

**CORNERSTONE COMMUNITY
OUTREACH**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
(Including Reports Required by
OMB Circular A-133)**

For Year Ended December 31, 2012

CORNERSTONE COMMUNITY OUTREACH

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
Cornerstone Community Outreach
Chicago, IL

We have audited the accompanying financial statements of Cornerstone Community Outreach (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior-year summarized information has been derived from the Organization's 2011 financial statements, and, in our report dated July 6, 2012, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Cornerstone Community Outreach as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued a report dated January 10, 2014 on our consideration of Cornerstone Community Outreach's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Cornerstone Community Outreach's internal control over financial reporting and compliance.

Desmond & Ahern, Ltd

January 10, 2014
Chicago, IL

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FINANCIAL POSITION
As of December 31, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current Assets		
Cash	\$ 126,017	\$ 2,728
Government contributions receivable	288,551	467,938
Contributions receivable	117,942	99,164
Other receivables	189	189
Deposits	522	10,886
Total current assets	<u>533,221</u>	<u>580,905</u>
Property and Equipment		
Land	355,947	355,947
Buildings and improvements	4,665,317	4,665,317
Construction in progress	571,148	515,438
Furniture and equipment	324,364	324,363
Vehicles	30,206	30,206
	<u>5,946,982</u>	<u>5,891,271</u>
Less accumulated depreciation	<u>(2,496,134)</u>	<u>(2,317,527)</u>
Net property and equipment	<u>3,450,848</u>	<u>3,573,744</u>
Other Assets		
Prepaid maintenance agreement	21,731	21,731
Debt issue costs, net of amortization of \$7,643	15,982	17,163
Total Assets	<u>\$ 4,021,782</u>	<u>\$ 4,193,543</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 343,760	\$ 295,495
Line of credit and bank overdraft	500,000	503,255
Accounts payable	189,735	201,022
Accrued payroll and related expenses	159,010	103,169
Accrued interest	70,124	29,106
Refundable advances	26,240	16,873
Total current liabilities	<u>1,288,869</u>	<u>1,148,920</u>
Long-Term Debt		
Long-term debt, net of current portion	<u>2,392,765</u>	<u>2,519,824</u>
Total liabilities	<u>3,681,634</u>	<u>3,668,744</u>
Net Assets		
Unrestricted	289,848	458,590
Temporarily restricted	50,300	66,209
	<u>340,148</u>	<u>524,799</u>
Total Liabilities and Net Assets	<u>\$ 4,021,782</u>	<u>\$ 4,193,543</u>

See independent auditor's report and notes to financial statements.

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012 (with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
<u>Public Support and Revenue</u>				
Chicago Department of Family and Support Services	\$ 1,501,035	\$ -	\$ 1,501,035	\$ 1,736,460
Chicago Department of Community Development	93,168	-	93,168	90,948
U.S. Dept. of Housing and Urban Development	248,404	-	248,404	240,465
Illinois State Board of Education	203,080	-	203,080	199,005
Contributions	849,194	25,000	874,194	739,008
Client fees	46,685	-	46,685	55,483
Donated food	762,378	-	762,378	723,137
Donated equipment - capitalized	-	-	-	34,489
Donated services	-	-	-	7,600
Other	1,334	-	1,334	7,208
Net assets released from restrictions - satisfaction of program restrictions	40,909	(40,909)	-	-
Total public support and revenue	3,746,187	(15,909)	3,730,278	3,833,803
<u>Expenses</u>				
Program Services				
Leland Permanent Housing	291,340	-	291,340	288,332
Chronic Homeless Initiative	38,337	-	38,337	29,791
Hannah Interim Housing	642,877	-	642,877	881,422
Naomi Interim Housing	1,416,226	-	1,416,226	1,424,752
Sylvia Interim Housing	1,089,112	-	1,089,112	870,025
Computer and life skills	115,064	-	115,064	112,972
Other	111,738	-	111,738	51,304
Total program services	3,704,694	-	3,704,694	3,658,598
Management and general	198,733	-	198,733	254,794
Fundraising	11,502	-	11,502	13,889
Total expenses	3,914,929	-	3,914,929	3,927,281
Change in net assets	(168,742)	(15,909)	(184,651)	(93,478)
Net assets, beginning of year	458,590	66,209	524,799	618,277
Net assets, end of year	\$ 289,848	\$ 50,300	\$ 340,148	\$ 524,799

See independent auditor's report and notes to financial statements.

**CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012 (with comparative totals for 2011)**

	Program Services	Management and General	Fundraising	2012 Total	2011 Total
Functional Expenses					
Salaries and wages	\$ 1,281,404	\$ 95,779	\$ -	\$ 1,377,183	\$ 1,353,256
Fringe benefits and related taxes	546,671	39,448	-	586,119	612,534
Professional fees	17,108	23,339	-	40,447	63,819
Donated food	762,378	-	-	762,378	723,137
Donated services	-	-	-	-	7,600
Food	81,417	28	-	81,445	79,132
Client assistance	87,598	-	-	87,598	94,778
Supplies and small equipment purchases	144,452	1,891	5,898	152,241	132,173
Travel	31,662	1,151	-	32,813	47,419
Conferences and education	93	60	-	153	140
Postage and shipping	774	74	1,531	2,379	2,555
Printing and publications	21	-	4,073	4,094	9,713
Dues and subscriptions	362	513	-	875	1,621
Telephone	27,478	104	-	27,582	27,925
Occupancy	172,830	1,102	-	173,932	189,391
Repairs and maintenance	72,218	1,108	-	73,326	76,544
Insurance	98,220	578	-	98,798	88,632
Interest	201,353	12,147	-	213,500	181,895
Bank fees, fines and penalties	108	8,923	-	9,031	8,307
Miscellaneous	799	10,449	-	11,248	21,347
Bad debts expense	-	-	-	-	25,023
Depreciation and amortization	177,748	2,039	-	179,787	180,340
Total Expenses	\$ 3,704,694	\$ 198,733	\$ 11,502	\$ 3,914,929	\$ 3,927,281

See independent auditor's report and notes to financial statements.

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - funding agencies	\$ 3,064,834	\$ 2,828,038
Cash received - client fees	46,685	55,483
Cash received - other	1,334	7,208
Payments for interest	(172,482)	(175,746)
Payments for wages and other operating expenses	<u>(2,682,578)</u>	<u>(2,585,200)</u>
Net cash provided by operating activities	<u>257,793</u>	<u>129,783</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	<u>(55,710)</u>	<u>(246,338)</u>
Net cash used by investing activities	<u>(55,710)</u>	<u>(246,338)</u>
<u>Cash Flows from Financing Activities</u>		
Reduction of long-term debt	(78,794)	(119,113)
Net change in short-term borrowings	<u>-</u>	<u>197,072</u>
Net cash (used) provided by financing activities	<u>(78,794)</u>	<u>77,959</u>
Net increase (decrease) in cash	123,289	(38,596)
Cash, beginning of year	<u>2,728</u>	<u>41,324</u>
Cash, end of year	<u>\$ 126,017</u>	<u>\$ 2,728</u>
<u>Reconciliation of Change in Net Assets to Net Cash</u>		
<u>Provided by Operating Activities</u>		
Change in net assets	\$ (184,651)	\$ (93,478)
Depreciation	178,606	179,159
Amortization	1,181	1,181
Donated equipment - capitalized	-	(34,489)
Decrease (increase) in assets		
Government contributions receivable	179,387	(130,144)
Contributions and other receivables	(18,778)	(18,960)
Deposits	10,364	(8,922)
Prepaid maintenance contract	-	(21,731)
Increase (decrease) in liabilities		
Accounts payable	(11,287)	151,572
Refundable advances	9,367	(3,721)
Bank overdrafts	(3,255)	3,255
Accrued payroll and related expenses	55,841	99,912
Accrued interest	<u>41,018</u>	<u>6,149</u>
Net Cash Provided by Operating Activities	<u>\$ 257,793</u>	<u>\$ 129,783</u>

See independent auditor's report and notes to financial statements.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization

Cornerstone Community Outreach is a not-for-profit Illinois corporation exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization is not considered to be a private foundation. The Organization was formed in 1990 to operate a charitable community development program that improves the quality of life for disadvantaged, displaced and under-privileged people in the Uptown neighborhood of Chicago.

The programs that address the individual needs and different stages towards permanent housing are:

Permanent Housing

Leland Permanent Housing with Supportive Services - located a few blocks from Cornerstone Community Outreach offices, this site offers permanent housing to 18 families comprised primarily of women with children. These families live in 2 or 3 bedroom apartments and receive support services. This program supports families whose needs continue beyond affordable housing, and provides these mothers with both affordable housing and tools to build a more stable future for themselves and their children.

Chronic Homeless Initiative - this program is permanent housing with supportive services for the chronically homeless. It provides rent subsidies, additional supportive services and direct client assistance dollars as needed on a case by case basis.

Interim Housing for Families and Single Adults

These shelters provide approximately 120 days of housing, nutritious meals, clothing, group and individual counseling, individualized case management, nursing, as needed mental health assessments, life-skills training, substance abuse counseling, money management, job assessment, job readiness, job referral, computer training classes, housing relocation assistance, and afterschool programs for kids. These programs operate year round and include:

Hannah Interim Housing – shelters 65 women with children and a small number of couples with children. This program is handicap accessible. As the Organization's longest running shelter program for over 20 years, it has enabled hundreds of families to move from homelessness to stable housing.

Naomi Interim Housing – serves 190 single women and men. Providing 24 hour shelter and casework services including the other services mentioned above.

Sylvia Interim Housing – serves over 160 women with children, men with children and couples with children and has been welcoming homeless families since 2001. This program supports these family groups and gives them much needed shelter and services.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Supportive Services

In addition to the housing services, individual support services are offered including:

Computer and Life Skills offering life-skills training, substance abuse counseling, money management, job assessment and referral, computer classes, and housing relocation assistance.

Other Programs

Dinner Guest Program serves 175 - 250 nutritious free meals one day per week to anyone in need.

Childcare Program provides tutoring and recreation for *Hannah* and *Sylvia House* kids, ages five through ten, Tuesday through Friday from 2:30 to 4:30 p.m. Activities include team-building games, strategy and learning board games, outings, art projects, sports, and onsite summer camps.

Food Bag Program hands out more than 200 food bags each week to those in need in the area.

Community Support Advisory Council assists ex-offenders in their transition back into society.

The Free Store allows individuals walking through the doors to receive household items and clothing. The items in the *Free Store* are from many sources, but mostly from the kindness of individuals who want to donate what they have.

Income Tax Status

Cornerstone Community Outreach was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax exempt purpose of the Organization and the nature in which it operates is described above. The Organization continues to operate in compliance with its tax exempt purpose.

The Organization's annual information and income tax returns filed with the federal and state governments are subject to examination for the statutory period. Tax returns are open for examination by the Internal Revenue Service for three years after filing. Thus, returns for the years 2010 through 2012 remain open.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, payable, and other liabilities.

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets, as required by Generally Accepted Accounting Principles (GAAP).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

Cash consists of bank deposits in federally insured accounts. At December 31, 2012, the Organization's cash accounts were within federally insured limits.

Property and Equipment

Expenditures for property and equipment and items, which substantially increase the useful lives of existing assets, are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are:

Building and improvements	7 - 30 years
Furniture and equipment	5 - 7 years
Vehicles	3 - 5 years

Support and Revenue

The Organization 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, 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 statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Government Contributions

Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition of eligible expenses are incurred. These expenditures are subject to audit and acceptance by the granting Organization and, as a result of such audit, adjustments could be required.

Concentration of Risk

During the year ended December 31, 2012, the Organization received approximately 55% of its funding from various government agencies and 14% from Jesus People USA. Additionally, donated food represented 20% of public support and revenue. Following is a breakdown by funding agency of the portion of the Organization's revenue from government agencies for the year ending December 31, 2012 and the grants receivable at December 31, 2012:

	<u>% of Total Revenue</u>	<u>Government Contributions Receivable</u>
Chicago Department of Family and Supportive Services	40%	84%
Chicago Department of Community Development	3%	0%
U.S. Department of Housing and Urban Development	7%	11%
Illinois State Board of Education	5%	5%
	<u>55%</u>	<u>100%</u>

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization did not receive any donated services during the year ended December 31, 2012.

There are, however, a substantial number of volunteers who donate their time toward the activities and success of the Organization, the value of which is not recognized under generally accepted accounting principles. During the year ending December 31, 2012, these volunteer hours exceeded 43,069.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase donation revenues by a like amount. For the year ended December 31, 2012, this amounted to \$762,378 in donated food received and distributed.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Compensated Absences

Employees of the Organization are entitled to paid vacation, sick and personal days off, depending on job classification, length of service and other factors. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees. The estimated liability is not material at December 31, 2012, and therefore, no accrual has been recorded in the accompanying financial statements.

Functional Expenses - Allocation of Joint Costs

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on time analysis, space utilization, and unit consumption.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class, which does not provide sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such prior year information should be read in conjunction with the Organization's audited financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Note 2 – Conditional Promises to Give

The Organization has received the following conditional promises to give which are not recognized as assets in the statement of financial position as of December 31, 2012:

	<u>Term</u>	<u>Grant Amount</u>	<u>Advanced, Forfeited or Earned as of 12/31/2012</u>	<u>Funding Available</u>
Conditional Promises to Give Upon Expenditure of Funds:				
U. S. Department of Housing and Urban Development				
Supportive Housing Program - Leland	3/1/12 to 2/28/13	\$ 132,224	\$ (110,188)	\$ 22,036
Supportive Housing Program - Life Skills	3/1/12 to 2/28/13	79,017	(65,846)	13,171
Chronic Homless Initiative Program	9/1/12 to 8/31/13	44,037	(5,312)	38,725
		<u>\$ 255,278</u>	<u>\$ (181,346)</u>	<u>\$ 73,932</u>

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Note 3 – Line of Credit

The Organization has a line of credit with National Covenant Properties, dated December 22, 2009, with a maximum limit of \$500,000, and a maturity date specified as being within 60 days of notice which had not occurred as of the report date January 10, 2014. At December 31, 2012, the outstanding balance was \$500,000. Interest accrues at a variable rate of prime plus 1%, but not less than 4%. The interest rate at December 31, 2012 was 4%. The line of credit is secured by a third mortgage on 4628 and 4615 N. Clifton and 4654 N. Malden Street, Chicago, Illinois.

Note 4 – Long-Term Debt

Long-term debt at December 31, 2012, consists of the following:

First mortgage note (on 4628 and 4615 N. Clifton building, with a book value of \$2,551,124 as of December 31, 2012) payable to the National Covenant Properties in monthly installments of \$13,888 through April 30, 2025, including interest at 5.75%	\$ 1,487,187
First mortgage note (on 1311 W. Leland, with a book value of \$855,528 as of December 31, 2012) payable to National Covenant Properties in monthly installments of \$9,321 through May 2027, including interest at 5.75%	1,079,759
Fourth mortgage note (on 4628 and 4615 N. Clifton building, with a book value of \$2,551,124 as of December 31, 2012) payable on demand to the National Covenant Properties, including interest at 4%, payable monthly.	169,579
	<u>2,736,525</u>
Less current principle installments	(343,760)
Net long-term debt	<u><u>\$ 2,392,765</u></u>

The future maturities of long-term debt are anticipated as follows:

<u>Years ended December 31,</u>	<u>Amount</u>
2013	\$ 343,760
2014	130,180
2015	138,680
2016	147,736
2017	187,382
Thereafter	1,788,787
	<u><u>\$ 2,736,525</u></u>

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Note 5 – Debt Issued Costs

Loan origination fees and other fees associated with the issuance of long-term debt amounted to \$23,625 and are amortized on the straight-line method over twenty years, the term of the associated debt. Amortization expense amounted to \$1,181 for the year ended December 31, 2012. Accumulated amortization was \$7,643 at December 31, 2012.

Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 are available for the following purposes:

Elevator project	\$ 21,572
Playground	2,312
Facility improvement	10,000
Glenn Palmberg projects	8,000
Fire alarm repair	3,960
Roof and masonry repair	2,453
Direct assistance to people in crisis or transition	1,718
Dressers for Hannah Interim Housing	285
	<hr/>
	\$ 50,300
	<hr/>

Note 7 – Related Party Transactions

Jesus People USA Evangelical Covenant Church (JPUSA) founded Cornerstone Community Outreach (CCO). JPUSA continues to share a common board with CCO and CCO is operated predominately by full-time JPUSA members. During the year ended December 31, 2012, JPUSA provided CCO with \$519,000 in contributions, including \$88,575 of unconditional promises to give that are included in contributions receivable.

Furthermore, the Executive Director, Board President, Board Secretary, and Board Treasurer, have spouses that are paid employees of the Organization.

Note 8 – Subsequent Event

For the fiscal year ended December 31, 2012, the Organization's management has evaluated subsequent events through January 10, 2014, which is the date the financial statements were available to be issued. No subsequent events have been identified that are required to be disclosed through that date.

SUPPLEMENTARY INFORMATION

CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENSES BY PROGRAM
For the Year Ended December 31, 2012

	Leland Permanent Housing	Chronic Homeless Initiative	Hannah Interim Housing	Naomi Interim Housing	Sylvia Interim Housing	Computer and Life Skills	Other Programs	Total Program
Expenditures								
Salaries and wages	\$ 85,272	\$ 3,388	\$ 229,929	\$ 482,430	\$ 362,445	\$ 72,875	\$ 45,065	\$ 1,281,404
Fringe benefits and related taxes	53,413	246	83,412	207,537	162,441	31,275	8,347	546,671
Professional fees	568	-	3,205	7,874	2,750	-	2,711	17,108
Donated food	-	-	133,188	337,352	287,645	-	4,193	762,378
Donated services	-	-	-	-	-	-	-	-
Food	1,161	-	13,995	36,246	29,034	8	973	81,417
Client assistance	685	29,417	4,102	31,468	9,779	-	12,147	87,598
Supplies and small equipment purchases	5,013	4,856	25,396	44,399	40,931	83	23,774	144,452
Travel	293	-	4,649	13,269	10,457	-	2,994	31,662
Conferences and education	-	-	3	8	7	-	75	93
Postage and shipping	-	-	132	344	285	-	13	774
Printing and publications	-	-	4	9	8	-	-	21
Dues and subscriptions	-	-	9	103	85	-	165	362
Telephone	4,425	-	6,119	9,798	6,934	58	144	27,478
Occupancy	19,338	-	33,612	84,548	32,148	425	2,759	172,830
Repairs and maintenance	13,972	-	8,437	17,641	30,886	32	1,250	72,218
Insurance	17,361	-	20,268	32,665	27,299	208	419	98,220
Interest	49,566	430	29,159	61,181	45,965	9,242	5,810	201,353
Bank fees, fines and penalties	-	-	19	48	40	-	1	108
Miscellaneous	100	-	98	199	39	276	87	799
Depreciation and amortization	40,173	-	47,141	49,107	39,934	582	811	177,748
Total Expenses	\$ 291,340	\$ 38,337	\$ 642,877	\$ 1,416,226	\$ 1,089,112	\$ 115,064	\$ 111,738	\$ 3,704,694

See independent auditor's report.

**REPORTS REQUIRED BY
OMB CIRCULAR A-133**

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Contract Number</u>	<u>Disbursements or Expenditures</u>
U.S. Department of Housing and Urban Development			
Supportive Housing Program			
March 1, 2011 to February 28, 2012	14.235	IL0158B5T101003	\$ 22,034
March 1, 2012 to February 28, 2013	14.235	IL0158B5T101104	110,188
Chronic Homeless			
September 1, 2011 to August 31, 2012	14.235	IL0391B5T101002	31,857
September 1, 2012 to August 31, 2013	14.235	IL0391B5T101103	5,312
Life Skills			
March 1, 2011 to February 28, 2012	14.235	IL0106B5T101003	13,167
March 1, 2012 to February 28, 2013	14.235	IL0106B5T101104	65,846
			<u>248,404</u>
Passed through the Chicago Department of Family and Support Services			
Community Development Block Grants			
Naomi Interim Housing			
January 1, 2012 to December 31, 2012	14.218	18337-30	523,351
Sylvia Center Interim Housing			
January 1, 2012 to December 31, 2012	14.218	18337-32	299,612 (1)
			<u>822,963</u>
Total U.S. Department of Housing and Urban Development			<u>1,071,367</u>
U.S. Department of Agriculture			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program			
October 1, 2012 to September 30, 2013	10.558	15-016-675P-00	203,080
Passed through the Greater Chicago Food Depository			
Emergency Food Assistance Program			
	10.569	Not available	97,972
Total U.S. Department of Agriculture			<u>301,052</u>
U.S. Department of Health and Human Services			
Passed through the Chicago Department of Family and Support Services			
Community Services Block Grant			
January 1, 2012 to December 31, 2012	93.569	18837-36	305,766 (1)
Total U.S. Department of Health and Human Services			<u>305,766</u>
Total Expenditures of Federal Awards			<u>\$ 1,678,185</u>

See accompanying notes to schedule of federal awards.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2012**

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the Federal grant activity of Cornerstone Community Outreach under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cornerstone Community Outreach, it is not intended to and does not present the financial position, changes in net assets or cash flows of Cornerstone Community outreach.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – Sub-Recipients

Cornerstone Community Outreach did not provide any Federal awards to sub-recipients during the year ended December 31, 2012.

Note 4 – Non-Cash Awards

Cornerstone Community Outreach did not have any outstanding Federal loans or loan guarantees at December 31, 2012, and did not receive any insurance assistance for reimbursement losses during the year ended December 31, 2012. The Organization received \$97,972 in Federal non-cash awards during the year ended December 31, 2012.



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's 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 of
Cornerstone Community Outreach
Chicago, IL

We have audited in accordance with auditing standards 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 financial statements of Cornerstone Community Outreach which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cornerstone Community Outreach'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cornerstone Community Outreach's internal control. Accordingly, we do not express such an opinion on the effectiveness of Cornerstone Community Outreach's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as identified in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design of 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 12-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cornerstone Community Outreach's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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*.

Cornerstone Community Outreach's Response to Findings

Cornerstone Community Outreach's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Cornerstone Community Outreach's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Entity's Response to Findings

Cornerstone Community Outreach's response to the findings identified in our audit, are described in the accompanying Schedule of Findings and Questioned Costs. Cornerstone Community Outreach's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Community Outreach's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Desmond & Ahern, Ltd

January 10, 2014
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Compliance For Each
Major Program and Report on Internal Control Over
Compliance Required by OMB Circular A-133**

To the Board of Directors
Cornerstone Community Outreach
Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited Cornerstone Community Outreach's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Cornerstone Community Outreach's major federal programs for the year ended December 31, 2012. Cornerstone Community Outreach's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cornerstone Community Outreach's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cornerstone Community Outreach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cornerstone Community Outreach's compliance.

Unmodified Opinion on Each of the Major Federal Programs

In our opinion, Cornerstone Community Outreach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-02. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of Cornerstone Community Outreach is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cornerstone Community Outreach's internal control over compliance with the type requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cornerstone Community Outreach's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-01 to be a material weakness.

Cornerstone Community Outreach's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Cornerstone Community Outreach's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Desmond & Ahern, Ltd

January 10, 2014
Chicago, IL

**CORNERSTONE COMMUNITY OUTREACH
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2012**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X no
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X no

Type of auditor's report issued on compliance for major programs:

Unmodified – Community Development Block Grant, Community Services Block Grant

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? yes X no

Certification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
93.569	Community Services Block Grant

Dollar threshold used to distinguish between type A and type B Programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012**

Section II - Financial Statement Findings

Material Weaknesses

12-01 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Condition: We noted an absence of monitoring and knowledge in the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles (GAAP).

Criteria: This absence of fiscal monitoring controls and knowledge does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Cause: This material weakness is due to a combination of the accounting department needing additional training and a lack of monitoring which may have identified the additional journal entries required to present GAAP financial statements.

Effect: Several significant and material adjustments were required to prepare the financial statements in accordance with GAAP for the year ending December 31, 2012.

Auditor's Recommendation We recommend that someone independent of the report's preparation (who is knowledgeable of GAAP, including specific not for profit pronouncements) review the statements to ensure all transactions have been properly recorded.

Grantee Response: As of November 2013, Cornerstone Community Outreach has recruited a volunteer to review the statements and ensure that all transactions have been properly recorded in accordance with GAAP standards.

Section III - Federal Award Findings and Questioned Costs

Material Weaknesses

12-02 Timely Submission of Data Collection Form and Reporting Package to the Federal Audit Clearinghouse.

Criteria: OMB Circular A-133 requires the data collection form and reporting package be submitted to the Federal Audit Clearinghouse no later than nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit. The auditee is responsible for ensuring the timely submission of all required reports to the Clearinghouse.

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012**

Condition: The Organization did not have policies and procedures in place to ensure the timely submission of the data collection form and reporting package to the Federal Clearinghouse.

Cause: The Organization is unable to process the information in a timely manner due to the lack of personnel

Effect: The Organization did not submit the 2011 and 2012 data collection form and reporting package within the required time period.

Auditor's Recommendation: We recommend the Organizations analyze the current accounting structure to ensure timely filing of the data collection form and reporting package to the Federal Audit Clearinghouse in future years.

Grantee Response: Cornerstone Community Outreach has modified its accounting plan to allow it's reporting to happen earlier, and will submit all its future data collection forms on time.

Section IV - Federal Award Findings and Questioned Costs - Prior Year

None noted