

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

**CORNERSTONE FAMILY PROGRAMS
AND SUBSIDIARY**

DECEMBER 31, 2018 AND 2017

CONTENTS

| | <u>Page</u> |
|---|--------------------|
| Independent Auditors' Report..... | 1-2 |
| Consolidated Financial Statements: | |
| Consolidated Statements of Financial Position..... | 3 |
| Consolidated Statement of Activities and Changes in Net Assets..... | 4 |
| Consolidated Statement of Functional Expenses..... | 5 |
| Consolidated Statements of Cash Flows..... | 6 |
| Notes to Consolidated Financial Statements..... | 7-25 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal Awards..... | 26 |
| Schedule of Expenditures of State Awards..... | 27 |
| Notes to the Schedules of Expenditures of Federal and State Awards..... | 28 |
| 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 <i>Government Auditing Standards</i> | 29-30 |
| Schedule of Findings and Questioned Costs..... | 31 |

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cornerstone Family Programs and Subsidiary ("Cornerstone"), a New Jersey nonprofit organization, which comprise the consolidated statement of financial position as of December 31, 2018, and 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.

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 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 and Subsidiary as of December 31, 2018, 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.

Emphasis of Matter

The Organization adopted Financial Accounting Standards Board, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

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 schedules of expenditures of federal and state awards, shown on pages 26 and 27, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08, are presented for purposes of additional analysis and are not required parts 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 May 14, 2019, 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, and 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated audited financial statements in our report dated April 24, 2018. In our opinion, the summarized, comparative information presented herein as of and for the year ended December 31, 2017, 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
May 14, 2019



CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, | |
|--|--------------|---------------|
| | 2018 | 2017 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 49,844 | \$ 116,835 |
| Investments, at fair value | 6,916,914 | 2,377,859 |
| Grants receivable | 280,354 | 349,608 |
| Accounts receivable | 96,986 | 130,242 |
| Prepaid expenses | 43,884 | 10,233 |
| Total Current Assets | 7,387,982 | 2,984,777 |
| OTHER ASSETS: | | |
| Beneficial interest in remainder trust | 42,794 | 50,339 |
| Property and equipment, net | 2,555,382 | 2,684,402 |
| Assets held for sale, net (Note 7) | - | 4,754,834 |
| | \$ 9,986,158 | \$ 10,474,352 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 179,007 | \$ 253,991 |
| Security deposit payable | - | 6,425 |
| Deferred revenue | - | 500 |
| Mortgage payable, current | 22,507 | 21,614 |
| Total Current Liabilities | 201,514 | 282,530 |
| LONG-TERM LIABILITIES: | | |
| Mortgage payable, net of current portion | 689,950 | 712,457 |
| Total Liabilities | 891,464 | 994,987 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS | | |
| Without donor restrictions | 8,781,708 | 9,095,572 |
| With donor restrictions | 312,986 | 383,793 |
| Total Net Assets | 9,094,694 | 9,479,365 |
| | \$ 9,986,158 | \$ 10,474,352 |

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

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018
(With Summarized, Comparative Totals for the Year Ended December 31, 2017)

| | 2018 | | | 2017 | | |
|--|------------------------------|----------------------------|--------------|------------------------------|----------------------------|-------|
| | Without Donor Restriction | With Donor Restrictions | Total | Without Donor Restriction | With Donor Restrictions | Total |
| EARNED REVENUE AND SUPPORT: | | | | | | |
| County grants and contracts | \$ 521,125 | \$ - | \$ 521,125 | \$ 835,553 | | |
| Federal and state financial assistance | 921,644 | - | 921,644 | 1,014,795 | | |
| Federal and state grants | 257,870 | - | 257,870 | 406,150 | | |
| Program fees | 921,112 | - | 921,112 | 1,216,652 | | |
| Contributions, grants and bequests | 1,070,262 | - | 1,070,262 | 1,218,998 | | |
| Special events revenue, net | 442,350 | - | 442,350 | 355,744 | | |
| United Way | 38,515 | - | 38,515 | 47,530 | | |
| Miscellaneous | 16,310 | - | 16,310 | 53,640 | | |
| | | | | | | |
| OTHER REVENUE: | | | | | | |
| Investment income, net | 77,405 | 7,776 | 85,181 | 71,445 | | |
| Net realized and unrealized (loss) gain on investments | (187,608) | (29,538) | (217,146) | 231,997 | | |
| Realized gain on sale of building | 196,441 | - | 196,441 | - | | |
| Change in value of split-interest agreements | - | (7,545) | (7,545) | 3,910 | | |
| Total Revenue and Support | 4,275,426 | (29,307) | 4,246,119 | 5,456,414 | | |
| Net Assets Released from Restrictions | 41,500 | (41,500) | - | - | | |
| | | | | | | |
| OPERATING EXPENSES: | | | | | | |
| Counseling and community services | 3,792,486 | - | 3,792,486 | 4,407,693 | | |
| Management and general | 452,121 | - | 452,121 | 588,006 | | |
| Development/community relations | 386,183 | - | 386,183 | 450,109 | | |
| Total Operating Expenses | 4,630,790 | - | 4,630,790 | 5,445,808 | | |
| CHANGES IN NET ASSETS | | | | | | |
| | (313,864) | (70,807) | (384,671) | 10,606 | | |
| NET ASSETS - Beginning of year | 9,095,572 | 383,793 | 9,479,365 | 9,468,759 | | |
| NET ASSETS - End of year | \$ 8,781,708 | \$ 312,986 | \$ 9,094,694 | \$ 9,479,365 | | |

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

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018 (With Summarized Comparative, Totals for the Year Ended December 31, 2017)

| | 2018 | | | | Total 2018 | Total 2017 |
|---|-----------------------------------|------------------------|---|------------|--------------|--------------|
| | Counseling and Community Services | Management and General | Supporting Services Development Community Relations | Total | Total 2018 | Total 2017 |
| Salaries and Fringe Benefits: | | | | | | |
| Salaries | \$ 2,116,772 | \$ 238,940 | \$ 257,006 | \$ 495,946 | \$ 2,612,718 | \$ 3,222,688 |
| Benefits | 197,683 | 49,114 | 21,626 | 70,740 | 268,423 | 341,009 |
| Payroll taxes and workers' compensation insurance | 228,349 | 21,443 | 21,874 | 43,317 | 271,666 | 343,628 |
| Total Salaries and Fringe Benefits | 2,542,804 | 309,497 | 300,506 | 610,003 | 3,152,807 | 3,907,325 |
| Operational Expense: | | | | | | |
| Professional fees | 184,202 | 21,492 | 21,790 | 43,282 | 227,484 | 262,149 |
| Office supplies | 7,801 | 4,788 | 2,422 | 7,210 | 15,011 | 18,949 |
| Equipment rental and maintenance | 45,838 | 4,727 | 2,788 | 7,515 | 53,353 | 47,083 |
| Telephone | 16,371 | 5,389 | 4,594 | 9,983 | 26,354 | 27,593 |
| Postage | 4,306 | 1,945 | 1,658 | 3,603 | 7,909 | 7,580 |
| Rent | 4,500 | 27,625 | - | 27,625 | 32,125 | 6,500 |
| Utilities | 63,670 | 6,552 | 5,242 | 11,794 | 75,464 | 82,904 |
| Repairs and maintenance | 94,426 | 11,668 | 8,480 | 20,148 | 114,574 | 110,375 |
| Insurance | 82,914 | 11,174 | 8,279 | 19,453 | 102,367 | 116,498 |
| Total Operational Expense | 504,028 | 95,360 | 55,253 | 150,613 | 654,641 | 679,631 |
| Program expense | 415,221 | 2,013 | 5,865 | 7,878 | 423,099 | 411,209 |
| Scholarships | 49,576 | - | - | - | 49,576 | 36,750 |
| Financing and bank fees | 54,837 | 4,172 | - | 4,172 | 59,009 | 55,749 |
| Education and travel | 22,204 | 14,476 | 1,949 | 16,425 | 38,629 | 58,859 |
| Other | 12,211 | 110 | 35 | 145 | 12,356 | 10,458 |
| Total Expenses Before Depreciation | 1,058,077 | 116,131 | 63,102 | 179,233 | 1,237,310 | 1,252,656 |
| Depreciation | 191,605 | 26,493 | 22,575 | 49,068 | 240,673 | 285,827 |
| Total Expenses | \$ 3,792,486 | \$ 452,121 | \$ 386,183 | \$ 838,304 | \$ 4,630,790 | \$ 5,445,808 |

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

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | |
|---|--------------------------------|-----------------|
| | 2018 | 2017 |
| CASH FLOWS (USED FOR) PROVIDED BY: | | |
| <u>OPERATING ACTIVITIES:</u> | | |
| Changes in net assets | \$ (384,671) | \$ 10,606 |
| Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities: | | |
| Depreciation | 240,673 | 285,827 |
| Unrealized losses (gains) on investments | 321,421 | (172,728) |
| Realized gains on investments | (104,275) | (59,269) |
| Gain on sale of building | (196,441) | - |
| Changes in certain assets and liabilities: | | |
| Grants receivable | 69,254 | (57,401) |
| Accounts receivable | 33,256 | 54,895 |
| Prepaid expenses | (33,651) | 27,143 |
| Beneficial interest in remainder trust | 7,545 | (3,910) |
| Accounts payable and accrued expenses | (74,984) | (70,711) |
| Security deposit payable | (6,425) | 3,200 |
| Deferred revenue | (500) | (5,180) |
| Net Cash (Used for) Provided by Operating Activities | (128,798) | 12,472 |
| <u>INVESTING ACTIVITIES:</u> | | |
| Proceeds from sale of building | 4,875,250 | - |
| Purchase of equipment | (35,628) | (80,995) |
| Proceeds from sale of investments | 5,491,970 | 599,797 |
| Purchase of investments | (10,248,171) | (528,686) |
| Net Cash Provided by (Used for) Investing Activities | 83,421 | (9,884) |
| <u>FINANCING ACTIVITIES:</u> | | |
| Draws on line of credit | 275,000 | 150,000 |
| Payments on line of credit | (275,000) | (150,000) |
| Principal payments on mortgage payable | (21,614) | (20,755) |
| Net Cash Used for Financing Activities | (21,614) | (20,755) |
| NET DECREASE IN CASH | (66,991) | (18,167) |
| CASH: | | |
| Beginning of year | 116,835 | 135,002 |
| End of year | \$ 49,844 | \$ 116,835 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | | |
| Cash paid during the year for interest | \$ 33,010 | \$ 32,444 |

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 five locations throughout Morris County 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 and Morristown Neighborhood House Association, Inc. ("MNHA"), (collectively, "Cornerstone"). Intercompany transactions and balances have been eliminated upon consolidation.

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, 2017, from which the summarized information was derived.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Financial Statement Reporting for Nonprofits:

Cornerstone adopted Financial Accounting Standards Board ("FASB"), *Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for Board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications.

As a result of the adoption of *Presentation of Financial Statements of Not-for-Profit Entities*, net assets as of December 31, 2017, were reclassified as follows:

| | <i>ASU 2016-14 Classifications:</i> | | |
|---|--|------------------------------------|-----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total Net Assets |
| Net Asset Classifications as Previously Presented: | | | |
| Unrestricted | \$ 9,095,572 | \$ - | \$ 9,095,572 |
| Temporarily restricted | - | 375,288 | 375,288 |
| Permanently restricted | - | 8,505 | 8,505 |
| Total Net Assets | <u>\$ 9,095,572</u> | <u>\$ 383,793</u> | <u>\$ 9,479,365</u> |

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 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Cornerstone and/or the passage of time. Also, other net assets subject to donor-imposed stipulations that are 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Cash:

Cash consists of cash in bank.

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.
- 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.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Fair Value: (Continued)

The fair value of investments is summarized as follows:

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

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

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.

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

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 \$17,964 and \$18,383 for the years ended December 31, 2018 and 2017, respectively. All investment income is credited directly to net assets without donor restrictions unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in net assets without donor restrictions 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.

Grants Receivable:

Grants receivable are stated at the amount management expects to collect from outstanding balances. Cornerstone charges uncollectible grants receivable to operations when determined to be uncollectible. There was no allowance for uncollectible grants receivable as of December 31, 2018 and 2017.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Cornerstone charges uncollectible receivables to operations when determined to be uncollectible. There was no allowance for uncollectible accounts receivable as of December 31, 2018 and 2017.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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. 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. Maintenance, repairs, and minor replacements that do not improve or extend the life of an asset are expensed as incurred.

Assets Held for Sale:

Individual long-lived assets to be disposed of by sale are classified as held for sale if management has committed to a plan to sell the assets, the assets are available for immediate sale in present condition, and the sale is highly probable.

The assets held for sale at December 31, 2017, were carried at the lower of the carrying value or fair value less costs to sell and are presented separately under other assets on the accompanying statements of financial position. These assets were sold during the year ended December 31, 2018.

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, 2017, deferred revenue amounted to \$500. No amounts were received in advance at December 31, 2018.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

In-kind Contributions:

The Organization receives donated equipment and professional services that create or enhance nonfinancial assets and allow Cornerstone to fulfill its mission. Donated professional services are recognized if the services received: create or enhance long-lived assets or require specialized skills; are provided by individuals possessing those skills; and would typically need to be purchased if not provided by donation. Donations of tangible assets are recognized at fair market value when received.

Cornerstone also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the consolidated financial statements.

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 consolidated 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 2018 and 2017. At December 31, 2018 and 2017, there are no significant income tax uncertainties.

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.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Recent Accounting Pronouncements:

In May 2014, FASB issued an accounting pronouncement, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an organization should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which that organization expects to be entitled in exchange for those goods or services. FASB issued Accounting Standards Update (“ASU”) 2015-14 that deferred the effective date for organizations until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. Cornerstone will adopt the standard using the modified retrospective method. Cornerstone is currently evaluating the effect the provisions of this ASU will have on the consolidated financial statements.

In February 2016, the FASB issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Under this new pronouncement, a modified retrospective transition approach is required, and the new standard is applied to all leases existing at the date of initial application. An organization may choose to use either (1) its effective date, or (2) the beginning of the earliest comparative period presented in the consolidated financial statements as its date of initial application. The standard is effective for annual reporting periods beginning after December 15, 2019. Earlier adoption is permitted subject to certain limitations. Cornerstone is currently evaluating the effect the provisions of this ASU will have on the consolidated financial statements.

Reclassifications:

Certain amounts have been reclassified in the 2017 consolidated financial statements to conform to the 2018 presentation. This has no effect on the change in net assets.

Subsequent Events:

Cornerstone has evaluated its subsequent events and transactions occurring after December 31, 2018 through May 14, 2019, the date that the consolidated financial statements were available to be issued.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 - INVESTMENTS:

Investments are valued as follows:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2018

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|-------------------------|---------------------|------------------|----------------|---------------------|
| Cash | \$ 49,077 | \$ - | \$ - | \$ 49,077 |
| Mutual funds | 907,354 | - | - | 907,354 |
| Fixed income funds | 5,190,596 | 41,204 | - | 5,231,800 |
| Equities | 727,929 | - | - | 727,929 |
| Certificates of deposit | - | 754 | - | 754 |
| | \$ 6,874,956 | \$ 41,958 | \$ - | \$ 6,916,914 |

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2017

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|-------------------------|---------------------|------------------|----------------|---------------------|
| Cash | \$ 24,528 | \$ - | \$ - | \$ 24,528 |
| Mutual funds | 1,051,747 | - | - | 1,051,747 |
| Fixed income funds | 321,495 | 55,823 | - | 377,318 |
| Equities | 923,512 | - | - | 923,512 |
| Certificates of deposit | - | 754 | - | 754 |
| | \$ 2,321,282 | \$ 56,577 | \$ - | \$ 2,377,859 |

The following schedule summarizes the mutual funds and equities by strategy as of December 31, 2018:

| | | | |
|-------------------------|-------------|------------------|-------------|
| Mutual Funds: | | Equities: | |
| Intermediate-term bonds | 6% | Healthcare | 11% |
| Intermediate government | 5% | Technology | 22% |
| Multisector bonds | 2% | Energy | 8% |
| Global short-term bonds | 23% | Financial | 13% |
| Opportunistic bonds | 10% | Basic materials | 3% |
| U.S. small cap | 5% | Industrial goods | 11% |
| International small cap | 6% | Consumer goods | 10% |
| Emerging markets | 16% | Utilities | 7% |
| Global large cap | 17% | Other | 15% |
| Infrastructure | 3% | Total Equities | <u>100%</u> |
| Other | 7% | | |
| Total Mutual Funds | <u>100%</u> | | |

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 - INVESTMENTS: (Continued)

The following schedule summarizes the mutual funds and equities by strategy as of December 31, 2017:

| | | | |
|---------------------------|-------------|------------------|-------------|
| Mutual Funds: | | Equities: | |
| Inflation-protected bonds | 5% | Healthcare | 9% |
| Global short-term bonds | 22% | Technology | 18% |
| Opportunistic bonds | 16% | Energy | 7% |
| U.S. small cap | 5% | Financial | 19% |
| International small cap | 9% | Basic materials | 4% |
| Emerging markets | 18% | Industrial goods | 10% |
| Global large cap | 16% | Consumer goods | 10% |
| Infrastructure | 4% | Utilities | 6% |
| Other | 5% | Other | 17% |
| Total Mutual Funds | <u>100%</u> | Total Equities | <u>100%</u> |

NOTE 4 - GRANTS RECEIVABLE:

Grants receivable are comprised of the following:

| | December 31, | |
|-------------------|---------------------|-------------------|
| | 2018 | 2017 |
| County | \$ 144,404 | \$ 159,032 |
| State | 79,420 | 103,251 |
| Private | 56,530 | 87,325 |
| Grants receivable | <u>\$ 280,354</u> | <u>\$ 349,608</u> |

NOTE 5 - 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 year to year was a decrease of \$7,545 and an increase of \$3,910 for the years ended December 31, 2018 and 2017, respectively. 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 \$42,794 and \$50,339 as of December 31, 2018 and 2017, respectively, as shown on the accompanying consolidated statements of financial position.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 - PROPERTY AND EQUIPMENT:

Property and equipment is as follows:

| | December 31, | |
|--------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Land | \$ 250,000 | \$ 250,000 |
| Building and improvements | 2,873,099 | 2,855,499 |
| Equipment | 391,702 | 729,504 |
| Furniture and fixtures | 94,974 | 439,572 |
| | <u>3,609,775</u> | <u>4,274,575</u> |
| Less: Accumulated depreciation | (1,054,393) | (1,590,173) |
| Property and Equipment, Net | <u>\$ 2,555,382</u> | <u>\$ 2,684,402</u> |

NOTE 7 - ASSETS HELD FOR SALE:

As a result of Cornerstones strategic plan update in 2018, the decision was made to put the land and building at 62 Elm Street in Morristown, New Jersey, up for sale. This realignment of real estate investments will provide opportunities for core program growth. At December 31, 2017, this land and building are shown at net book value under other assets on the accompanying statements of financial position. In July 2018, Cornerstone received proceeds of \$4,875,250 for the sale of the building and related furniture and equipment with a realized gain on sale of \$196,441. The Board has established a reserve fund with the proceeds from the sale of the building for future board approved initiatives.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 - MORTGAGES PAYABLE:

On July 22, 2014, Cornerstone obtained 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 4.000%. 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, | |
|-------------------------------------|------------------|
| 2019 | \$ 22,507 |
| 2020 | 23,359 |
| 2021 | 24,402 |
| 2022 | 25,411 |
| 2023 | 26,461 |
| Thereafter | 590,317 |
| | <u>712,457</u> |
| Less: Short-term maturities | (22,507) |
| Long-term maturities | <u>\$689,950</u> |

NOTE 9 - NET ASSETS WITHOUT DONOR RESTRICTIONS:

Net assets without donor restrictions are comprised of the following:

| | December 31, | |
|-----------------------------------|---------------------|---------------------|
| | 2018 | 2017 |
| Operations | \$ 2,134,987 | \$ 7,058,499 |
| Board-designated: (Note 11) | | |
| Endowment | 1,729,560 | 2,037,073 |
| Board Approved Future Initiatives | 4,917,161 | - |
| | <u>\$ 8,781,708</u> | <u>\$ 9,095,572</u> |

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS:

The following net assets with donor restrictions are available for the following purposes:

| | December 31, | |
|--|---------------------|-------------------|
| | 2018 | 2017 |
| "Plays for Living" series | \$ 19,819 | \$ 20,585 |
| Scholarships | 241,864 | 304,360 |
| Split-interest agreement | 42,794 | 50,339 |
| Other | 4 | 4 |
| Total subject to expenditure for specified purpose | 304,481 | 375,288 |
| Restricted in perpetuity-Endowment | 8,505 | 8,505 |
| | <u>\$ 312,986</u> | <u>\$ 383,793</u> |

Net assets released from time and use restrictions for the years ended December 31, 2018 and 2017, amounted to \$41,500 and \$43,000, respectively, and are reflected on the accompanying consolidated statements of activities and changes in net assets.

NOTE 11 - ENDOWMENT FUNDS:

Donor-restricted Endowment:

Cornerstone's net assets associated with the endowment consist of three 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 net assets with donor restrictions 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, 2018 and 2017, the fair market value of the investment, which includes net appreciation and income reinvested, was \$29,265 and \$31,117, 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, 2018 and 2017, the fair market value of the investment was \$754.

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, 2018 and 2017, the fair market value of the investment which includes net appreciation and income reinvested was \$21,620 and \$22,385, respectively.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 - 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, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Cornerstone has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to permit spending from underwater endowments in accordance with prudent measures required under law. There were no deficits for the years ended December 31, 2018 and 2017.

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 donor-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 net assets restricted in perpetuity is classified as net assets with donor restrictions restricted for a purpose 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

Board-designated Endowment:

The Board of Directors has designated three 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 FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 - ENDOWMENT FUNDS: (Continued)

Board-designated Endowment: (Continued)

Cornerstone may distribute up to 5% of the endowment investment portfolio value each year, as approved by the Finance Committee. 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.

As of December 31, 2018 and 2017, Cornerstone had the following endowment net asset composition by type of fund:

| | Without Donor Restriction | With Donor Restriction | Total |
|--|--------------------------------------|-----------------------------------|---------------------|
| Board-designated endowment funds | \$ 6,646,721 | \$ - | \$ 6,646,721 |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | - | 8,505 | 8,505 |
| Accumulated investment gains | - | 43,134 | 43,134 |
| December 31, 2018, net endowment assets | <u>\$ 6,646,721</u> | <u>\$ 51,639</u> | <u>\$ 6,698,360</u> |
| | Without Donor Restriction | With Donor Restriction | Total |
| Board-designated endowment funds | \$ 2,037,073 | \$ - | \$ 2,037,073 |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | - | 8,505 | 8,505 |
| Accumulated investment gains | - | 45,751 | 45,751 |
| December 31, 2017, net endowment assets | <u>\$ 2,037,073</u> | <u>\$ 54,256</u> | <u>\$ 2,091,329</u> |

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 11 - ENDOWMENT FUNDS: (Continued)

Board-designated Endowment: (Continued)

Changes in endowment net assets for the years ended December 31, 2018 and 2017, are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|------------------------------------|---------------------|
| Endowment net assets, December 31, 2017 | \$ 2,037,073 | \$ 54,256 | \$ 2,091,329 |
| Investment return, net | (109,760) | (2,617) | (112,377) |
| Proceeds from sale of building | 4,875,250 | - | 4,875,250 |
| Contributions | - | - | - |
| Appropriation of endowment assets pursuant to spending-rate policy | (155,842) | - | (155,842) |
| Endowment net assets, December 31, 2018 | <u>\$ 6,646,721</u> | <u>\$ 51,639</u> | <u>\$ 6,698,360</u> |

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|------------------------------------|---------------------|
| Endowment net assets, December 31, 2016 | \$ 1,879,476 | \$ 48,064 | \$ 1,927,540 |
| Investment return, net | 264,484 | 6,192 | 270,676 |
| Proceeds from sale of building | - | - | - |
| Contributions | - | - | - |
| Appropriation of endowment assets pursuant to spending-rate policy | (106,887) | - | (106,887) |
| Endowment net assets, December 31, 2017 | <u>\$ 2,037,073</u> | <u>\$ 54,256</u> | <u>\$ 2,091,329</u> |

NOTE 12 - LINE OF CREDIT:

Cornerstone has a \$300,000 line of credit, which was renewed on October 1, 2018, and expires on October 1, 2019. Bank advances on the credit line are payable on demand and carry an interest rate equal to Valley National Bank's prime rate (6.125% and 5.500% at December 31, 2018 and 2017, respectively). There was no balance outstanding on the line of credit as of December 31, 2018 or 2017. The line of credit is secured by all assets at 12 Flagler St., Morristown, New Jersey, with a net book value of approximately \$2.5 million.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 13 - RETIREMENT PLAN:

Cornerstone maintains a 403(b) thrift plan (classified as a defined-contribution plan). Cornerstone may elect to make discretionary contributions to the plan. There were no contributions made by Cornerstone for the years ended December 31, 2018 and 2017.

NOTE 14 - UNITED AFFILIATES COMPENSATION FUND/UNEMPLOYMENT SERVICES TRUST:

Through June 30, 2016, Cornerstone had an agreement with the Unemployment Services Trust ("UST") to administer the unemployment insurance program, at which time they joined the state unemployment insurance program. Cornerstone was required to make quarterly contributions based on estimated unemployment claims. This contribution was adjusted periodically by UST to reflect changes in Cornerstone's unemployment claims history.

In 2017, Cornerstone did not make any further contributions to the plan. In October 2017, Cornerstone received its final refund from the trust for approximately \$1,700.

NOTE 15 - OPERATING LEASES:

Cornerstone leases certain space relative to its operations and office equipment under operating leases expiring at various times through 2023. Cornerstone is obligated for future minimum lease payments under all leases, as follows:

| Year Ended | Amount |
|-----------------------|-------------------|
| 2019 | \$ 118,343 |
| 2020 | 122,935 |
| 2021 | 119,417 |
| 2022 | 113,458 |
| 2023 | 50,214 |
| | <u>\$ 524,367</u> |

Lease expense, for space related to operations and equipment rental and maintenance, was \$87,147 and \$46,210, respectively, for the years ended December 31, 2018 and 2017. Lease expenses are included in the equipment rental and maintenance, rent, and repairs and maintenance expenses on the statements of functional expenses.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 16 - 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.

Considerable balances of Cornerstone's investments are concentrated in mutual funds, fixed income funds, equities, and certificates of deposit. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the amounts reported in the combined statements of financial position.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 17 - SPECIAL EVENTS:

Revenue and expense from the Organization's fundraising events is as follows:

| | Year Ended December 31, | |
|----------------------|------------------------------------|-------------|
| | 2018 | 2017 |
| Revenue: | | |
| Annual Gala | \$ 429,356 | \$ 381,378 |
| Bowl-a-Thon | 93,467 | 76,993 |
| Community Family Day | 9,550 | 13,000 |
| Other | 8,423 | - |
| Total | 540,796 | 471,371 |
| Expense: | | |
| Annual Gala | 77,463 | 98,035 |
| Bowl-a-Thon | 6,068 | 4,824 |
| Community Family Day | 13,988 | 12,768 |
| Other | 927 | - |
| Total | 98,446 | 115,627 |
| Special Events, Net | \$ 442,350 | \$ 355,744 |

NOTE 18 - FUNCTIONAL EXPENSES:

The costs of providing the various programs and other activities have been summarized on a functional basis on the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefits. General and administrative expenses are those not directly identifiable with any specific function, but which provide for the overall support and direction of Cornerstone.

The consolidated financial statements contain certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and fringe benefits, professional fees, office supplies, equipment and maintenance, telephone, postage, insurance, and program expenses which are allocated on time and effort as well as direct costs. All other expenses are based on direct costs.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 19 - LIQUIDITY AND AVAILABILITY:

The following represents Cornerstone's financial assets at December 31, 2018, reduced by amounts not available for general use within one year of the consolidated statement of financial position date because of contractual or donor imposed restrictions. Amounts available include donor-restricted and Board-restricted amounts that are available for general expenditure in the following year.

| | 2018 |
|---|--------------------|
| Cash and cash equivalents | \$ 49,844 |
| Investments (level one) | 6,874,956 |
| Grants receivable | 280,354 |
| Accounts receivable | 96,986 |
| Prepaid expenses | 43,884 |
| Total financial assets | <u>7,346,024</u> |
| Less amounts not available to be used within one year: | |
| Board-designated net assets | (6,646,721) |
| Net assets with donor restrictions | (312,986) |
| Estimated Board-designated releases | 87,986 |
| Estimated donor-restricted releases | 40,000 |
| | <u>(6,831,721)</u> |
| Financial assets available to meet general expenditures over the next 12 months | <u>\$ 514,303</u> |

Cornerstone's goal is generally to maintain financial assets to meet 30 days of operating expenses, excluding depreciation (approximately \$366,000). As part of its liquidity plan, excess cash is invested in money market funds, mutual funds, or equities, in accordance with Cornerstone's investment policy. Cornerstone also has a line of credit for \$300,000 which is fully available. At the Board's discretion and approval, Board-designated net assets can be liquidated. During the year, donor-restricted net assets are released relating to scholarships awarded to recipients. In addition, Board-designated funds are released for operations based on the Board-designated endowment spending policy in Note 11.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

| 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 | | | | | |
| Child and Adult Care Food Program | 10.558 | 18-27-223 | Expense Reimbursements | 10/01/17 - 09/30/18 | \$ 118,590 |
| Child and Adult Care Food Program | 10.558 | 19-27-223 | Expense Reimbursements | 10/01/18 - 09/30/19 | 28,958 |
| Total U.S. Department of Agriculture | | | | | <u>147,548</u> |
| U.S. Department of Housing and Urban Development | | | | | |
| Passed through County of Morris, Division of Community & Behavioral Health Services, Office of Community Development: Community Development Block Grant, "School Age Child Care Scholarships for Low Income Children" | 14.239 | B-15-UC-34- 0105, 05/17- 1362 | \$ 20,000 | 09/01/17 - 06/30/18 | 12,196 |
| Passed through County of Morris, Division of Community & Behavioral Health Services, Office of Community Development: Community Development Block Grant, "School Age Child Care Scholarships for Low Income Children" | 14.239 | B-15-UC-34- 0105, 05/18- 1400 | 50,000 | 09/01/18 - 06/30/19 | 20,230 |
| Total U.S. Department of Housing and Urban Development | | | | | <u>32,426</u> |
| Total Federal Assistance | | | | | \$ 179,974 |

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF STATE AWARDS

YEAR ENDED DECEMBER 31, 2018

| State Grant or Program Title | | Federal CFDA Number | Grant Number | Grant Amount | Grant Period | Current Year Disbursements/ Expenditures |
|---|-----|---------------------------|-----------------|-----------------|---------------------|--|
| STATE AWARDS: | | | | | | |
| New Jersey Department of Health and Human Services | | | | | | |
| Friends of the Blind/Older Blind (SCILS) | | | | | | |
| | N/A | 2018-3 CFP | \$ | 31,000 | 01/01/18 - 12/31/18 | \$ 31,000 |
| Passed through Morris County Board of Chosen Freeholders | | | | | | |
| K.O. Boxing and Fitness Program | N/A | JJ-1808 | | 5,000 | 01/01/18 - 12/31/18 | 5,000 |
| Social Recreation | N/A | JJ-1804 | | 14,516 | 01/01/18 - 12/31/18 | 14,516 |
| Rites of Passage | N/A | JJ-1809 | | 27,380 | 01/01/18 - 12/31/18 | 27,380 |
| | | | | <u>46,896</u> | | |
| Total State Assistance | | | | \$ | 77,896 | |

See independent auditors' report and notes to schedules of expenditures of federal and state awards.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND
STATE AWARDS
DECEMBER 31, 2018

NOTE 1 - BASIS OF PRESENTATION:

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

NOTE 2 - SUBRECIPIENTS:

During the year ended December 31, 2018, Cornerstone did not provide any funds relating to their federal or state programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

Cornerstone did not elect to use the de minimis cost rate when allocating indirect costs to federal or state programs.

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of December 31, 2018, Cornerstone did not have any federal or state loan or loan guarantee programs.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF CONSOLIDATED 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 and Subsidiary ("Cornerstone"), a New Jersey nonprofit organization, which comprise the consolidated statements of financial position as of December 31, 2018, and 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 May 14, 2019.

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
May 14, 2019

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

I. Summary of Auditors' Results

Schedules of Expenditures of Federal and State Awards

The auditors' report issued on the Schedules of Expenditures of Federal and State Awards of Cornerstone Family Programs and Subsidiary 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

