

CORNERSTONE FAMILY PROGRAMS

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015 AND 2014

CORNERSTONE FAMILY PROGRAMS

DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cornerstone Family Programs
Morristown, New Jersey

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cornerstone Family Programs ("Cornerstone"), a New Jersey nonprofit organization, which comprise the consolidated statement of financial position as of December 31, 2015, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 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 controls relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These 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 auditors' 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 auditors consider internal control relevant to Cornerstone'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 Cornerstone'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 consolidated financial position of Cornerstone Family Programs as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget ("OMB") Circular Letter 15-08, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 26, 2016, on our consideration of Cornerstone's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cornerstone's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Cornerstone's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated audited financial statements in our report dated April 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

Sobel & Co, LLC

Certified Public Accountants

Livingston, New Jersey
April 26, 2016

CORNERSTONE FAMILY PROGRAMS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31,	
	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents	\$ 198,156	\$ 325,316
Investments, at fair value	2,108,440	2,657,193
Grants receivable	270,266	274,175
Accounts receivable, net of allowance for doubtful accounts of \$4,309 in 2015 and \$6,112 in 2014	71,465	66,014
Prepaid expenses	41,516	76,821
Total Current Assets	2,689,843	3,399,519
OTHER ASSETS:		
Beneficial interest in remainder trust	42,642	49,030
Property and equipment, net	7,897,870	8,148,807
	\$ 10,630,355	\$ 11,597,356
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 349,756	\$ 276,248
Security deposit payable	5,825	4,180
Cash held on behalf of others	352	352
Deferred revenue	1,273	39,723
Unemployment trust fund	13,209	61,938
Line of credit	-	100,000
Mortgage payable, current	19,848	19,146
Total Current Liabilities	390,263	501,587
LONG-TERM LIABILITIES:		
Mortgage payable, net of current portion	754,825	774,672
Total Liabilities	1,145,088	1,276,259
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted - operations	7,278,417	7,452,579
Unrestricted - board designated	1,836,991	2,404,595
Total Unrestricted Net Assets	9,115,408	9,857,174
Temporarily restricted	361,354	455,418
Permanently restricted	8,505	8,505
Total Net Assets	9,485,267	10,321,097
	\$ 10,630,355	\$ 11,597,356

CORNERSTONE FAMILY PROGRAMS**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

YEAR ENDED DECEMBER 31, 2015

(With Summarized Comparative Totals for the Year Ended December 31, 2014)

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
EARNED REVENUE AND SUPPORT:					
County grants and contracts	\$ 898,688	\$ -	\$ -	\$ 898,688	\$ 1,065,451
Federal and State financial assistance	1,384,271	-	-	1,384,271	1,521,250
Program fees	1,249,445	-	-	1,249,445	1,578,326
Contributions, grants and bequests	944,097	8,629	-	952,726	993,847
Special event revenue	389,890	-	-	389,890	426,530
United Way	254,607	-	-	254,607	272,839
Miscellaneous	33,528	-	-	33,528	32,766
OTHER REVENUE:					
Investment income, net	55,566	(1,852)	-	53,714	71,383
Net realized and unrealized (loss) gain on investments	(136,401)	(8,140)	-	(144,541)	64,677
Change in value of split-interest agreements	-	(6,388)	-	(6,388)	483
Total Revenue and Support	5,073,691	(7,751)	-	5,065,940	6,027,552
Net Assets Released from Restrictions	86,313	(86,313)	-	-	-
OPERATING EXPENSES:					
Counseling and community services	4,753,553	-	-	4,753,553	5,408,357
Management and general	510,690	-	-	510,690	549,109
Development/community relations	642,338	-	-	642,338	739,305
Total Operating Expenses	5,906,581	-	-	5,906,581	6,696,771
CHANGES IN NET ASSETS BEFORE LOSS ON DISPOSAL OF ASSETS	(746,577)	(94,064)	-	(840,641)	(669,219)
GAIN (LOSS) FROM DISPOSAL OF ASSETS	4,811	-	-	4,811	(217,354)
CHANGES IN NET ASSETS	(741,766)	(94,064)	-	(835,830)	(886,573)
NET ASSETS - Beginning of year	9,857,174	455,418	8,505	10,321,097	11,207,670
NET ASSETS - End of year	\$ 9,115,408	\$ 361,354	\$ 8,505	\$ 9,485,267	\$ 10,321,097

The accompanying notes are an integral part of these consolidated financial statements.

CORNERSTONE FAMILY PROGRAMS
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015 (With Summarized Comparative Totals for the Year Ended December 31, 2014)

	2015					2014
	Counseling and Community Services	Supporting Services			Total	
		Management and General	Development/ Community Relations	Total	Total	
Salaries and Fringe Benefits:						
Administration	\$ 134,286	\$ 187,005	\$ 233,347	\$ 420,352	\$ 554,638	\$ 570,993
Professional	2,421,644	8,231	73	8,304	2,429,948	2,824,427
Support/clerical	200,717	106,522	111,368	217,890	418,607	485,064
Health insurance	317,181	32,410	36,776	69,186	386,367	439,455
Retirement, group life and LTD	69,882	7,141	8,102	15,243	85,125	95,807
Payroll taxes	268,724	27,459	31,158	58,617	327,341	438,138
Workers' compensation	45,288	4,628	5,251	9,879	55,167	65,643
Total Salaries and Fringe Benefits	3,457,722	373,396	426,075	799,471	4,257,193	4,919,527
Program Expenses:						
Direct program expense/consultation	426,881	11,962	16,851	28,813	455,694	529,388
Scholarships	57,700	-	-	-	57,700	90,878
Professional fees	154,843	15,823	17,954	33,777	188,620	50,374
Payroll service	12,603	1,288	1,461	2,749	15,352	15,921
Supplies	12,669	1,295	1,469	2,764	15,433	24,623
Telephone	23,521	2,404	2,727	5,131	28,652	35,153
Postage	6,310	645	732	1,377	7,687	13,775
Equipment rental and maintenance	29,793	3,044	3,454	6,498	36,291	35,893
Printing	4,298	4,601	5,232	9,833	14,131	14,497
Office rental	41,900	-	-	-	41,900	51,298
Insurance	86,249	8,813	10,001	18,814	105,063	109,174
Utilities	78,566	3,923	5,636	9,559	88,125	100,165
Repair and maintenance	89,711	4,438	6,375	10,813	100,524	118,938
Travel	30,310	545	12	557	30,867	31,433
Conferences, conventions and professional education	2,492	3,404	1,506	4,910	7,402	11,085
Dues	10,130	1,035	1,174	2,209	12,339	18,632
Special event expense	-	-	109,830	109,830	109,830	160,038
Bicentennial expense	-	-	-	-	-	5,169
Interest, service charges and fees	-	50,790	-	50,790	50,790	51,635
Public relations/ marketing	-	-	5,432	5,432	5,432	7,030
Other	6,517	668	754	1,422	7,939	30,564
Total Program Expenses	1,074,493	114,678	190,600	305,278	1,379,771	1,505,663
Depreciation	221,338	22,616	25,663	48,279	269,617	271,581
Total Expenses	\$ 4,753,553	\$ 510,690	\$ 642,338	\$ 1,153,028	\$ 5,906,581	\$ 6,696,771

The accompanying notes are an integral part of these consolidated financial statements.

CORNERSTONE FAMILY PROGRAMS
CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH FLOWS (USED FOR) PROVIDED BY:	Year Ended December 31,	
	2015	2014
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (835,830)	\$ (886,573)
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Depreciation	269,617	271,581
Gain on disposal of assets	(4,811)	217,354
Bad debt expense	(1,803)	18,906
Change in allowance for pledges	-	(7,500)
Unrealized losses on investments	293,549	101,962
Realized gains on investments	(149,008)	(166,639)
Changes in certain assets and liabilities:		
Accounts receivable	(3,648)	26,902
Grants receivable	3,909	73,295
Prepaid expenses	35,305	(14,460)
Pledges receivable	-	49,000
Unemployment trust fund assets	(48,729)	78,815
Beneficial interest in remainder trust	6,388	(483)
Accounts payable and accrued expenses	73,508	(98,200)
Security deposit payable	1,645	2,380
Cash held for others	-	(708)
Due to endowment fund	-	(66,700)
Deferred revenue	(38,450)	35,750
Net Cash Used for Operating Activities	<u>(398,358)</u>	<u>(365,318)</u>
<u>INVESTING ACTIVITIES:</u>		
Purchase of equipment	(18,680)	(33,345)
Proceeds from sale of assets	4,811	-
Proceeds from sale of investments	777,984	798,250
Purchase of investments	(373,772)	(604,103)
Net Cash Provided by Investing Activities	<u>390,343</u>	<u>160,802</u>
<u>FINANCING ACTIVITIES:</u>		
Draws on line of credit	115,000	407,265
Payments on line of credit	(215,000)	(307,265)
Proceeds from refinance of mortgage payable	-	800,000
Principal payments on mortgage payable	(19,145)	(674,562)
Net Cash (Used for) Provided by Financing Activities	<u>(119,145)</u>	<u>225,438</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(127,160)	20,922
<u>CASH AND CASH EQUIVALENTS:</u>		
Beginning of year	325,316	304,394
End of year	<u>\$ 198,156</u>	<u>\$ 325,316</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</u>		
Cash paid during the year for interest	<u>\$ 40,412</u>	<u>\$ 37,489</u>

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - NATURE OF ORGANIZATION:

Cornerstone Family Programs is a private, not-for-profit organization dedicated to strengthening communities by helping people build better lives. Founded in Morristown in 1813, Cornerstone Family Programs now provides programs that: give young children the best start in life by improving their health, social development, and school performance; guide teens to successful adulthood by encouraging smart social, academic, and career choices; support adults by improving their health, education, employment, recreation, parenting, and communications skills; improve military families' and veterans' well-being as they integrate back into families and society; keep seniors independent and in their homes; and engage neighbors to build strong communities. These programs are provided to over 10,000 children, families and seniors at 12 locations throughout Morris and Warren counties in New Jersey.

The Board of Directors sets direction and develops resources to support the programs of Cornerstone Family Programs while professional staff and volunteers carry out such programs. Funding for the support of Cornerstone Family Programs is primarily generated through public grants and contracts, client service fee revenue and contributions from individuals, corporations, and foundations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include the accounts of Cornerstone Family Programs, Madison Day Care Center, Inc. ("MDCC"), and Morristown Neighborhood House Association Inc. ("MNHA"), (collectively "Cornerstone"). Intercompany transactions and balances have been eliminated upon consolidation. Cornerstone ceased operation of MDCC as of December 1, 2014, and MDCC was legally dissolved on April 7, 2015.

Basis of Accounting:

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

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Presentation:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Cornerstone and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and available for use by Cornerstone's Board of Directors.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Cornerstone and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as the donations are reported as unrestricted net assets.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by Cornerstone. Generally, the donors of these assets permit Cornerstone to use all or part of the income earned on any related investments for general or specific purposes.

Cash Equivalents:

For financial statement purposes, certificates of deposit and money market funds with an original maturity of three months or less are considered to be cash equivalents.

Accounts and Pledges Receivable:

Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Cornerstone charges uncollectible receivables to operations when determined to be uncollectible. The allowance for uncollectible receivables has been reviewed by management and it has been determined to be adequate based on historical collection trends.

Fair Value:

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value. The fair value hierarchy defines the three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value: (Continued)

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data.

Level 3: Valuations based on unobservable inputs when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The fair value of investments is summarized as follows:

Mutual funds – valued at the net asset value of shares held by Cornerstone at period-end.

Fixed income funds – valued at closing price reported in the active or inactive market in which the bond or fund is traded.

Certificates of deposit – estimated using rates currently offered for deposits of similar remaining maturities.

Equity securities – shares in companies traded on national securities exchanges are valued at the closing price reported in the active market in which the individual securities are traded.

Investments:

Interest and dividend income is presented net of investment advisory/management fees and is reflected as investment income in the accompanying consolidated statements of activities and changes in net assets. Investment advisory/management fees amounted to \$10,823 and \$22,383 for the years ended December 31, 2015 and 2014, respectively. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. All investments are carried at fair value with the related gains and losses included in the consolidated statements of activities and changes in net assets.

Property and Equipment:

Purchased property and equipment is capitalized at cost. The costs of additions and betterments are capitalized when they exceed \$1,000 and have a useful life of over three years. Donated assets are capitalized at fair value at time of receipt. No donated assets were received in 2015 or 2014. Property and equipment are depreciated using the straight-line method over the estimated useful lives ranging from 3 to 15 years. Building and improvements are depreciated over 10 to 40 years. In the absence of donor-imposed restrictions on the use of an asset, gifts or long-lived assets are reported as unrestricted support.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Deferred Revenue:

Deferred revenue consists of amounts received in advance of services being performed which will be recognized as income in future periods when the services are performed. At December 31, 2015 and 2014, deferred revenue amounted to \$1,273 and \$39,723, respectively.

Revenue Recognition:

Funds received from various state and local agencies, as well as other donors, represent grants awarded to Cornerstone to provide program services. Revenue with respect to these awards is recognized to the extent of expenses incurred under the award terms. Upon completion or expiration of a grant, unexpended funds are not available to Cornerstone and must be returned to the awarding agency or the grant must be modified in accordance with the terms of the grant or grantor.

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

Income Taxes:

Cornerstone is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not liable for federal and state income taxes.

Cornerstone follows standards that provide clarification on accounting for uncertainty in income taxes recognized in Cornerstone's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. Cornerstone's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during 2015 and 2014. The tax years subject to audit by federal and state jurisdictions are the years ended December 31, 2012, and forward. At December 31, 2015 and 2014, there are no significant income tax uncertainties.

Functional Allocation of Expenses:

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Cornerstone.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Use of Estimates:

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

Comparative Information:

The consolidated financial statements include certain prior-year, summarized, comparative information in total but not by net asset class or by functional expense category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Cornerstone's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Subsequent Events:

Cornerstone has evaluated its subsequent events and transactions occurring after December 31, 2015 through April 26, 2016, the date that the consolidated financial statements were available to be issued.

NOTE 3 - PROPERTY AND EQUIPMENT:

Property and equipment is as follows:

	December 31,	
	2015	2014
Land	\$ 1,316,352	\$ 1,316,352
Building and improvements	7,979,176	7,979,176
Equipment	662,052	679,872
Furniture and fixtures	439,572	439,572
	<u>10,397,152</u>	<u>10,414,972</u>
Less: Accumulated depreciation	(2,499,282)	(2,266,165)
Property and Equipment, Net	<u>\$ 7,897,870</u>	<u>\$ 8,148,807</u>

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 - BENEFICIAL INTEREST IN REMAINDER TRUST:

A grantor established a charitable remainder trust in August 2013, naming Cornerstone as one of its beneficiaries. Under the split-interest agreement, when the trust is terminated at the grantor's death, the remaining trust assets will be distributed to Cornerstone. The present value of future benefits expected to be received by Cornerstone was calculated over the grantor's life expectancy as of the date of the gift. The change in the present value from the date of the gift for the year ended December 31, 2015, decreased by \$6,388. The change in the present value from the date of the gift for the year ended December 31, 2014, increased by \$483. Both of these are shown as the change in the value of split-interest agreements on the accompanying consolidated statements of activities and changes in net assets. The beneficial interest in remainder trust is \$42,642 and \$49,030 as of December 31, 2015 and 2014, respectively, as shown on the accompanying consolidated statements of financial position.

NOTE 5 - INVESTMENTS:

Investments are valued as follows:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2015

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds	\$ 962,383	\$ -	\$ -	\$ 962,383
Fixed income funds	183,387	81,448	-	264,835
Equities	854,681	-	-	854,681
Certificates of deposit	-	26,541	-	26,541
	<u>\$ 2,000,451</u>	<u>\$ 107,989</u>	<u>\$ -</u>	<u>\$ 2,108,440</u>

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2014

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds	\$ 1,218,834	\$ -	\$ -	\$ 1,218,834
Fixed income funds	183,381	112,656	-	296,037
Equities	1,103,682	-	-	1,103,682
Certificates of deposit	-	38,640	-	38,640
	<u>\$ 2,505,897</u>	<u>\$ 151,296</u>	<u>\$ -</u>	<u>\$ 2,657,193</u>

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 5 - INVESTMENTS: (Continued)

The following schedule summarizes the mutual funds and equities by strategy as of December 31, 2015:

Mutual Funds:		Equities:	
Inflation-protected bonds	7%	Healthcare	12%
Global short-term bonds	18%	Technology	19%
Opportunistic bonds	21%	Energy	8%
U.S. small cap	5%	Financial	18%
International small cap	11%	Basic materials	5%
Emerging markets	17%	Industrial goods	8%
Global large cap	13%	Consumer goods	11%
Infrastructure	6%	Utilities	4%
Other	2%	Telecommunication	1%
Total Mutual Funds	<u>100%</u>	Other	<u>14%</u>
		Total Equities	<u>100%</u>

The following schedule summarizes the mutual funds and equities by strategy as of December 31, 2014:

Mutual Funds:		Equities:	
Inflation-protected bonds	7%	Healthcare	13%
Global short-term bonds	18%	Technology	19%
Opportunistic bonds	21%	Energy	9%
U.S. small cap	6%	Financial	16%
International small cap	10%	Basic materials	4%
Emerging markets	16%	Industrial goods	11%
Global large cap	12%	Consumer goods	11%
Infrastructure	6%	Utilities	4%
Other	4%	Other	13%
Total Mutual Funds	<u>100%</u>	Total Equities	<u>100%</u>

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 6 - OPERATING LEASES:

Cornerstone leases certain space relative to its operations and office equipment under operating leases expiring at various times through 2020. Cornerstone is obligated for future minimum lease payments under all leases, as follows:

<u>Year</u> <u>Ended</u>	<u>Amount</u>
2016	\$ 48,831
2017	40,451
2018	23,594
2019	22,364
2020	3,470
	<u>\$138,710</u>

NOTE 7 - ENDOWMENT FUNDS:

Donor-Restricted Endowment:

Cornerstone's permanently restricted net assets consist of four separate funds. These funds include donor-restricted funds functioning as endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. Cornerstone's permanently restricted net assets are restricted for the following purposes:

Income earned on the investment held in the scholarship account is restricted for the purpose of granting scholarships by Cornerstone. As specified by the donor, a minimum balance of \$5,955 is to be maintained in perpetuity. At December 31, 2015 and 2014, the fair market value of the investment which includes net appreciation and income reinvested was \$25,787 and \$37,890, respectively.

Income earned on the investment held in the Doane Memorial account is restricted for the purpose of purchasing books for use by Cornerstone. As specified by the donor, a minimum balance of \$750 is to be maintained in perpetuity. At December 31, 2015 and 2014, the fair market value of the investment was \$754 and \$750, respectively.

Income earned on the investment held in the Fritschman Memorial account is restricted for the purpose of sponsoring the "Plays for Living" series in the community once a year. As specified by the donor, a minimum balance of \$1,800 is to be maintained in perpetuity. At December 31, 2015 and 2014, the fair market value of the investment which includes net appreciation and income reinvested was \$17,577 and \$17,567, respectively.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 7 - ENDOWMENT FUNDS: (Continued)

Donor-Restricted Endowment: (Continued)

The endowment accounts have been specified by the donors to hold a specified minimum balance in perpetuity, however, from time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no deficits for the years ended December 31, 2015 and 2014. The deficit results from borrowing from the endowment funds and unfavorable market conditions.

The Board of Directors' interpretation requires 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, Cornerstone classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted 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 Cornerstone.

Cornerstone considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the programs
- (2) The purposes of Cornerstone 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 Cornerstone
- (7) The investment policies of Cornerstone

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 7 - ENDOWMENT FUNDS: (Continued)

Board-designated Endowment:

The Board of Directors has designated two separate investment accounts as endowment funds. The Board of Directors' primary objective is to add value and minimize risk in managing the assets of the fund while providing a hedge against inflation into the future. It is the intent of the Board of Directors to maintain the endowment and utilize the total return (income plus capital change) to further the mission of Cornerstone. In recognition of the prudence required of fiduciaries, reasonable diversification of quality investment securities will be sought where possible, knowing that fluctuating rates of return are a characteristic of the investment market and performance cycles cannot be accurately predicted. The funds may be held in individual securities or mutual funds, may be comprised of domestic and international securities, and will be further diversified into asset classes by their market capitalization.

Cornerstone may distribute up to 5% of the endowment investment portfolio value each year, as approved by the Finance Committee. In 2015 and 2014, the finance committee approved additional distributions of \$200,000 and \$100,000, respectively, from the endowment investment portfolio. Distributions will be paid and performance will be measured on the basis of average endowment values at the start of each year for the previous five years. The base on which the payouts are calculated will add the most recent year-end valuation and delete the earliest year-end valuation so that a five-year rolling average is maintained.

Endowment Net Asset Composition by Type of Fund as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 35,609	\$ 8,505	\$ 44,114
Board-designated endowment funds	1,836,991	-	-	1,836,991
	<u>\$ 1,836,991</u>	<u>\$ 35,609</u>	<u>\$ 8,505</u>	<u>\$ 1,881,105</u>

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 7 - ENDOWMENT FUNDS: (Continued)

Board-designated Endowment: (Continued)

Changes in Endowment Net Assets, including Board Designated Funds, for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 2,404,595	\$ 47,702	\$ 8,505	\$2,460,802
Investment Return:				
Investment income	31,599	1,841	-	33,440
Net appreciation (realized and unrealized)	(119,318)	(2,934)	-	(122,252)
Total Investment Return	(87,719)	(1,093)	-	105,890
Contributions	19,750	-	-	19,750
Appropriation for expenditure	(499,635)	(11,000)	-	(510,635)
Endowment Net Assets, End of year	\$ 1,836,991	\$ 35,609	\$ 8,505	\$1,881,105

Endowment Net Asset Composition by Type of Fund as of December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 47,702	\$ 8,505	\$ 56,207
Board-designated endowment funds	2,404,595	-	-	2,404,595
	\$ 2,404,595	\$ 47,702	\$ 8,505	\$ 2,460,802

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 7 - ENDOWMENT FUNDS: (Continued)

Board-Designated Endowment: (Continued)

Changes in Endowment Net Assets, including Board Designated Funds, for the year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 2,184,402	\$ 40,305	\$ 258,505	\$ 2,483,212
Investment Return:				
Investment income	58,344	2,011	-	60,355
Net appreciation (realized and unrealized)	40,149	5,386	-	45,535
Net Investment Return	98,493	7,397	-	105,890
Transfers from acquisition	250,000	-	(250,000)	-
Contributions	66,700			66,700
Appropriation for expenditure	(195,000)	-	-	(195,000)
Endowment Net Assets, End of year	\$ 2,404,595	\$ 47,702	\$ 8,505	\$ 2,460,802

NOTE 8 - LINES OF CREDIT:

Cornerstone opened a \$300,000 line of credit on July 22, 2014, which expired on May 1, 2015; and was subsequently renewed on March 8, 2016. Bank advances on the credit line were payable on demand and carried an interest rate equal to Valley National Bank's prime rate (4.25% at December 31, 2014). As of December 31, 2015 and 2014, a balance of \$-0- and \$100,000, respectively, is outstanding. The line of credit is secured by all assets at 12 Flagler St., Morristown, New Jersey, with a net book value of \$2,560,250.

Cornerstone also had a \$150,000 line of credit available through a bank, which was paid off on July 22, 2014. Bank advances on the credit line were payable on demand and carried an interest rate of 1.25% over the Wall Street Journal prime rate (3.25% at December 31, 2014). As of December 31, 2014, the line had not been renewed.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 9 - PENSION PLAN:

Cornerstone maintains a 403(b) thrift plan (classified as a defined contribution plan). For the years ended December 31, 2015 and 2014, Cornerstone's contribution was equal to 3% of the salaries of eligible employees. Pension expense for the years ended December 31, 2015 and 2014, was \$70,952 and \$79,168, respectively.

NOTE 10 - DONATED SERVICES:

The Board of Directors makes contributions of time relative to general management and operations of Cornerstone. Additionally, a significant number of unpaid volunteers have made contributions of their time to the programs sponsored by Cornerstone. The value of this contributed time is not reflected in these consolidated financial statements as it does not meet the requirements of recognition under accounting principles generally accepted in the United States of America.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

The following temporarily restricted net assets are available for the following purposes:

	December 31,	
	2015	2014
"Plays for Living" series	\$ 15,777	\$ 15,767
Scholarships	302,931	390,621
Split-interest agreement	42,642	49,030
Other	4	-
Total Temporarily Restricted Net Assets	<u>\$ 361,354</u>	<u>\$ 455,418</u>

Net assets released from time and use restrictions for the years ended December 31, 2015 and 2014, amounted to \$86,313 and \$534,449, respectively, and are reflected on the accompanying consolidated statements of activities and changes in net assets.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 12 - MORTGAGES PAYABLE:

Cornerstone had a term loan of \$700,000 secured by real property of MNHA through July 22, 2014. Under the agreement, the loan was to be repaid over 30 years, with monthly payments of \$4,122, including principal and interest at 5.75%. Under the terms of the mortgage note, interest was adjusted every five years to reflect the bank's current interest rate in effect at that time.

On July 22, 2014, Cornerstone acquired a term loan of \$800,000 secured by real property of MNHA. Under the agreement, the loan is to be repaid over 25 years with monthly payments of \$4,249, including principal and interest at 4.00%. The interest rate can be adjusted on August 1, 2019, 2024, 2029, and 2034, and will be determined by adding 2.125% to the current index (weekly average yield on United States Treasury Securities adjusted to a constant maturity of five years, as made available by the Federal Reserve Board).

Principal amounts due under the above obligation mature as follows:

Year Ending December 31,	
2016	\$ 19,848
2017	20,757
2018	21,614
2019	22,507
2020	23,359
Thereafter	<u>666,588</u>
	774,673
Less: Short-term maturities	<u>(19,848)</u>
Long-term maturities	<u>\$754,825</u>

**NOTE 13 - UNITED AFFILIATES COMPENSATION FUND/UNEMPLOYMENT
SERVICES TRUST:**

Cornerstone entered into an agreement with the Unemployment Services Trust ("UST") to administer the unemployment insurance program. Cornerstone is required to make quarterly contributions based on estimated unemployment claims. This contribution will be adjusted periodically by UST to reflect changes in Cornerstone's unemployment claims history.

CORNERSTONE FAMILY PROGRAMS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 13 - UNITED AFFILIATES COMPENSATION FUND/UNEMPLOYMENT SERVICES TRUST: (Continued)

For the years ended December 31, 2015 and 2014, contributions made were \$120,000 and \$59,641, respectively, and unemployment claims paid were \$57,040 and \$138,456, respectively. A resulting balance of \$13,209 and a liability of \$61,938 were recorded in the accompanying consolidated statements of financial position as of December 31, 2015 and 2014, respectively, based on the difference between contributions made and interest earned, net of claims and expenses paid.

NOTE 14 - CONCENTRATIONS OF CREDIT RISK:

Cornerstone receives a large portion of its funding from various federal, state and local governmental agencies. The operations of Cornerstone are subject to the administrative directives, rules and regulations of state and local regulatory agencies. Such administrative directives, rules and regulations are subject to changes that may occur because of inadequate funding with little notice to pay for the related costs, including the additional administrative burden, to comply with a change.

Cornerstone is subject to audits by certain federal and state awarding agencies which may result in findings based on various issues. Anticipation of potential audit results is currently not determinable. Accordingly, no accruals have been recorded in the consolidated financial statements for any adjustments that might be required based on such audits.

Cornerstone maintains cash balances at several financial institutions. At times, cumulative balances may exceed the insured limits.

NOTE 15 - DISPOSAL OF ASSETS:

During 2014, Cornerstone closed its Madison Adult Day Care program. The building used to provide the Adult Day Care services included a deed restriction limiting its use to senior care which could no longer be fulfilled, therefore, the Board of Directors voted to return the building to its previous owner. The net book value of the building and related assets are recorded as loss on disposal in the accompanying consolidated statements of activities and changes in net assets.

CORNERSTONE FAMILY PROGRAMS
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Federal Grant or Program Title	Federal CFDA Number	Grant Number	Grant Amount	Grant Period	Current Year Disbursements/ Expenditures
FEDERAL AWARDS:					
U.S. Department of Agriculture					
Passed through New Jersey State Department of Agriculture			Expense		
Child and Adult Care Food Program	10.558	15-27-223	Reimbursements	10/1/14 - 9/30/15	\$ 129,780
Child and Adult Care Food Program	10.558	16-27-223	Reimbursements	10/1/15 - 9/30/16	<u>28,909</u>
			Total Federal Assistance		<u>158,689</u>
STATE AWARDS:					
New Jersey Department of Health and Human Services					
Friends of the Blind/Older Blind (SCILS)	N/A	16PG14N		1/1/15 - 12/31/15	25,748
Passed through Morris County Board of Chosen Freeholders					
K.O. Boxing and Fitness Program	N/A	JJ-1508		1/1/15 - 12/31/15	5,000
Social Recreation	N/A	JJ-1504		1/1/15 - 12/31/15	14,516
Rites of Passage	N/A	JJ-1509		1/1/15 - 12/31/15	<u>27,380</u>
					46,896
State of New Jersey Department of Children and Families					
Parents as Teachers (PAT) Warren	N/A	15MKPP		1/1/15 - 12/31/15	<u>162,000</u>
			Total State Assistance		<u>234,644</u>
			Total Federal and State Assistance		<u>\$ 393,333</u>

See independent auditors' report.

CORNERSTONE FAMILY PROGRAMS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
DECEMBER 31, 2015 AND 2014

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and state awards includes the state and federal grant activity of Cornerstone and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget (“OMB”) Circular Letter 15-08. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Cornerstone Family Programs
Morristown, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Cornerstone Family Programs (“Cornerstone”), a New Jersey nonprofit organization, which comprise the consolidated statements of financial position as of December 31, 2015, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Cornerstone’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cornerstone’s internal control. Accordingly, we do not express an opinion on the effectiveness of Cornerstone’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Cornerstone’s consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cornerstone's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cornerstone's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cornerstone's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
April 26, 2016

CORNERSTONE FAMILY PROGRAMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

I. Summary of Auditors' Results

Schedule of Expenditures of Federal and State Awards

The auditors' report issued on the Schedule of Expenditures of Federal and State Awards of Cornerstone Family Programs was an unmodified opinion.

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No