



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the 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, 2017, 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 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 and Subsidiary as of December 31, 2017, 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 schedules of expenditures of federal and state awards, shown on pages 22 and 23, 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, 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 24, 2018, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated audited financial statements in our report dated April 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 24, 2018



**CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash	\$ 116,835	\$ 135,002
Investments, at fair value	2,377,859	2,216,973
Grants receivable	349,608	292,207
Accounts receivable, net of allowance for doubtful accounts of \$0- in 2017 and \$5,080 in 2016	130,242	185,137
Prepaid expenses	10,233	37,376
Total Current Assets	<u>2,984,777</u>	<u>2,866,695</u>
OTHER ASSETS:		
Beneficial interest in remainder trust	50,339	46,429
Property and equipment, net	2,684,402	7,644,068
Assets held for sale, net (Note 4)	4,754,834	-
	<u>\$ 10,474,352</u>	<u>\$ 10,557,192</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 253,991	\$ 324,702
Security deposit payable	6,425	3,225
Deferred revenue	500	5,680
Mortgage payable, current	21,614	20,757
Total Current Liabilities	<u>282,530</u>	<u>354,364</u>
LONG-TERM LIABILITIES:		
Mortgage payable, net of current portion	<u>712,457</u>	<u>734,069</u>
Total Liabilities	<u>994,987</u>	<u>1,088,433</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted - operations	7,058,499	7,205,355
Unrestricted - Board-designated	2,037,073	1,879,476
Total Unrestricted Net Assets	<u>9,095,572</u>	<u>9,084,831</u>
Temporarily restricted	375,288	375,423
Permanently restricted	8,505	8,505
Total Net Assets	<u>9,479,365</u>	<u>9,468,759</u>
	<u>\$ 10,474,352</u>	<u>\$ 10,557,192</u>

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

	2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2016
EARNED REVENUE AND SUPPORT:					
County grants and contracts	\$ 915,255	\$ -	\$ -	\$ 915,255	\$ 896,306
Federal and state financial assistance	1,341,243	-	-	1,341,243	1,393,023
Program fees	1,216,652	-	-	1,216,652	1,263,413
Contributions, grants and bequests	1,218,998	-	-	1,218,998	1,135,176
Special events revenue, net of expenses of \$115,627 and \$154,346 for 2017 and 2016, respectively	355,744	-	-	355,744	387,585
United Way	47,530	-	-	47,530	155,706
Miscellaneous	53,640	-	-	53,640	55,855
OTHER REVENUE:					
Investment income, net	60,227	11,218	-	71,445	45,388
Net realized and unrealized gain on investments	204,260	27,737	-	231,997	155,493
Change in value of split-interest agreements	-	3,910	-	3,910	3,787
Total Revenue and Support	5,413,549	42,865	-	5,456,414	5,491,732
Net Assets Released from Restrictions	43,000	(43,000)	-	-	-
OPERATING EXPENSES:					
Counseling and community services	4,407,693	-	-	4,407,693	4,423,632
Management and general	588,006	-	-	588,006	613,135
Development/community relations	450,109	-	-	450,109	471,473
Total Operating Expenses	5,445,808	-	-	5,445,808	5,508,240
CHANGES IN NET ASSETS	10,741	(135)	-	10,606	(16,508)
NET ASSETS - Beginning of year	9,084,831	375,423	8,505	9,468,759	9,485,267
NET ASSETS - End of year	\$ 9,095,572	\$ 375,288	\$ 8,505	\$ 9,479,365	\$ 9,468,759

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

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017 (With Summarized Comparati

	2017					
	Supporting Services					
	Counseling and Community Services	Management and General	Development Community Relations	Total	Total 2017	Total 2016
Salaries and Fringe Benefits:						
Salaries	\$ 2,574,033	\$ 341,672	\$ 306,983	\$ 648,655	\$ 3,222,688	\$ 3,226,092
Benefits	251,675	67,148	22,186	89,334	341,009	397,244
Payroll taxes and workers' compensation insurance	275,108	40,799	27,721	68,520	343,628	378,871
Total Salaries and Fringe Benefits	3,100,816	449,619	356,890	806,509	3,907,325	4,002,207
Operational Expense:						
Professional fees	207,655	29,624	24,870	54,494	262,149	261,342
Office supplies	7,221	9,769	1,959	11,728	18,949	20,443
Equipment rental and maintenance	37,147	5,925	4,011	9,936	47,083	34,493
Telephone	19,574	4,234	3,785	8,019	27,593	31,752
Postage	3,192	2,365	2,023	4,388	7,580	7,407
Rent	6,500	-	-	-	6,500	3,250
Utilities	68,618	8,443	5,843	14,286	82,904	77,083
Repairs and maintenance	95,001	9,264	6,110	15,374	110,375	102,382
Insurance	94,914	12,618	8,966	21,584	116,498	111,800
Total Operational Expense	539,822	82,242	57,567	139,809	679,631	649,952
Program expense	402,677	2,982	5,550	8,532	411,209	413,646
Scholarships	36,750	-	-	-	36,750	57,080
Financing and bank fees	52,701	3,048	-	3,048	55,749	53,386
Education and travel	41,047	12,875	4,937	17,812	58,859	59,157
Other	9,302	449	707	1,156	10,458	830
Total Expenses Before Depreciation	1,082,299	101,596	68,761	170,357	1,252,656	1,234,051
Depreciation	224,578	36,791	24,458	61,249	285,827	271,982
Total Expenses	\$ 4,407,693	\$ 588,006	\$ 450,109	\$ 1,038,115	\$ 5,445,808	\$ 5,508,240

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,	
	2017	2016
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 10,606	\$ (16,508)
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:		
Depreciation	285,827	271,982
Unrealized gains on investments	(172,728)	(91,641)
Realized gains on investments	(59,269)	(63,852)
Changes in certain assets and liabilities:		
Accounts receivable	54,895	(113,672)
Grants receivable	(57,401)	(21,941)
Prepaid expenses	27,143	4,140
Unemployment trust fund assets	-	(13,209)
Beneficial interest in remainder trust	(3,910)	(3,787)
Accounts payable and accrued expenses	(70,711)	(25,054)
Security deposit payable	3,200	(2,600)
Cash held for others	-	(352)
Deferred revenue	(5,180)	4,407
Net Cash Provided by (Used for) Operating Activities	12,472	(72,087)
<u>INVESTING ACTIVITIES:</u>		
Purchase of equipment	(80,995)	(18,180)
Proceeds from sale of investments	599,797	502,520
Purchase of investments	(528,686)	(455,560)
Net Cash (Used for) Provided by Investing Activities	(9,884)	28,780
<u>FINANCING ACTIVITIES:</u>		
Draws on line of credit	150,000	325,000
Payments on line of credit	(150,000)	(325,000)
Principal payments on mortgage payable	(20,755)	(19,847)
Net Cash Used for Financing Activities	(20,755)	(19,847)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,167)	(63,154)
CASH:		
Beginning of year	135,002	198,156
End of year	\$ 116,835	\$ 135,002
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for interest	\$ 32,444	\$ 33,756

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 7 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 and Morristown Neighborhood House Association, Inc. ("MNHA"), (collectively, "Cornerstone"). Intercompany transactions and balances have been eliminated upon consolidation.

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.

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.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

Financial Statement Presentation: (Continued)

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 statements 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.

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.

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, 2017 AND 2016

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.

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 \$18,383 and \$17,758 for the years ended December 31, 2017 and 2016, 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. 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.

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 are 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. Although these assets are classified as held for sale, the assets continue to be depreciated, as Cornerstone will continue to use the assets until sold.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, deferred revenue amounted to \$500 and \$5,680, 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 2017 and 2016. At December 31, 2017 and 2016, 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 AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2016, from which the summarized information was derived.

Financial Statement Reporting for Not-for-Profit Entities:

The Financial Accounting Standards Board issued an accounting pronouncement *Presentation of Financial Statements of Not-for-Profit Entities* that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources.

It also requires Cornerstone to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. Additional enhanced disclosures will also be required to provide information on how Cornerstone allocates costs. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending December 31, 2018. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

Reclassifications:

Certain amounts have been reclassified in the 2016 consolidated financial statements to conform to the 2017 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, 2017 through April 24, 2018, the date that the consolidated financial statements were available to be issued.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3 - PROPERTY AND EQUIPMENT:

Property and equipment is as follows:

	December 31,	
	2017	2016
Land	\$ 250,000	\$ 1,316,352
Building and improvements	2,855,499	7,979,176
Equipment	729,504	680,234
Furniture and fixtures	439,572	439,572
	<hr/>	<hr/>
	4,274,575	10,415,334
Less: Accumulated depreciation	(1,590,173)	(2,771,266)
Property and Equipment, Net	<hr/>	<hr/>
	\$ 2,684,402	\$ 7,644,068

In 2017, property and equipment excludes assets held for sale (Note 4).

NOTE 4 - ASSETS HELD FOR SALE:

As a result of the Organization's strategic plan update in 2017, 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. This land and building are shown at net book value under other assets on the accompanying statements of financial position.

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 the date of the gift for the year ended December 31, 2017, increased by \$3,910. The change in the present value from the date of the gift for the year ended December 31, 2016, increased by \$3,787. 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 \$50,339 and \$46,429 as of December 31, 2017 and 2016, respectively, as shown on the accompanying consolidated statements of financial position.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 6 - INVESTMENTS:

Investments are valued as follows:

	<u>FAIR VALUE MEASUREMENTS</u> <u>AS OF DECEMBER 31, 2017</u>			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash	\$ 24,528	\$ -	\$ -	\$ 24,528
Mutual funds	1,051,747	-	-	1,051,747
Fixed income funds	242,340	134,978	-	377,318
Equities	923,512	-	-	923,512
Certificates of deposit	-	754	-	754
	\$ 2,242,127	\$ 135,732	\$ -	\$ 2,377,859

	<u>FAIR VALUE MEASUREMENTS</u> <u>AS OF DECEMBER 31, 2016</u>			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash	\$ 22,858	\$ -	\$ -	\$ 22,858
Mutual funds	1,017,856	-	-	1,017,856
Fixed income funds	208,702	56,156	-	264,858
Equities	882,846	-	-	882,846
Certificates of deposit	-	28,555	-	28,555
	\$ 2,132,262	\$ 84,711	\$ -	\$ 2,216,973

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

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

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 6 - INVESTMENTS: (Continued)

The following schedule summarizes the mutual funds and equities by strategy as of December 31, 2016:

Mutual Funds:		Equities:	
Inflation-protected bonds	9%	Healthcare	11%
Global short-term bonds	18%	Technology	18%
Opportunistic bonds	18%	Energy	9%
U.S. small cap	5%	Financial	17%
International small cap	10%	Basic materials	5%
Emerging markets	16%	Industrial goods	7%
Global large cap	15%	Consumer goods	12%
Infrastructure	6%	Utilities	6%
Other	3%	Other	15%
Total Mutual Funds	<u>100%</u>	Total Equities	<u>100%</u>

NOTE 7 - OPERATING LEASES:

Cornerstone leases certain space relative to its operations and office equipment under operating leases expiring at various times through 2022. Cornerstone is obligated for future minimum lease payments under all leases, as follows:

Year Ended	Amount
2018	\$ 56,822
2019	53,792
2020	48,200
2021	40,104
2022	<u>6,684</u>
	<u><u>\$ 205,602</u></u>

Lease expense, for space related to operations and equipment rental and maintenance, was \$46,210 and \$48,831, respectively, for the years ended December 31, 2017 and 2016.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS:

Donor-restricted Endowment:

Cornerstone's permanently restricted net assets 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 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, 2017 and 2016, the fair market value of the investment which includes net appreciation and income reinvested was \$31,117 and \$27,801, 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, 2017 and 2016, 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, 2017 and 2016, the fair market value of the investment which includes net appreciation and income reinvested was \$22,385 and \$19,512, respectively.

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, 2017 and 2016. 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 FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS: (Continued)

Donor-restricted Endowment: (Continued)

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 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.

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.

Endowment Net Asset Composition by Type of Fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 45,751	\$ 8,505	\$ 54,256
Board-designated endowment funds	2,037,073	-	-	2,037,073
	\$ 2,037,073	\$ 45,751	\$ 8,505	\$ 2,091,329

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS: (Continued)

Changes in Endowment Net Assets, Including Board-designated Funds, for the Year Ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 1,879,476	\$ 39,559	\$ 8,505	\$ 1,927,540
Investment Return:				
Investment income	60,223	3,041	-	63,264
Net appreciation (realized and unrealized)	204,261	3,151	-	207,412
Total Investment Return	<u>264,484</u>	<u>6,192</u>	<u>-</u>	<u>270,676</u>
Contributions	-	-	-	-
Appropriation for expenditure	<u>(106,887)</u>	<u>-</u>	<u>-</u>	<u>(106,887)</u>
Endowment Net Assets, End of year	<u>\$ 2,037,073</u>	<u>\$ 45,751</u>	<u>\$ 8,505</u>	<u>\$ 2,091,329</u>

Board-designated Endowment: (Continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 39,559	\$ 8,505	\$ 48,064
Board-designated endowment funds	<u>1,879,476</u>	<u>-</u>	<u>-</u>	<u>1,879,476</u>
	<u>\$ 1,879,476</u>	<u>\$ 39,559</u>	<u>\$ 8,505</u>	<u>\$ 1,927,540</u>

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS: (Continued)

Changes in Endowment Net Assets, Including Board-designated Funds, for the Year Ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ 1,836,991	\$ 35,609	\$ 8,505	\$ 1,881,105
Investment Return:				
Investment income	26,569	1,644	-	28,213
Net appreciation (realized and unrealized)	136,139	2,306	-	138,445
Net Investment Return	162,708	3,950	-	166,658
Contributions	-	-	-	-
Appropriation for expenditure	(120,223)	-	-	(120,223)
Endowment Net Assets, End of year	<u>\$ 1,879,476</u>	<u>\$ 39,559</u>	<u>\$ 8,505</u>	<u>\$ 1,927,540</u>

NOTE 9 - LINE OF CREDIT:

Cornerstone has a \$300,000 line of credit, which was renewed on November 9, 2017, and expires on October 1, 2018. Bank advances on the credit line are payable on demand and carry an interest rate equal to Valley National Bank's prime rate (5.500% and 5.125% at December 31, 2017 and 2016, respectively). There was no balance outstanding on the line of credit as of December 31, 2017 or 2016. The line of credit is secured by all assets at 12 Flagler St., Morristown, New Jersey, with a net book value of approximately \$2.6 million.

NOTE 10 - PENSION 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, 2017 and 2016.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11 - 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 12 - TEMPORARILY RESTRICTED NET ASSETS:

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

	December 31,	
	2017	2016
"Plays for Living" series	\$ 20,585	\$ 17,712
Scholarships	304,360	311,278
Split-interest agreement	50,339	46,429
Other	4	4
 Total Temporarily Restricted Net Assets	 \$ 375,288	\$ 375,423

Net assets released from time and use restrictions for the years ended December 31, 2017 and 2016, amounted to \$43,000 and \$19,575, respectively, and are reflected on the accompanying consolidated statements of activities and changes in net assets.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 13 - MORTGAGES PAYABLE:

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,	
2018	\$ 21,614
2019	22,507
2020	23,359
2021	24,402
2022	25,411
Thereafter	616,778
	734,071
Less: Short-term maturities	(21,614)
Long-term maturities	\$712,457

**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.

For the year ended December 31, 2016, contributions made to UST were \$52,749 and unemployment claims paid to UST were \$32,717. A resulting balance of \$1,214 was recorded in the accompanying consolidated statement of financial position as of December 31, 2016, based on the difference between contributions made and interest earned, net of claims and expenses paid.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 15 - 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.

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

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	17-27-223	Expense Reimbursements	10/01/16 - 09/30/17	\$ 118,279
Child and Adult Care Food Program	10.558	18-27-223	Expense Reimbursements	10/01/17 - 09/30/18	<u>20,438</u>
Total U.S. Department of Agriculture					<u>138,717</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, 05/16- 1323	\$ 40,000	09/01/16 - 06/30/17	25,002
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	<u>7,804</u>
Total U.S. Department of Housing and Urban Development					<u>32,806</u>
				Total Federal Assistance	\$ 171,523

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2017

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	2017-2CFP	25,739	01/01/17 - 12/31/17	\$ 25,731
Passed through Morris County Board of Chosen Freeholders					
K.O. Boxing and Fitness Program	N/A	JJ-1608	5,000	01/01/17 - 12/31/17	5,000
Social Recreation	N/A	JJ-1604	14,516	01/01/17 - 12/31/17	14,516
Rites of Passage	N/A	JJ-1609	27,380	01/01/17 - 12/31/17	<u>27,380</u>
					46,896
State of New Jersey Department of Children and Families					
Parents as Teachers (PAT) Warren	N/A	17MKPP	162,000	01/01/17 - 12/31/17	<u>160,715</u>
				Total State Assistance	\$ 233,342

CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND
STATE AWARDS
DECEMBER 31, 2017

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedules 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 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 this schedule 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, 2017, 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, 2017, 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 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, 2017, 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 April 24, 2018.

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 24, 2018

**CORNERSTONE FAMILY PROGRAMS AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

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? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| • Significant deficiencies identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Noncompliance material to financial statements noted? Yes No