

CORNERSTONE ADVOCACY SERVICE

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

December 31, 2015 and 2014

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CORNERSTONE ADVOCACY SERVICE
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cornerstone Advocacy Service
Bloomington, Minnesota

We have audited the accompanying consolidated financial statements of Cornerstone Advocacy Service (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cornerstone Advocacy Service as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

May 4, 2016

CONSOLIDATED FINANCIAL STATEMENTS

CORNERSTONE ADVOCACY SERVICE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

Statement 1

	<u>2015</u>	<u>2014</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$2,101,910	\$1,751,214
Accounts and pledges receivable - operations	614,688	488,400
Prepaid expenses	66,273	49,080
Total current assets	<u>2,782,871</u>	<u>2,288,694</u>
Property and equipment - net	<u>4,703,008</u>	<u>4,810,564</u>
Other assets:		
Investments designated for long-term purposes	1,688,993	1,749,099
Long-term receivables	11,067	15,213
Unemployment trust - net	54,490	81,117
Security deposit	2,500	-
Total other assets	<u>1,757,050</u>	<u>1,845,429</u>
Total assets	<u><u>\$9,242,929</u></u>	<u><u>\$8,944,687</u></u>
Liabilities and net assets:		
Current liabilities:		
Current portion of long-term debt	\$18,000	\$ -
Accounts payable	52,233	35,952
Funds held for others	307,597	-
Accrued expenses	165,461	182,886
Deferred revenue	8,035	5,140
Total current liabilities	<u>551,326</u>	<u>223,978</u>
Long-term debt	490,692	491,740
Equity participation in facility	450,000	450,000
Total liabilities	<u>1,492,018</u>	<u>1,165,718</u>
Net assets:		
Unrestricted net assets:		
Undesignated	1,098,622	1,161,059
Designated for reserves	3,729,062	3,559,943
Total unrestricted net assets	<u>4,827,684</u>	<u>4,721,002</u>
Temporarily restricted	2,923,227	3,057,967
Total net assets	<u>7,750,911</u>	<u>7,778,969</u>
Total liabilities and net assets	<u><u>\$9,242,929</u></u>	<u><u>\$8,944,687</u></u>

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

CORNERSTONE ADVOCACY SERVICE
CONSOLIDATED STATEMENTS OF ACTIVITIES
For The Years Ended December 31, 2015 and 2014

Statement 2

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Governmental agencies	\$ 2,597,543	\$ -	\$2,597,543	\$ 2,451,407	\$ -	\$2,451,407
Contributions	867,038	107,500	974,538	814,161	297,389	1,111,550
Special fundraising event (net of expenses of \$14,259 and \$15,326)	89,976	21,886	111,862	107,703	36,066	143,769
In-kind contributions	132,673	11,799	144,472	159,591	33,080	192,671
Program, registration and user fees	23,377	-	23,377	73,576	-	73,576
Interest and dividends	69,637	-	69,637	97,704	-	97,704
Rental revenue and subsidy	50,019	-	50,019	49,804	-	49,804
Miscellaneous income	101,405	-	101,405	87,555	-	87,555
Subtotal	3,931,668	141,185	4,072,853	3,841,501	366,535	4,208,036
Net assets released from restrictions	275,925	(275,925)	-	376,552	(376,552)	-
Total support and revenue	4,207,593	(134,740)	4,072,853	4,218,053	(10,017)	4,208,036
Expenses:						
Program services	3,248,375	-	3,248,375	2,940,442	-	2,940,442
Support services	742,938	-	742,938	817,834	-	817,834
Total expenses	3,991,313	0	3,991,313	3,758,276	0	3,758,276
Change in net assets - operating	216,280	(134,740)	81,540	459,777	(10,017)	449,760
Other changes in net assets:						
Change in fair value of investments	(109,598)	-	(109,598)	(9,380)	-	(9,380)
Other non-operating expense	-	-	-	(2,940)	-	(2,940)
Total other changes in net assets	(109,598)	0	(109,598)	(12,320)	0	(12,320)
Change in net assets	106,682	(134,740)	(28,058)	447,457	(10,017)	437,440
Net assets at beginning of year	4,721,002	3,057,967	7,778,969	4,273,545	3,067,984	7,341,529
Net assets at end of year	\$4,827,684	\$2,923,227	\$7,750,911	\$4,721,002	\$3,057,967	\$7,778,969

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

CORNERSTONE ADVOCACY SERVICE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended December 31, 2015 and 2014

	2014 Program Services										2014 Support Services		
	Emergency Services Program	Community Services Program	Criminal Justice Intervention Program	Clinical Services Program	Children, Youth & Families Program	Volunteer Program	Day One Minnesota Program	Total Program Services	Management and General	Fundraising	Total Support Services	2014 Total	
Expenses:													
Salaries and related expenses:													
Salaries and wages	\$500,160	\$284,786	\$306,884	\$61,113	\$404,162	\$23,228	\$161,007	\$1,741,340	\$357,811	\$115,331	\$473,142	\$2,214,482	
Payroll tax expense	37,639	21,473	23,237	4,408	30,466	1,777	12,105	\$131,105	27,403	7,801	35,204	166,309	
Employee benefits	58,193	39,950	24,809	5,519	40,987	960	21,576	\$191,994	47,917	13,107	61,024	253,018	
In-kind salaries	10,775	7,767	-	-	-	-	-	\$18,542	-	-	-	18,542	
Staff development	2,456	17,960	1,274	128	3,670	83	1,839	\$27,410	1,033	683	1,716	29,126	
Contract labor	14,873	8,869	3,841	34,562	14,724	202	14,562	\$91,633	104,787	1,115	105,902	197,535	
Total salaries and related expenses	624,096	380,805	360,045	105,730	494,009	26,250	211,089	2,202,024	538,951	138,037	676,988	2,879,012	
Direct program expense	132,538	67,792	11,423	695	28,543	3,186	74,370	318,547	15,996	7,929	23,925	342,472	
Other program expense:													
Supplies	812	1,360	1,965	95	1,419	83	649	6,383	2,224	610	2,834	9,217	
Printing	111	3,098	1,624	105	1,650	182	3,738	10,508	663	1,071	1,734	12,242	
Dues and subscriptions	909	1,247	56	5	278	4	22	2,521	3,211	647	3,858	6,379	
Professional fees	-	-	-	-	-	-	600	600	18,330	-	18,330	18,930	
Postage	61	388	374	33	548	26	161	1,591	424	1,010	1,434	3,025	
Interest	2,289	9,790	1,174	103	1,597	83	483	15,519	657	456	1,113	16,632	
Other	747	380	372	33	483	26	153	2,194	36,360	1,990	38,350	40,544	
Facilities expense:													
Rental	-	43,872	21,954	-	-	-	-	65,826	-	-	-	65,826	
Utilities	16,189	27,539	8,308	730	11,298	589	3,420	68,073	4,643	3,227	7,870	75,943	
Telephone	3,310	2,188	2,316	116	1,799	101	23,626	33,456	1,387	649	2,036	35,492	
Repairs and maintenance	9,164	18,136	2,440	222	3,334	255	1,004	34,555	17,603	947	18,550	53,105	
Equipment rental and other	5,630	64	65	6	10,562	5	3,027	19,359	36	25	61	19,420	
Depreciation and amortization	36,719	46,284	18,842	1,657	25,635	1,336	9,903	140,376	10,531	7,320	17,851	158,227	
Insurance	4,795	6,132	2,264	642	2,149	112	2,816	18,910	2,286	614	2,900	21,810	
Total expenses	\$837,370	\$609,075	\$433,222	\$110,172	\$583,304	\$32,238	\$335,061	\$2,940,442	\$653,302	\$164,532	\$817,834	\$3,758,276	

CORNERSTONE ADVOCACY SERVICE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2015 and 2014

Statement 4

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	(\$28,058)	\$437,440
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	163,326	158,227
Other non-operating expense	-	2,940
Noncash donated equipment and website	(11,799)	(40,638)
Amortization of debt present value discount	16,952	16,355
Change in fair value of investments	109,598	9,380
Changes in assets and liabilities:		
(Increase) decrease in receivables	(122,142)	(84,412)
(Increase) decrease in unemployment trust	26,627	(9,717)
(Increase) decrease in prepaid expenses	(17,193)	50,206
(Increase) decrease in security deposit	(2,500)	-
Increase (decrease) in accounts payable	16,281	(12,686)
Increase (decrease) in accrued expenses	(17,425)	56,900
Increase (decrease) in funds held for others	307,597	-
Increase (decrease) in deferred revenue	2,895	1,228
Net cash provided by operating activities	<u>444,159</u>	<u>585,223</u>
Cash flows from investing activities:		
Capital expenditures	(43,971)	(89,276)
Purchase of investments	(67,285)	(90,582)
Sale or maturity of investments	17,793	17,476
Net cash used in investing activities	<u>(93,463)</u>	<u>(162,382)</u>
Net increase in cash and cash equivalents	350,696	422,841
Cash and cash equivalents at beginning of year	<u>1,751,214</u>	<u>1,328,373</u>
Cash and cash equivalents at end of year	<u><u>\$2,101,910</u></u>	<u><u>\$1,751,214</u></u>
Supplemental information:		
Noncash investing transactions:		
Donated equipment and website	<u><u>\$11,799</u></u>	<u><u>\$40,638</u></u>

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

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

Cornerstone Advocacy Service (the Agency) is a Minnesota not-for-profit corporation formed to provide a continuum of service to victims of domestic and sexual violence, human trafficking and their children. The Agency's services address the immediate crisis, the aftermath and the long term needs of women, children, and families struggling to obtain safety, security and long term social and emotional health. The Agency's primary service areas include: Minneapolis, Bloomington, Eden Prairie, Edina, Richfield, St. Louis Park, Robbinsdale, Crystal, Brooklyn Center, Brooklyn Park, and Maple Grove. In addition, Cornerstone manages the program, Day One, which supports a network of 82 Minnesota domestic violence and sexual assault agencies by facilitating the statewide toll free crisis line and the secure website that tracks in real-time available bed space and services.

National Day One, LLC, a wholly owned subsidiary of the Agency, was established in April 2008 as a Minnesota limited liability company. National Day One, LLC supports bringing the Day One model beyond the borders of Minnesota to other states in the country. For purposes of the consolidated financial statements, "the agency" refers to both Cornerstone Advocacy Service and National Day One, LLC.

B. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Cornerstone and National Day One, LLC. All intercompany transactions have been eliminated. These consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

C. CASH AND CASH EQUIVALENTS

The Agency defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of six months or less. Cash on deposit in excess of FDIC and similar insurance coverages are subject to the usual banking risks of funds in excess of those limits. Balances from time-to-time may exceed FDIC limits.

D. RECEIVABLES

The Agency's 2015 overall accounts receivable balance is deemed collectible. The majority (71%) is supported by contracts negotiated with governmental agencies and commitments from foundations. Historically, all governmental contracts and foundation receivables have been collected therefore no allowance is considered necessary. Approximately 7% of the Agency's accounts receivables are large individual pledges from annual fundraising events. Large pledges are defined as those which have an outstanding balance greater than \$500. The point in time that delinquency becomes apparent for large pledges is a matter of Agency policy. In addition to other considerations, the policy includes a review of the Agency's relationship with the donor. Once a large pledge is considered delinquent they are sent a final pledge reminder. The most recent pledge reminders were sent out in March 2016. Once a large pledge is determined to be uncollectible, it is written off.

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

E. INVESTMENTS

The Agency carries investments in marketable securities with readily determinable fair values and all investments in fixed income securities at fair value using quoted market prices. Unrealized gains and losses are included in the change in net assets in the Consolidated Statements of Activities.

The Agency's investments are exposed to various risks, such as interest rate and overall market volatility. However, the Agency's Investment Policy is designed to manage investment risk while optimizing returns.

F. PROPERTY AND EQUIPMENT, FINANCING COSTS, INTELLECTUAL PROPERTY

Property and equipment are stated at cost if purchased or fair market value at date of the gift if donated. All acquisitions of property and equipment and all expenditures for betterments that materially prolong the useful lives of assets are capitalized. The Agency capitalization threshold is for property and equipment which exceed \$2,500. Maintenance, repairs and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated using the straight-line method over the estimated useful lives, which are principally 3-15 years for furniture and equipment, principally 15-40 years for building and improvements, and principally 5 years for the website.

Financing costs are amortized over the life of the related debt.

Intellectual property consists of a trademark for Day One. Intangible assets are amortized over a 15 year period.

G. NET ASSETS

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

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Agency. The Agency currently has no permanently restricted net assets.

H. SERVICE FEES AND REVENUE CONCENTRATION

The Agency contracts with Minnesota Department of Public Safety to provide room and board and other services based on actual expenditures. Revenue from these activities and other service revenues are recognized as the services are provided. The Agency receives approximately 39% and 36% of its support and revenue from the Minnesota Department of Public Safety for 2015 and 2014, respectively.

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

I. REVENUE RECOGNITION

Contributions, including unconditional promises to give (pledges), are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Agency's policy is to imply a time restriction on gifts for land, buildings and equipment that expire over the useful life of the asset.

J. GOVERNMENT GRANTS RECEIVABLE AND REVENUE

Grants are recorded as receivables in the year made. Government grants are typically restricted for use on specific programs and/or are conditional upon uncertain future events. Advances and/or revenue from such grants are deferred until such conditions are met or services are rendered.

Rental revenue includes \$23,322 and \$29,001 of Section 8 assistance from the federal government for the years ended December 31, 2015 and 2014, respectively.

K. EXPENSE ALLOCATION

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

L. DONATED SERVICES, MATERIALS AND GOODS

Donated goods and materials are recorded at fair value at the date of donation. The Agency receives products and supplies including, but not limited to, water, food, temporary housing and goods from other businesses.

GAAP requires that donated services be recognized only if they would typically need to be purchased, require a specialized skill, and are performed by an individual possessing that skill, or if they create or enhance a nonfinancial asset. The Agency has recorded donated professional services that met the recognition criteria of GAAP consisting of legal, clinical, development, residential and administrative professional to ensure the success of the programs.

The services of some volunteers have not been reflected in the statements as donated services, since such services do not meet the recognition criteria of GAAP.

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

M. TAX-EXEMPT STATUS

The Agency (including National Day One, LLC) has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Agency has not had any material unrelated business income.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the Agency has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

N. FINANCIAL AWARDS FROM GRANTORS

Financial awards from federal, state and local governments in the form of grants are subject to an agency audit. Such audits could result in claims against the Agency for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

O. ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 PROPERTY AND EQUIPMENT

The major categories of property and equipment at December 31 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Land	\$1,646,910	\$1,646,910
Building and improvements	4,255,487	4,252,530
Furniture and equipment	926,185	919,819
Website	125,137	112,338
Intellectual property	1,435	1,435
Financing costs	770	770
Website in progress	32,700	-
Total property and equipment	<u>6,988,624</u>	<u>6,933,802</u>
Less: Accumulated depreciation and amortization	<u>(2,285,616)</u>	<u>(2,123,238)</u>
Net property and equipment	<u><u>\$4,703,008</u></u>	<u><u>\$4,810,564</u></u>

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

Depreciation and amortization expense for the years ended December 31 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Depreciation	\$162,778	\$157,789
Amortization	<u>548</u>	<u>438</u>
Total	<u><u>\$163,326</u></u>	<u><u>\$158,227</u></u>

Note 3 NET ASSETS

Unrestricted net assets at December 31 are composed of:

	<u>2015</u>	<u>2014</u>
Undesignated	\$1,098,622	\$1,161,059
Designated for operating and capital reserve	<u>3,729,062</u>	<u>3,559,943</u>
Total	<u><u>\$4,827,684</u></u>	<u><u>\$4,721,002</u></u>

Temporarily restricted net assets at December 31 are composed of:

	<u>2015</u>	<u>2014</u>
Program activities	\$344,676	\$382,385
Capital campaign/time restriction	2,276,338	2,356,417
Debt present value discount	<u>302,213</u>	<u>319,165</u>
	<u><u>\$2,923,227</u></u>	<u><u>\$3,057,967</u></u>

Net assets released from restrictions during the years ended December 31 consist of the following:

	<u>2015</u>	<u>2014</u>
Time and purpose program restrictions	\$167,095	\$271,418
Implied time restriction on long-lived assets	91,878	88,779
Amortization of debt present value discount	<u>16,952</u>	<u>16,355</u>
	<u><u>\$275,925</u></u>	<u><u>\$376,552</u></u>

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 4 IN-KIND CONTRIBUTIONS

In-kind contributions for the years ended December 31 included the following:

	<u>2015</u>	<u>2014</u>
Contributed services	\$14,530	\$18,542
Housing	58,126	58,926
Equipment and website	13,849	40,638
Other	<u>57,967</u>	<u>74,565</u>
Total	<u>\$144,472</u>	<u>\$192,671</u>

In addition to the amounts above, approximately 8,876 and 9,651 hours were volunteered during 2015 and 2014, respectively, that did not meet the criteria for recognition.

Note 5 ACCOUNTS AND PLEDGES RECEIVABLE

Unconditional promises to give and other receivables at December 31 as follows:

	<u>2015</u>	<u>2014</u>
Unconditional promises to give	\$182,579	\$166,858
Governmental contracts receivable	<u>443,176</u>	<u>336,755</u>
Total	<u>\$625,755</u>	<u>\$503,613</u>

Collection of unconditional promises to give and accounts receivable is expected as follows:

	<u>2015</u>	<u>2014</u>
Due in one year	\$614,688	\$488,400
Due in two to five years	11,315	15,540
Less: Present value discount	<u>(248)</u>	<u>(327)</u>
Total	<u>\$625,755</u>	<u>\$503,613</u>

Note 6 LONG-TERM DEBT

Included in long-term debt are debts which are payable at the end of their term but at a low or no interest rate. Most of this indebtedness was discounted to reflect the market interest rate and present value of the debt. The effective interest rate at the date of the loan was used to discount the debt and ranges from 3.00% to 4.50%.

The discounts are amortized over the life of the loan and the regularly scheduled amortization is included in interest expense. Accelerated amortization relates to discounted loans that were paid off prior to the original due date and

CORNERSTONE ADVOCACY SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

represents the remaining unamortized balance at the time the loan is paid. Accelerated amortization is presented separately with other changes in net assets.

Discount amortization for the years ended December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Interest expense	<u>\$16,952</u>	<u>\$16,355</u>

The following schedule of the debt reflects the current values of the outstanding loans at December 31:

	<u>2015</u>	<u>2014</u>
Mortgage loan payable, Minnesota Housing Finance Agency, Housing Trust Fund Program, face value of \$18,000, due April 2016, collateralized by certain houses.	\$18,000	\$17,475
Mortgage loan payable, Minnesota Housing Finance Agency, McKinney Transitional Housing Program, face value of \$190,027, due September 2023, collateralized by a certain building.	139,636	133,623
Note payable, Hennepin County, State of Minnesota, face value of \$182,156, due December 2027, collateralized by land and houses.	61,163	59,004
Note payable, Minnesota Housing Finance Agency, Housing Trust Fund Program, face value of \$100,000, due October 2036, collateralized by a certain building.	54,303	52,670
Note payable, Minnesota Housing Finance Agency, Housing Trust Fund Program, face value of \$218,377, due October 2036, collateralized by a certain building.	122,262	118,586
Note payable, Hennepin County Housing and Redevelopment Authority, Trust Fund Program, face value of \$75,000, due October 2035, collateralized by a certain building.	41,991	40,728
Note payable, Family Housing Fund of Minneapolis and St. Paul, face value of \$100,000, due October 2035, collateralized by a certain building.	55,987	54,304
Note payable, City of Eden Prairie, rehabilitation grant of \$15,350. Within 5 years of March 2012, if the rehabilitated property is sold, transferred or otherwise conveyed, the grant must be repaid with interest calculated at 5%.	15,350	15,350
Total	<u>508,692</u>	<u>491,740</u>
Less: Current portion	<u>(18,000)</u>	<u>-</u>
Long-term portion	<u>\$490,692</u>	<u>\$491,740</u>

Included in long-term debt are several loans and notes which may be forgivable if the agency continues to meet the terms of the applicable agreement.

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Principal requirements on long-term debt for years ending after December 31, 2015 are as follows:

2016	\$18,000
2017	15,350
2018	-
2019	-
2020	-
2021 and thereafter	<u>475,342</u>
Total	<u>\$508,692</u>

Note 7 **SHORT-TERM DEBT**

The Agency had a line of credit with a maximum of \$100,000 with a 6.75% interest rate which expired on May 1, 2015. The line was collateralized by furniture and equipment and receivables. At that time, the line was converted to an unsecured credit card with a maximum of \$100,000 and a 10.00% interest rate which automatically renews annually. The line of credit was unused during 2015 and 2014. The credit card had no balance due at December 31, 2015.

Note 8 **EQUITY PARTICIPATION AGREEMENTS**

During 2000, the Agency entered into an equity participation agreement with the Housing and Redevelopment Authority in and for the City of Bloomington (BHRA) through conversion of a previous financing agreement in the amount of \$250,000. The BHRA has equity in the building based on terms of the equity participation agreement and will be repaid upon sale of the building.

During 2004, the Agency entered into an equity participation agreement with the City of Bloomington, by way of a grant in the amount to \$200,000. The City has equity in the building based on terms of the equity participation agreement and will be paid upon sale of the building.

Note 9 **RETIREMENT PLAN**

The Agency contributes to a defined contribution retirement plan which covers substantially all employees after a specified period of service. Discretionary contributions are determined annually by the Board and are allocated to participants based on percentages of their eligible compensation. Contributions made under the plan for 2015 and 2014 were \$52,411 and \$35,838, respectively.

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Note 10 GOVERNMENT AGENCY REVENUE

Revenue from governmental agencies includes the following funding sources for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Federal	\$501,265	\$553,362
State	1,153,102	1,052,783
County, city and other	<u>943,176</u>	<u>845,262</u>
Totals	<u>\$2,597,543</u>	<u>\$2,451,407</u>

State agency revenue includes housing and service revenue of \$858,286 and \$826,630 for 2015 and 2014, respectively.

Note 11 FAIR VALUE MEASUREMENTS

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

Assets or liabilities that are measured at fair value on a recurring basis are as follows at December 31:

	<u>Level 1</u>	
	<u>2015</u>	<u>2014</u>
Mutual and exchange funds:		
Money market	\$27,535	\$82,969
Equity	1,084,663	1,112,513
Bonds	<u>576,795</u>	<u>553,617</u>
	<u>\$1,688,993</u>	<u>\$1,749,099</u>

Mutual funds are valued using quoted market prices.

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Note 12 UNEMPLOYMENT TRUST

The Agency self-insures for Minnesota unemployment via the Unemployment Services Trust. The Unemployment Trust balance per contract would be fully refunded to the Agency upon payment of all outstanding unemployment claims. The balance of the Unemployment Trust is based on an estimate of actual claims. The net recorded balance at December 31, 2015 was \$54,490 which consists of a gross balance of \$61,965 less estimated claim liability of \$7,475. The net recorded balance at December 31, 2014 was \$81,117 which consisted of a gross balance of \$82,667 less estimated claim liability of \$1,550.

Note 13 FUNDS HELD FOR OTHERS

The Agency has a funds transfer agreement with another charitable organization that is in process of closing down operations. Per the agreement, the Agency is acting as fiduciary agent and is disbursing funds related to the dissolution of the organization as the costs are incurred. At the end of the fiduciary period, any remaining funds will be distributed to several named beneficiaries, including 25% to the Agency. That amount, if any, is not determinable at this time.

Funds held for others at December 31, 2015 and 2014 were \$307,597 and \$0, respectively.

Note 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 4, 2016, the date the consolidated financial statements were available to be issued.