Functional expenses		
Program services	1,009,896	941,524
General and administrative	250,551	249,203
Total functional expenses	1,260,447	1,190,727
Increase (decrease) in net assets	\$ 98,343	\$ 159,717

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Functional Expenses
Everett Facility
Years Ended December 31, 2017 and 2016

	2017	2016
Program services		
Payroll	\$ 620,103	\$ 583,204
Payroll taxes	46,224	47,136
Activities	12,963	11,015
Depreciation	76,619	76,519
Food	73,339	71,019
Fringe benefits	44,876	35,228
Insurance	30,540	29,985
Medical supplies	7,000	6,670
Staff training	2,200	2,043
Supplies	10,279	10,173
Transportation	70,080	51,386
Travel	-	800
Utilities	15,673	16,346
	<u>1,009,896</u>	<u>941,524</u>
 General and administrative		
Advertising - employment	577	310
Advertising - marketing	462	-
Bad debt	618	3,037
Cleaning and janitorial	29,328	28,392
Consulting	2,500	400
Dues and subscriptions	4,595	4,467
Equipment leases	3,407	3,555
Home office allocation	149,848	150,429
Interest	15,868	21,966
Office supplies and expenses	6,535	4,877
Payroll service and bank charges	3,987	3,320
Repairs and maintenance	27,994	22,481
Telephone	4,832	5,969
	<u>250,551</u>	<u>249,203</u>
 Total functional expenses	<u>\$ 1,260,447</u>	<u>\$ 1,190,727</u>

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Revenue and Expenses
Medford Facility
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Support and revenue		
Program	\$ 574,749	\$ 599,648
Transportation	173,858	182,250
USDA income	29,998	31,692
Grants and donations	64,109	47,897
Total support and revenue	842,714	861,487
Functional expenses		
Program services	668,144	695,160
General and administrative	145,977	158,192
Total functional expenses	814,121	853,352
Increase (decrease) in unrestricted net assets	\$ 28,593	\$ 8,135

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Functional Expenses
Medford Facility
Years Ended December 31, 2017 and 2016

	2017	2016
Program services		
Payroll	\$ 435,009	\$ 451,901
Payroll taxes	31,872	36,894
Activities	8,520	8,369
Depreciation	35,154	34,655
Food	38,064	40,045
Fringe benefits	35,381	34,934
Insurance	22,848	23,024
Medical supplies	4,801	2,893
Staff training	3,431	2,193
Supplies	4,054	4,236
Transportation	31,905	38,802
Utilities	17,105	17,214
	<u>668,144</u>	<u>695,160</u>
 General and administrative		
Advertising - employment	251	108
Bad debt	435	-
Casual labor	-	344
Cleaning and janitorial	17,349	18,975
Consulting	785	350
Dues and subscriptions	3,261	3,971
Equipment leases	3,703	3,698
Fundraising	459	999
Home office allocation	81,820	83,782
Interest	1,013	5,391
Office supplies and expenses	5,266	7,179
Payroll service and bank charges	3,842	3,271
Postage	491	572
Repairs and maintenance	23,362	25,584
Telephone	3,940	3,968
	<u>145,977</u>	<u>158,192</u>
 Total functional expenses	<u>\$ 814,121</u>	<u>\$ 853,352</u>

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Revenue and Expenses
Lowell Facility
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Support and revenue		
Program	\$ 489,070	\$ 419,182
Transportation	196,850	139,790
USDA income	28,075	20,315
Miscellaneous income	1,165	592
Grants and donations	15,838	14,107
Total support and revenue	730,998	593,986
Functional expenses		
Program services	633,308	580,813
General and administrative	146,064	118,318
Total functional expenses	779,372	699,131
Increase (decrease) in net assets	\$ (48,374)	\$ (105,145)

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Functional Expenses
Lowell Facility
Years Ended December 31, 2017 and 2016

	2017	2016
Program services		
Payroll	\$ 390,305	\$ 386,108
Payroll taxes	28,702	30,125
Activities	5,020	3,191
Depreciation	48,622	39,187
Food	32,117	30,791
Fringe benefits	34,075	19,976
Insurance	21,672	22,177
Medical supplies	3,370	1,407
Staff training	275	2,331
Supplies	4,392	4,016
Transportation	50,140	27,262
Travel	68	106
Utilities	14,550	14,136
	633,308	580,813
General and administrative		
Advertising - employment	737	155
Bad debt	217	-
Casual labor	-	175
Cleaning and janitorial	23,833	20,808
Consulting	245	906
Dues and subscriptions	3,428	3,599
Equipment leases	1,207	1,407
Home office allocation	80,045	65,930
Interest	2,276	-
Office supplies and expenses	4,763	4,607
Payroll service and bank charges	2,828	2,403
Postage	935	551
Repairs and maintenance	22,612	13,331
Telephone	2,938	4,446
	146,064	118,318
	\$ 779,372	\$ 699,131

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Revenue and Expenses
Home Office
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Interest and dividend income	\$ 31,309	\$ 25,439
Miscellaneous income	16	-
Grants and donations	63,644	61,500
Net assets released from restriction	20,000	20,000
 Total support and revenue	 114,969	 106,939
Functional expenses		
General and administrative	381,119	366,887
 Total functional expenses	 381,119	 366,887
 Less: home office allocation	 (311,713)	 (300,141)
 Subtotal	 69,406	 66,746
 Realized and unrealized gain (loss) on investments	 92,020	 49,600
 Increase (decrease) in unrestricted net assets	 137,583	 89,793
Temporarily restricted net assets		
Net assets released from restrictions	(20,000)	(20,000)
 Increase (decrease) in temporarily restricted net assets	 (20,000)	 (20,000)
 Increase (decrease) in net assets	 \$ 117,583	 \$ 69,793

See Independent Auditor's Report.

The Community Family, Inc.
Schedules of Functional Expenses
Home Office
Years Ended December 31, 2017 and 2016

	2017	2016
General and administrative		
Payroll	\$ 230,368	\$ 227,077
Payroll taxes	16,768	18,962
Advertising - employment	491	479
Advertising - marketing	-	250
Audit	20,160	19,937
Board expense	3,515	3,100
Consulting	7,883	8,278
Depreciation	4,083	4,207
Dues and subscriptions	3,642	4,005
Equipment leases	1,018	1,146
Food	67	-
Fringe benefits	40,164	26,543
Fundraising	80	-
Insurance	5,220	5,157
Interest	3,760	6,480
Office supplies and expenses	20,483	21,006
Payroll service and bank charges	18,372	15,006
Postage	2,747	3,526
Repairs and maintenance	304	-
Staff training	25	70
Telephone	-	204
Travel	2,009	1,454
	<u>381,159</u>	<u>366,887</u>
Less home office allocation		
Everett	149,848	150,429
Medford	81,820	83,782
Lowell	80,045	65,930
	<u>311,713</u>	<u>300,141</u>
Total expenses after allocation	<u>\$ 69,446</u>	<u>\$ 66,746</u>

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