

**Cambridge Community
Foundation and Subsidiaries**

Consolidated Financial Statements
&
Independent Auditor's Report
June 30, 2016 and 2015

Cambridge Community Foundation and Subsidiaries
Consolidated Financial Statements
June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Overseers of
Cambridge Community Foundation and Subsidiaries

We have audited the accompanying consolidated financial statements of Cambridge Community Foundation and Subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cambridge Community Foundation and Subsidiaries 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.

A handwritten signature in black ink, appearing to read "Anstiss & Co., P.C.", is positioned above the printed text.

Anstiss & Co., P.C.
Lowell, MA
October 12, 2016

Cambridge Community Foundation and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 423,820	\$ 1,548,131
Investments at fair value	33,396,502	33,953,024
Mortgage receivable	1,360,925	1,569,603
Receivables - other	76,828	15,043
Property and equipment	161,071	-
TOTAL ASSETS	<u>\$ 35,419,146</u>	<u>\$ 37,085,801</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 38,373	\$ 48,978
Grants payable	65,750	89,741
401K payable	19,819	-
Fiscal agency liability	212,076	200,334
Split-interest agreements	119,028	129,028
Agency endowment funds	1,010,526	1,609,695
TOTAL LIABILITIES	<u>1,465,572</u>	<u>2,077,776</u>
NET ASSETS		
Unrestricted	14,491,585	14,893,162
Temporarily restricted	17,789,928	18,442,802
Permanently restricted	1,672,061	1,672,061
TOTAL NET ASSETS	<u>33,953,574</u>	<u>35,008,025</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,419,146</u>	<u>\$ 37,085,801</u>

Cambridge Community Foundation and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
SUPPORT AND REVENUE				
Contributions, grants and gifts	\$ 704,364	\$ 64,895	\$ -	\$ 769,259
Investment income	17,791	201,852	-	219,643
Equity earnings in subsidiary	-	167,096	-	167,096
Other income	35,004	-	-	35,004
Net assets released from restrictions	1,086,717	(1,086,717)	-	-
TOTAL SUPPORT AND REVENUE	1,843,876	(652,874)	-	1,191,002
EXPENSES				
PROGRAM SERVICES				
Grant program	1,303,466	-	-	1,303,466
Direct conduct of charitable activities	612,250	-	-	612,250
TOTAL PROGRAM SERVICES	1,915,716	-	-	1,915,716
SUPPORTING SERVICES				
General and administrative expenses	228,106	-	-	228,106
Fundraising expenses	101,631	-	-	101,631
TOTAL SUPPORTING SERVICES	329,737	-	-	329,737
TOTAL EXPENSES	2,245,453	-	-	2,245,453
CHANGE IN NET ASSETS	(401,577)	(652,874)	-	(1,054,451)
NET ASSETS AT BEGINNING OF YEAR	14,893,162	18,442,802	1,672,061	35,008,025
NET ASSETS AT END OF YEAR	\$ 14,491,585	\$ 17,789,928	\$ 1,672,061	\$ 33,953,574

See the accompanying notes to these consolidated financial statements.

Cambridge Community Foundation and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
SUPPORT AND REVENUE				
Contributions, grants and gifts	\$ 631,118	\$ 124,691	\$ 1,000	\$ 756,809
Investment income	256,951	504,481	-	761,432
Equity earnings in subsidiary	-	131,014	-	131,014
Fundraising event income	77,403			77,403
Other income	28,630	-	-	28,630
Net assets released from restrictions	1,074,257	(1,074,257)	-	-
TOTAL SUPPORT AND REVENUE	2,068,359	(314,071)	1,000	1,755,288
EXPENSES				
PROGRAM SERVICES				
Grant program	1,351,511	-	-	1,351,511
Direct conduct of charitable activities	430,122	-	-	430,122
TOTAL PROGRAM SERVICES	1,781,633	-	-	1,781,633
SUPPORTING SERVICES				
General and administrative expenses	244,108	-	-	244,108
Fundraising expenses	99,359			99,359
TOTAL SUPPORTING SERVICES	343,467	-	-	343,467
TOTAL EXPENSES	2,125,100	-	-	2,125,100
CHANGE IN NET ASSETS	(56,741)	(314,071)	1,000	(369,812)
NET ASSETS AT BEGINNING OF YEAR	14,949,903	18,756,873	1,671,061	35,377,837
NET ASSETS AT END OF YEAR	\$ 14,893,161	\$ 18,442,802	\$ 1,672,061	\$ 35,008,024

See the accompanying notes to these consolidated financial statements.

Cambridge Community Foundation and Subsidiaries
Consolidated Statements of Cash Flow
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (1,054,451)	\$ (369,812)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	22,187	-
Loss (gain) on investments	276,687	(244,228)
CHANGES IN ASSETS AND LIABILITIES		
Decrease in mortgages receivable	208,678	1,211,572
(Increase) decrease in receivables - other	(61,785)	39,678
(Decrease) increase in accounts payable and accrued expenses	(10,605)	1,224
(Decrease) increase in grants payable	(23,991)	70,979
Increase in 401K payable	19,819	-
Increase in fiscal agency liability	11,742	12,085
Decrease in split-interest agreements	(10,000)	(10,000)
(Decrease) increase in agency endowment funds	(599,169)	146,157
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(1,220,888)</u>	<u>857,655</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(183,258)	-
Purchase of investments	(1,255,595)	(2,223,593)
Sale of investments	1,535,430	2,050,006
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>96,577</u>	<u>(173,587)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,124,311)	684,068
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,548,131	864,063
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 423,820</u>	<u>\$ 1,548,131</u>
Supplemental cash flow information		
Gifts in-kind	<u>\$ 21,392</u>	<u>\$ 52,160</u>

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 1 - FOUNDATION

Cambridge Community Foundation and Subsidiaries (the Foundation) is a not-for-profit corporation established in 1916. Its purpose is to provide grants to social service agencies serving Cambridge, Massachusetts primarily for operating support, but occasionally for special projects and programs.

The Foundation formed two single limited liability companies (the LLC's) to hold private mortgage notes that were received through the estate of one of its major donors. The LLC's are treated as subsidiaries of the Foundation for financial reporting purposes. All intercompany activity has been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Foundation reports net assets and revenues, expenses, gains, and losses in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, "*Presentation of Financial Statements.*" Under FASB ASC 958-205, financial information is classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets comprise those assets upon which donors have placed no restrictions on expenditure of the principal or income, but which are subject to the approval of the Foundation's Board of Overseers.

Temporarily Restricted Net Assets

Net assets subject to donor imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time are classified as temporarily restricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets of \$17,789,928 and \$18,442,802 as of June 30, 2016 and 2015, respectively, represent donations received from various entities that are primarily restricted as to purpose.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated 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 comprise those assets contributed to the Foundation that are to remain in perpetuity as permanent assets of the Foundation. Generally, all income and unrealized and realized net gains on investments related to these net assets are classified as temporarily restricted and released to unrestricted net assets as the Foundation appropriates its annual spending based on the use of a spending policy. At June 30, 2016 and 2015, the Foundation had permanently restricted net assets of \$1,672,061.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit with original maturities of three months or less.

Pledges Receivable

Contributions are recognized when the donor makes a promise (pledge) to give to the Foundation that is, in substance, unconditional. Promises to give due next year are recorded at their net realizable value. Promises to give due in subsequent years are reported at the present value of their net realizable value, using a discount interest rate of 4% applicable to the years in which the promises are to be received.

Mortgages Receivable

Mortgages receivable are stated at unpaid principal balances less the allowance for loan losses. Interest on loans is based upon the principal amount outstanding. Interest on loans is accrued except when in management's opinion the collectability of interest is doubtful, at which time the accrual of interest on the loan is discontinued. Loan interest received in advance of its due date is recorded as a deferred liability until such time that the interest is earned. These mortgage notes receivable were received from an estate of a benefactor and were not originated by the Foundation. The allowance for loan losses represents management's best estimate of probable losses in the mortgage net portfolio. As of June 30, 2016 and 2015, mortgages receivable were \$1,360,925 and \$1,569,603, net of an allowance of \$74,128 and \$161,232, respectively.

Investments

The Foundation invests its assets in a manner that will achieve a total rate of return sufficient to replace the assets spent for grants and expenses and recoup any value lost due to inflation. To minimize risk, the Foundation diversifies its investments among various financial instruments and asset categories and uses multiple investment strategies. Investment decisions are made by the Foundation's Trustee Banks (Cambridge Trust Company and Bank of America). The foundation's portfolio is managed by the Trustee Banks who invest according to the investment guidelines recommended by the Trustees and the Investment Committee.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Fair value is based on market value which is based upon quoted prices from principal exchanges on which the securities are traded. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the current year change in net assets. Realized and unrealized investment gains and losses are determined by comparison of the difference between market values and average cost. Dividend and interest income is recognized when earned.

Fair Value Measurements

The Foundation follows the provisions of FASB ASC 820-10, "*Fair Value Measurements and Disclosures*." FASB ASC 820-10 applies to reported balances that are required or permitted to be measured at fair value on a recurring basis under an existing accounting pronouncement. FASB ASC 820-10 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy consisting of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

ASC 825-10 permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The Foundation has not adopted any of the additional fair value options allowed in the standard. Management has determined that the fair values of its financial instruments not carried at fair value, including cash, receivables, and payables are substantially equivalent to their carrying values as of June 30, 2016 and 2015 because of their relatively short-term nature.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets

Capitalized assets are recorded at cost if purchased or constructed, or at fair market value at the date of the gift, if donated. Maintenance, repairs, rearrangement expenses, and renewal and betterments that do not significantly enhance the value or increase the basic productive capacity of the assets are charged to expenses as incurred. The Foundation depreciates fixed assets under the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Furniture and fixtures	5-7
Computer equipment	3
Leasehold improvements	4

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison to the future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Split-Interest Agreements

Charitable gift annuities are created to provide an annuity-type payment to a beneficiary with the principal transferred to the Foundation at the death of the beneficiary. Earnings and market gains are maintained within temporarily restricted net assets and are used to meet current or future annuity obligations. As of June 30, 2016 and 2015, the Foundation had \$286,376 and \$306,423, respectively, in cash and investments to meet future annuity obligations of \$119,028 and \$129,028, respectively, to be paid in fixed amounts during the beneficiaries' lifetimes. The remainder is classified as net assets temporarily restricted as to time. The annuity obligations are estimates that may differ from amounts actually paid.

Agency Endowment Funds

Agency endowment arises when an irrevocable transfer is received from a not-for-profit organization that specifies itself as the beneficiary. FASB ASC 958-605, "Revenue Recognition," requires that the transfers received by a community foundation be accounted for as a liability, as the transaction is deemed to be reciprocal.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. The actual results could differ from those estimates.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-Kind Contributions

No amounts have been reflected in the financial statements for donated services. However, a substantial number of volunteers have donated significant amounts of their time in various Foundation and fundraising activities. The Foundation also receives in-kind gifts of goods and securities from various contributors. The value of these contributions as of June 30, 2016 and 2015 was \$21,392 and \$52,160, respectively.

Income Taxes and Uncertain Tax Positions

The Organization, a trust under Chapter 180 of the Massachusetts General Laws as a tax exempt entity, has been granted tax-exempt status under Internal Revenue Code (IRC) Section 501(c)(3) and is classified as other than a private foundation as defined by section 509(a) of the IRC. Therefore, it is generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

ASC 740-10, "Income Taxes," requires the Foundation to evaluate and disclose tax positions that could have an effect on the Foundation's financial statements. The Foundation reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the governmental agencies for a period of three years after filing. Substantially all of the Foundation's income, expenditures and activities relate to its exempt purpose, therefore, management has determined that the Foundation is not subject to unrelated business income taxes and will continue to qualify as a tax-exempt not-for-profit entity.

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN

Investment return on cash equivalents and investments consisted of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 496,331	\$ 517,204
Unrealized losses	(1,008,285)	(375,339)
Realized gains	731,597	619,567
	<u>\$ 219,643</u>	<u>\$ 761,432</u>

Interest and dividends are shown net of investment management and custody fees. Investment management and custody fees paid directly to the managers for the years ended June 30, 2016 and 2015 were \$155,109 and \$160,000, respectively. There were additional investment fees that were not paid directly to the managers but rather are netted from the return on certain investments.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation uses fair value measurements to record adjustments to certain assets and liabilities and to determine fair value disclosures (Note 2). The following table presents the hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015:

		2016		
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
	Total			
Cash equivalents	\$ 1,492,312	\$ 1,492,312	\$ -	\$ -
Equities - mutual funds				
Large cap	2,032,518	2,032,518	-	-
International	1,717,957	1,717,957	-	-
Mid cap	497,412	497,412	-	-
Small cap	407,223	407,223	-	-
Commodities	209,038	209,038	-	-
Common Stocks				
Consumer goods	4,080,985	4,080,985	-	-
Technology	3,636,613	3,636,613	-	-
Healthcare	2,999,550	2,999,550	-	-
Services	2,620,712	2,620,712	-	-
Energy	2,529,698	2,529,698	-	-
Industrial goods	2,327,174	2,327,174	-	-
Basic materials	464,187	464,187	-	-
Fixed income				
Corporate bonds	5,503,238	-	5,503,238	-
U.S. government bonds	466,432	-	466,432	-
Bond funds	1,983,709	1,983,709	-	-
Exchange traded funds	427,744	427,744	-	-
Total	\$ 33,396,502	\$ 27,426,832	\$ 5,969,670	\$ -

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2015			
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
	Total	Level 1	Level 2	Level 3
Cash equivalents	\$ 1,174,424	\$ 1,174,424	\$ -	\$ -
Equities - mutual funds				
Large cap	2,310,094	2,310,094	-	-
International	2,265,949	2,265,949	-	-
Mid cap	541,678	541,678	-	-
Small cap	401,122	401,122	-	-
Commodities	242,281	242,281	-	-
Common Stocks				
Services	3,800,220	3,800,220	-	-
Technology	3,696,607	3,696,607	-	-
Consumer goods	3,672,290	3,672,290	-	-
Healthcare	3,440,825	3,440,825	-	-
Energy	2,481,284	2,481,284	-	-
Industrial goods	1,867,570	1,867,570	-	-
Basic materials	684,090	684,090	-	-
Fixed income				
Corporate bonds	4,557,696	-	4,557,696	-
U.S. government bonds	272,919	-	272,919	-
Bond fund	2,178,143	2,178,143	-	-
Exchange traded funds	365,832	365,832	-	-
Total	\$ 33,953,024	\$ 29,122,409	\$ 4,830,615	\$ -

Investments classified in Level 2 consist of direct interest in bonds, which are thinly traded. Their classification of Level 2 is based on the Foundation's inability to access quoted prices in active markets for identical assets. Fair values for these bonds are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The classification of investments in the fair value hierarchy is not necessarily an indication of the risk, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 5 – RECEIVABLES - OTHER

Other receivables consist of amounts due from Cambridge Senior Volunteer Clearinghouse for reimbursement of expenditures paid on their behalf of \$2,848 as of June 30, 2016 and 2015. An additional \$13,980 and \$12,195 is recorded for on-line donations received through Network for Good that have not yet been remitted to the Foundation as of June 30, 2016 and 2015, respectively. Pledges receivable of \$60,000 are recorded as of June 30, 2016.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Foundation rents office space located at 99 Bishop Allen Ave., Cambridge, Massachusetts through an operating lease expiring May 31, 2018. Rent is payable monthly at a rate of \$1,940 plus common area charges. On May 1, 2015, the Foundation entered into an operating lease for additional office space at the same location, which provides for escalating payments and expires on April 30, 2020. On September 1, 2015 the Foundation entered into an operating lease that combined both existing leases. The combined lease provides for monthly payments of \$3,350 and expires on August 31, 2020. Rent expense for the year ended June 30, 2016 and 2015 was \$42,980 and \$28,615, respectively. Future minimum lease payments for the years ending June 30 are:

2017	\$ 42,600
2018	42,600
2019	42,600
2020	42,600
2021	7,100
Total minimum lease payments	<u>\$ 177,500</u>

NOTE 7 - FIXED ASSETS

Fixed assets are composed of the following as of June 30, 2016 and 2015:

Computer equipment	\$ 24,996
Furniture and fixtures	40,442
Leasehold improvements	139,723
Total fixed assets	205,161
Less accumulated depreciation	(44,090)
Fixed assets - net	<u>\$ 161,071</u>

Depreciation expense was \$22,187 and \$0 for the years ended June 30, 2016 and 2015, respectively.

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 8 – FISCAL AGENCY FUNDS

The Foundation acts as a fiscal agent for other organizations in Cambridge. The organizations place funds with the Foundation and direct the Foundation to disburse funds from time to time on the organizations' behalf. Fiscal agency funds representing undisbursed funds held by the Foundation at June 30, 2016 and 2015 were \$212,076 and \$200,334, respectively.

NOTE 9 – FISCAL SPONSORSHIP FUNDS

The Foundation serves as fiscal sponsor to various projects in Cambridge whereby non-exempt organizations wish to solicit tax-exempt contributions in support of a charitable program. These project funds are considered component funds of the Foundation and are undertaken with the Foundation's direct management and supervision of the donations collected on the projects' behalf.

NOTE 10 - ENDOWMENT FUND ACTIVITY

The Foundation's endowment consists of approximately 70 individual funds established for a variety of purposes. Its endowment consists of both donor-restricted endowment funds and funds established by the Board of Overseers to function as endowments.

The Board of Overseers of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act, ("UPMIFA") 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 foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts donated 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 permanent endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) General economic conditions
- (2) The possible effect of inflation and deflation
- (3) The expected tax consequences, if any, of investment decisions
- (4) The role that each investment or course of action plays within the overall investment portfolio of the fund
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the organization

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 10 - ENDOWMENT FUND ACTIVITY (continued)

- (7) The needs of the Foundation and the fund to make distributions and to preserve capital
- (8) An asset's special relationship or special value, if any, to the charitable purposes of the Foundation
- (9) The duration and preservation of the fund
- (10) The investment policy of the Foundation

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the foundation to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur in newer endowment funds, shortly after the investment of new permanently restricted contributions and when there was continued appropriation for certain programs that were deemed prudent by the Board of Overseers. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2016 and 2015 in accordance with Generally Accepted Accounting Principles (GAAP).

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Overseers, the endowment assets are invested in a manner that is intended to produce results that conform to the Total Return Concept while assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide an average rate of return that exceeds a blended index return of the S&P 500 Stock Index and the Lehman Aggregate Bond Index in a fixed 60%/40% ratio. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a spending policy of appropriating for distribution each year 4-5% of its endowment fund's fair value averaged over three years. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowments to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Cambridge Community Foundation and Subsidiaries
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June 30, 2016 and 2015

NOTE 10 - ENDOWMENT FUND ACTIVITY (continued)

The Foundation's Trust agreement includes a variance power provision which gives the Board of Overseers the power to modify any restriction or condition placed on gifts, if in its sole judgment, the Board determines that the restriction becomes, in effect, incapable of fulfillment or is inconsistent with the charitable needs of the community. Endowment net asset composition by fund type as of June 30, 2016 and 2015:

		2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor created funds	\$ 11,709,286	\$16,456,636	\$ 1,672,061	\$29,837,983
Board created funds	1,920,749	-	-	1,920,749
	<u>\$ 13,630,035</u>	<u>\$16,456,636</u>	<u>\$ 1,672,061</u>	<u>\$31,758,732</u>
		2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor created funds	\$ 12,010,349	\$17,115,105	\$ 1,672,061	\$30,797,515
Board created funds	1,983,816	-	-	1,983,816
	<u>\$ 13,994,165</u>	<u>\$17,115,105</u>	<u>\$ 1,672,061</u>	<u>\$32,781,331</u>

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$13,994,165	\$17,115,105	\$1,672,061	\$32,781,331
Investment return:				
Investment income	276,896	339,236	-	616,132
appreciation/depreciation	(119,287)	(120,626)	-	(239,913)
Total investment return	<u>157,609</u>	<u>218,610</u>	<u>-</u>	<u>376,219</u>
Contributions	260,159	-	-	260,159
Appropriated for expenditure	(786,149)	(1,011,372)	-	(1,797,521)
Other changes	<u>4,251</u>	<u>134,293</u>	<u>-</u>	<u>138,544</u>
Endowment net assets, end of year	<u>\$13,630,035</u>	<u>\$16,456,636</u>	<u>\$1,672,061</u>	<u>\$31,758,732</u>

Cambridge Community Foundation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 10 - ENDOWMENT FUND ACTIVITY (continued)

		2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$13,911,522	\$17,357,010	\$1,671,061	\$32,939,593
Investment return:				
Investment income	287,194	357,040	-	644,234
appreciation/depreciation	73,621	101,590	-	175,211
Total investment return	360,815	458,630	-	819,445
Contributions	326,898	-	1,000	327,898
Appropriated for expenditure	(662,947)	(831,550)	-	(1,494,497)
Other changes	57,877	131,015	-	188,892
Endowment net assets, end of year	<u>\$13,994,165</u>	<u>\$17,115,105</u>	<u>\$1,672,061</u>	<u>\$32,781,331</u>

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2016 and 2015, temporarily restricted net assets consisted of temporarily restricted contributions and earnings on permanently restricted endowment funds subject to time restrictions under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Commonwealth of Massachusetts as follows:

	2016	2015
<i>Cumulative earnings on permanently restricted endowment funds:</i>		
With purpose restrictions	\$ 2,431,021	\$ 2,543,172
Without purpose restrictions	1,746,882	1,885,329
Subtotal	<u>4,177,903</u>	<u>4,428,501</u>
Other funds temporarily restricted for purpose	13,552,025	14,011,801
Other funds temporarily restricted for time	60,000	2,500
Total temporarily restricted net assets	<u>\$ 17,789,928</u>	<u>\$ 18,442,803</u>

Earnings on permanently restricted endowment funds with purpose restrictions consist of funds restricted for a variety of uses within Cambridge, Massachusetts which meet the charitable needs of the community.

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NOTE 12 - COLLECTIONS

The Foundation has received in-kind donations of artwork and historical currency which are being held for sale. It is the Foundation's policy not to capitalize its collections. The estimated value of the historical currency is \$20,000 as of June 30, 2016 and 2015. The artwork's value cannot be reasonably estimated as of year-end.

NOTE 13 - EMPLOYEE BENEFIT PLANS

The Foundation sponsors a 401(k) Profit Sharing Plan for all its employees. Employees may elect to defer compensation to the plan. The Foundation may, but is not required to make an annual profit sharing contribution to the plan.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

The Foundation places its cash and investments with high quality financial institutions. Such investments are covered by Federal Deposit Insurance Corporation (FDIC) insurance and by state level insurance for balances in excess of FDIC limits. The Foundation has not experienced any losses in these accounts. Management routinely assesses the financial strength of these institutions in order to minimize this risk.

NOTE 15 - RECLASSIFICATIONS

During 2016, certain amounts from prior year financial statements were reclassified to conform to current year presentation.

NOTE 16 - SUBSEQUENT EVENTS

ASC 855-10, "*Subsequent Events*," defines further disclosure requirements for events that occur after the consolidated statement of financial position date but before the consolidated financial statements are issued. In accordance with ASC 855-10, the Foundation's management has evaluated events subsequent to June 30, 2016 through October 12, 2016, which is the date the financial statements were available to be issued. There were no material events noted during this period that would either impact the results reflected in this report or the Organization's results going forward.