

**CORNERSTONE COMMUNITY
OUTREACH**

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

For Year Ended December 31, 2008

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 statement of financial position of Cornerstone Community Outreach (a non-profit organization) as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 *Government 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2009 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. In addition, the accompanying schedule of expenditures of federal awards is also 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Desmond & Ahern, Ltd.

November 6, 2009
Chicago, IL

**CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FINANCIAL POSITION
December 31, 2008**

Assets

Current Assets

Cash	\$ 104,019
Government contributions receivable	304,393
Contributions receivable	32,221
Other receivables	16,489
Total current assets	<u>457,122</u>

Property and Equipment

Land	355,947
Buildings and improvements	4,603,658
Construction in progress	324,725
Furniture and equipment	273,884
Vehicles	34,206
	<u>5,592,420</u>
Less accumulated depreciation	(1,821,802)
Net property and equipment	<u>3,770,618</u>

Other Assets

Deposits	39,276
Debt issue costs, net of amortization of \$2,919	20,706

Total Assets \$ 4,287,722

Liabilities and Net Assets

Current Liabilities

Current maturities of long-term debt	\$ 94,071
Accounts payable	298,193
Accrued payroll and related expenses	133,083
Refundable advances	14,736
Total current liabilities	<u>540,083</u>

Long-Term Debt

Long-term debt, net of current portion	2,859,404
Forgivable long-term debt	809,565
Total long-term debt	<u>3,668,969</u>
Total liabilities	<u>4,209,052</u>

Net Assets

Unrestricted	37,662
Temporarily restricted	41,008
	<u>78,670</u>

Total Liabilities and Net Assets \$ 4,287,722

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Public Support and Revenue</u>			
Chicago Department of Human Services	\$ 906,844	\$ -	\$ 906,844
Chicago Department of Housing	171,741	-	171,741
U.S. Dept. of Housing and Urban Development	228,692	-	228,692
InnerVoice	279,330	-	279,330
Illinois State Board of Education	88,142	-	88,142
Contributions	852,172	52,000	904,172
Client fees	45,811	-	45,811
Donated food	33,793	-	33,793
Donated construction in progress	-	-	-
Donated vehicle	6,025	-	6,025
Other	54	-	54
Net assets released from restrictions - satisfaction of program restrictions	46,227	(46,227)	-
Total public support and revenue	<u>2,658,831</u>	<u>5,773</u>	<u>2,664,604</u>
<u>Expenses</u>			
Program Services			
Permanent Housing	277,158	-	277,158
Hannah Interim Housing	616,015	-	616,015
Naomi Interim Housing	400,417	-	400,417
Sylvia Interim Housing	493,875	-	493,875
Warming Center	52,817	-	52,817
Sylvia Emergency Response	327,267	-	327,267
Nutrition	73,417	-	73,417
Computer and life skills	105,739	-	105,739
Brothas and Sistas	8,588	-	8,588
Childcare	4,154	-	4,154
Other	81,167	-	81,167
Total program services	<u>2,440,614</u>	<u>-</u>	<u>2,440,614</u>
Management and general	207,168	-	207,168
Fundraising	13,343	-	13,343
Total expenses	<u>2,661,125</u>	<u>-</u>	<u>2,661,125</u>
Change in net assets	(2,294)	5,773	3,479
Net assets, beginning of year	<u>39,956</u>	<u>35,235</u>	<u>75,191</u>
Net assets, end of year	<u>\$ 37,662</u>	<u>\$ 41,008</u>	<u>\$ 78,670</u>

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

**CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>Functional Expenses</u>				
Salaries and wages	\$ 1,012,095	\$ 78,334	\$ -	\$ 1,090,429
Fringe benefits and related taxes	441,426	43,497	-	484,923
Professional fees	16,883	29,143	-	46,026
Donated food	33,148	645	-	33,793
Food	33,914	626	35	34,575
Client assistance	32,312	3,043	-	35,355
Supplies and small equipment purchases	95,355	3,046	1,403	99,804
Travel	18,398	1,300	-	19,698
Conferences and education	1,455	228	-	1,683
Postage and shipping	593	661	3,303	4,557
Printing and publications	35	325	8,408	8,768
Dues and subscriptions	19	5,860	-	5,879
Telephone	31,755	1,733	2	33,490
Utilities	137,018	3,438	13	140,469
Repairs and maintenance	93,829	3,544	3	97,376
Equipment rental	4,835	402	-	5,237
Insurance	71,519	175	5	71,699
Interest	246,556	10,626	-	257,182
Bank fees, fines and penalties	-	8,462	-	8,462
Miscellaneous	-	8,334	20	8,354
Stolen funds	-	3,000	-	3,000
Depreciation and amortization	169,469	746	151	170,366
Total Expenses	<u>\$ 2,440,614</u>	<u>\$ 207,168</u>	<u>\$ 13,343</u>	<u>\$ 2,661,125</u>

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

**CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008**

Cash Flows from Operating Activities

Cash received - funding agencies	\$ 2,534,994
Cash received - client fees	45,811
Cash received - other	54
Payments for interest	(196,920)
Payments for wages and other operating expenses	(2,197,686)
Net cash provided by operating activities	<u>186,253</u>

Cash Flows from Investing Activities

Purchase of property and equipment	<u>(55,861)</u>
Net cash used by investing activities	<u>(55,861)</u>

Cash Flows from Financing Activities

Reduction on long-term debt	<u>(80,580)</u>
Net cash used by financing activities	<u>(80,580)</u>

Net increase in cash	49,812
Cash, beginning of year	<u>54,207</u>
Cash, end of year	<u><u>\$ 104,019</u></u>

**Reconciliation of Change in Net Assets to
Net Cash Provided by Operating Activities**

Change in net assets	\$ 3,479
Depreciation	169,185
Amortization	1,181
Donated vehicle	(6,025)
(Increase) decrease in assets	
Government contributions receivable	8,656
Contributions and other receivables	12,182
Deposits	(3,279)
Increase (decrease) in liabilities	
Accounts payable	80,398
Accrued payroll and related expenses	(75,021)
Accrued interest	(4,503)
Net Cash Provided by Operating Activities	<u><u>\$ 186,253</u></u>

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

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

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:

Leland Permanent Housing with Supportive Services

Offers 18 formerly homeless disabled single mothers and their children permanent housing and self-sufficiency training. Program participants receive a two or three bedroom apartment, case management, job training referrals, time management, personal finance assistance, and permanent housing assistance. While participating in this program, women work on attaining their educational potential, receiving job skills training, and making links to support systems designed to break the chains of homelessness.

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.

Hannah Interim Housing - accommodates women with children (approximately 75 people)

Naomi Interim Housing - accommodates single women (approximately 65 people)

Sylvia Interim Housing - accommodates families (approximately 97 people)

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

Emergency Response for families and single adults

These shelters are available for immediate response to homelessness, providing 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 after school programs for kids. These programs operate year round.

Warming Center - accommodates single adults, approximately 35 people.

Sylvia Emergency Response - accommodates families, approximately 70 people.

Supportive Services

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

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

Nutrition Program provides meals for disabled adults and children.

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.

Brothas & Sistas United (BSU) youth clubs and “big buddy” program provide at-risk youth with alternatives to street culture. BSU provides after-school tutoring, homework assistance, recreation, weekend activities, annual camps, and day trips. BSU works with over 100 kids annually, in grades five through twelve (ages 10 – 18). Approximately 20 of these kids are current or former *Hannah* or *Sylvia House* Residents.

Other Programs

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

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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

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.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

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, 2008, all of the Organization's cash accounts were within federally insured limits.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

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. The Organization received a donated vehicle valued at \$6,025 during the year ended December 31, 2008.

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.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

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. For the year ending December 31, 2008, the Organization did not receive any donated services meeting these criteria.

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, 2008, these volunteer hours exceeded 66,000.

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 market 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, 2008, this amounted to \$64,765 in donated interest which is included in contribution revenue and interest expense in the statement of activities. In addition, \$33,793 in donated food was also received and distributed.

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, 2008, 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.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

Concentration of Risk

During the year ended December 31, 2008, the Organization received approximately 62% of its funding from various government agencies and 23% from Jesus People USA. Following is a breakdown by funding agency of the portion of the Organization's revenue from government agencies for the year ending December 31, 2008 and the grants receivable at December 31, 2008:

	<u>% of Total Revenue</u>	<u>Government Contributions Receivable</u>
Chicago Department of Human Services	34%	82%
Chicago Department of Housing, including donated inter	6%	1%
U.S. Department of Housing and Urban Development	9%	0%
Inner Voice	10%	15%
Illinois State Board of Education	3%	2%
	<u>62%</u>	<u>100%</u>

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, 2008:

	<u>Term</u>	<u>Grant Amount</u>	<u>Advanced, Forfeited or Earned as of 12/31/2008</u>	<u>Funding Available</u>
Conditional Promises to Give Upon Expenditure of Funds:				
Chicago Low-Income Housing Trust Fund Chronic Homeless Initiative	9/1/08 to 8/31/2009	\$ 9,563	\$ (3,188)	\$ 6,375
Illinois State Board of Education - Child and Adult Family Care Program receipts	10/1/08 to 9/30/2009	149,476	(73,212)	76,264
		<u>\$ 159,039</u>	<u>\$ (76,400)</u>	<u>\$ 82,639</u>

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Note 3 - Long-Term Debt

Long-term debt at December 31, 2008, consists of the following:

First mortgage note (on 4628 and 4615 N. Clifton building, with a book value of \$2,715,795 as of December 31, 2008) payable to the National Covenant Properties in monthly installments of \$13,888 through April 30, 2025, including interest at 6.25%	\$ 1,735,550
\$1,012,542 as of December 31, 2008) payable to National Covenant Properties in monthly installments of \$9,321 through May 2027, including interest of 6.5%	1,217,925
	<u>2,953,475</u>
Less current principal installments	(94,071)
Net long-term debt	<u><u>\$ 2,859,404</u></u>

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

<u>Years ended December 31,</u>	<u>Amount</u>
2009	\$ 94,071
2010	100,212
2011	106,754
2012	113,724
2013	121,148
Thereafter	2,417,566
	<u><u>\$ 2,953,475</u></u>

Note 4- Debt Issued Costs

Loan origination fees and other fees associated with the issuance of long-term debt amounted to \$23,625 and is being 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, 2008. Accumulated amortization was \$2,919 at December 31, 2008.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

Note 5 - Forgivable Long-Term Debt and Subsequent Event of Forgiveness

The Organization received a forgivable non-interest bearing loan of \$809,565 secured by the property from the City of Chicago, Department of Housing, for the rehabilitation of the Clifton Building. The loan requires the facility to remain a shelter for the homeless until September 30, 2009, at which time the loan will be forgiven and recognized as revenue by the Organization. The entire principal balance plus interest from date of default is due upon demand if the facility fails to operate as a shelter for the homeless. As of December 31, 2008, the Organization was not in default.

In September 2009, this loan was officially forgiven by the City of Chicago's Department of Housing at which time the \$809,565 was recognized as a contribution.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008 are available for the following purposes:

Elevator project	\$ 35,235
Food program	5,425
Direct assistance to people in crisis or transition	348
	<u>\$ 41,008</u>

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, 2008, JPUSA provided CCO with \$617,024 in contributions.

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

Note 8 - Subsequent Event

In January 2009, CCO took over management of the Epworth Men's Shelter, an overnight shelter for 65 men. The shelter operated in the gym of the Epworth United Methodist Church. Furthermore, to address the needs of these men, CCO opened a daytime drop-in center to provide meals and support services that they might otherwise not have available to them. As part of the Emergency Response Network in Chicago, the overnight shelter and daytime drop-in are both funded by the Inner Voice.

SUPPLEMENTARY INFORMATION

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENSES BY PROGRAM
For the Year Ended December 31, 2008**

	Permanent Housing	Hannah Interim Housing	Naomi Interim Housing	Sylvia Interim Housing	Warming Center	Sylvia Emergency Response	Nutrition	Computer and Life Skills	Brothas/ Sistas	Child Care	Other Programs	Total Program
Expenditures												
Salaries and wages	\$ 68,389	\$ 211,690	\$ 211,696	\$ 201,268	\$ 17,626	\$ 150,448	\$ 52,896	\$ 64,082	\$ -	\$ -	\$ 34,000	\$ 1,012,095
Fringe benefits and related taxes	49,364	97,605	72,584	94,201	6,960	65,479	12,363	30,797	-	-	12,073	441,426
Professional fees	7,376	726	103	3,303	4,567	432	305	-	-	-	71	16,883
Donated food	304	7,333	6,208	9,263	1,906	6,725	-	-	182	318	909	33,148
Food	2,060	7,113	6,020	8,983	1,847	6,480	-	45	176	307	883	33,914
Client assistance	75	3,404	3,156	5,958	2,040	4,900	-	10	39	68	12,662	32,312
Supplies and small equipment purchases	3,417	43,159	10,951	16,354	2,744	11,345	263	71	2,832	572	3,647	95,355
Travel	334	5,265	2,359	4,377	1,339	2,515	-	5	21	116	2,067	18,398
Conferences and education	-	38	-	49	-	-	-	-	435	858	75	1,455
Postage and shipping	69	115	99	148	31	108	-	-	3	5	15	593
Printing and publications	-	-	-	-	-	-	-	-	-	-	35	35
Dues and subscriptions	-	4	4	5	1	4	-	-	-	-	1	19
Telephone	2,890	9,618	4,254	8,154	611	3,656	-	94	293	111	2,074	31,755
Utilities	15,496	44,622	18,373	36,861	2,061	15,007	-	464	1,458	370	2,306	137,018
Repairs and maintenance	27,220	16,340	11,866	19,944	2,445	12,522	-	202	663	372	2,255	93,829
Equipment rental	64	958	831	1,239	254	1,295	-	6	24	42	122	4,835
Insurance	8,055	18,462	10,762	19,525	2,474	9,720	-	203	658	317	1,343	71,519
Interest	49,729	93,606	28,841	28,841	3,036	21,251	7,590	9,108	-	-	4,554	246,556
Depreciation and amortization	42,316	55,957	12,310	35,402	2,875	15,380	-	652	1,804	698	2,075	169,469
Total Expenses	\$ 277,158	\$ 616,015	\$ 400,417	\$ 493,875	\$ 52,817	\$ 327,267	\$ 73,417	\$ 105,739	\$ 8,588	\$ 4,154	\$ 81,167	\$ 2,440,614

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, 2008**

<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 (Leland 3/1/07-2/28/08)	14.235	IL01B610076	\$ 11,008
Supportive Housing Program (Leland 3/1/08-2/28/09)	14.235	IL01B710030	132,224
Supportive Housing Program (Life Skills-3/1/07-2/28/08)	14.235	IL01B610055	6,458
Supportive Housing Program (Life Skills-3/1/08-2/28/09)	14.235	IL01B710084	79,002
Passed through the Chicago Low-Income Housing Trust Fund Supportive Housing Program (9/1/08-8/31/09)	14.235	IL01G710011	<u>7,970</u>
			<u>236,662</u>
Passed through The Inner Voice, Inc.			
Emergency Shelter Grants Program - Emergency shelter	14.231	ES2008	215,280
Emergency Shelter Grants Program - Warming center	14.231	WC2008	64,050
Passed through the Chicago Department of Human Services			
Emergency Shelter Grants Program	14.231	13554-13	<u>30,000</u>
			<u>309,330 (1)</u>
Community Development Block Grants			
Naomi Interim Housing	14.218	13554-7	77,410
Sylvia Center Interim Housing	14.218	13554-8	<u>307,442</u>
			<u>384,852 (1)</u>
Total U.S. Department of Housing and Urban Development			<u>930,844</u>
U.S. Department of Agriculture			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program (10/1/07-9/30/08)	10.558	14-016-675P-00	76,305
Child and Adult Care Food Program (10/1/08-9/30/09)	10.558	14-016-675P-00	<u>11,837</u>
			88,142
Passed through the Greater Chicago Food Depository			
Emergency Food Assistance Program	10.569	Not available	<u>33,793</u>
Total U.S. Department of Agriculture			<u>121,935</u>
U.S. Department of Health and Human Services			
Passed through the Chicago Department of Human Services			
Community Services Block Grant	93.569	13554-9, 12	<u>339,809 (1)</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,392,588</u></u>

(1) Major Programs

See accompanying notes to schedule of federal awards.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2008**

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Cornerstone Community Outreach and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

Note 2 – Sub-Recipients

Cornerstone Community Outreach did not provide any Federal awards to sub-recipients during the year ended December 31, 2008.

Note 3 – Non-Cash Awards

Cornerstone Community Outreach did not have any outstanding Federal loans or loan guarantees at December 31, 2008, and did not receive any insurance assistance for reimbursement losses during the year ended December 31, 2008. The Organization received \$33,793 in Federal non-cash awards during the year ended December 31, 2008.



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Compliance and on Internal
Control over Financial Reporting 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 the financial statements of Cornerstone Community Outreach as of and for the year ended December 31, 2008, and have issued our report thereon dated November 6, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Cornerstone Community Outreach's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cornerstone Community Outreach's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements is more than inconsequential and will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. See items 08-01, 08-02, and 08-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies identified in the Schedule of Findings and Questioned costs, we consider items 08-02, and 08-03 to be material weaknesses.

Compliance on 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, and other matters, 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 that are required to be reported under *Government Auditing Standards*.

Cornerstone Community Outreach's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Cornerstone Community Outreach's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the finance committee, management and Federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Desmond & Ahern, Ltd.

November 6, 2009
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Compliance with Requirement
Applicable to Each Major Program and Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors
Cornerstone Community Outreach
Chicago, IL

Compliance

We have audited the compliance of Cornerstone Community Outreach with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cornerstone Community Outreach's management. Our responsibility is to express an opinion on Cornerstone Community Outreach's compliance based on our audit.

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. Our audit does not provide a legal determination on Cornerstone Community Outreach's compliance with those requirements.

In our opinion, Cornerstone Community Outreach complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control over Compliance

The management of Cornerstone Community Outreach is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cornerstone Community Outreach's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures 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 the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-04 and 08-05 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 08-05 to be a material weakness.

Cornerstone Community Outreach's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Cornerstone Community Outreach's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Desmond & Ahern, Ltd.

November 6, 2009
Chicago, IL

**CORNERSTONE COMMUNITY OUTREACH
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2008**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes no
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes no

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

Unqualified – Emergency Shelter Program, 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 no

Certification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.231	Emergency Shelter Program
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 no

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008**

Section II - Financial Statement Findings

Significant Deficiency

08-01 Vouchering of Expenditures

Condition: The Organization is to assign project level cost centers to all expenditures within a program to identify which award they will be charged. However, there were several instances where expenditures had not been assigned a project level in the accounting software, although they were found to be in the program the award covers. It does not appear the Organization is using the accounting system to ensure costs are not charged twice to funders.

Criteria: According to OMB Circular A-110 (§215.21 (b)(2)), "Recipients' financial management systems shall provide for... Records that identify adequately the source and application of funds for federally-sponsored activities." Furthermore, the revenue recorded is in direct correlation to the vouched expenditures and therefore, accurate vouchering is necessary to ensure the financial statements are not material misstated.

Cause: Per discussion with Organization personnel, this control deficiency was due to human error when entering the information into the accounting system.

Effect: Not using the accounting software to prepare vouchers for reimbursement could result in double-vouching of an expense, and thus unallowable costs being charged to federal awards. Additional audit procedures performed did not identify double-vouchering or unallowed costs.

Auditor's Recommendation: We recommend the Organization establish policies and procedures concerning the preparation and review of vouchers submitted for reimbursement to ensure that all costs are appropriately and adequately supported by reports generated from the accounting records.

Grantee Response: CCO has implemented and retrained on procedures using the generated reports from the accounting records to verify that the expenses that are being submitted on vouchers is accurate, and according to policy.

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008**

Material Weaknesses

08-02 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Condition: We noted an absence of monitoring in the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. This absence of fiscal monitoring controls does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Criteria: The Organization is required to prepare GAAP financial statements under Illinois State law. Furthermore, OMB Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations," requires a low assessed level of control risk over the "Allowable Costs/Cost Principles."

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 that the reconciliations were not prepared or that the reconciliations contained items that were not accurately recorded.

Effect: Although the Board of Directors review the financial statements for reasonableness, there is no detailed supervisory review of the preparation of the statement of functional expenses to ensure the accuracy of the report or that the methodology utilized is accurate and in accordance with federal regulations and generally accepted accounting principles. Furthermore, several other balance sheet accounts and functional level of expenses had material misstatements noted during the audit.

Auditor's Recommendation We recommend the Organization establish more detailed written policies and procedures concerning the timely reconciliation of accounts, including monitoring that may help ensure these reconciliations are completed, correct, and agree to the general ledger. We further recommend that the current accounting infrastructure be analyzed and changes made to help ensure the detailed policies and procedures can be fully implemented. For instance, a consultant could be hired to review the reconciliation procedures and help train the accounting department personnel with the various requirements necessary for GAAP and federal compliance.

Grantee Response: CCO has obtained the services of a new staff member to address this issue. The new staff member has experience in the areas noted, and we believe will be able to suggest to the Board way to correct this issue and implement as needed.

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008**

08-03 Journal Entries

Criteria: Written policies and procedures concerning journal entries should exist to minimize risk of material misstatement of the financial statements.

Condition, Cause, Effect: There is a lack of documented controls over the approval of journal entries made to the accounting system. The accountant makes all journal entries with no review being performed.

Auditor's Recommendation: A policy should be developed and documented in writing requiring the Treasurer or possibly an outside accountant to review and approve the accountant's journal entries, evidencing the approval by initialing and dating the entries. Also, we recommend that the general ledger be reviewed on a monthly basis for possible non-standard journal entries not yet approved. These procedures are currently recommended due to the material amount of journal entries being formulated and posted by the accountant without review causing a lack of monitoring controls.

Grantee Response: Policies pertaining to journal entries are being presented to the Board of Directors for approval. These will contain approval of and retention of documentation relative to applicable entries.

Section III - Federal Award Findings and Questioned Costs

Department of Housing and Urban Development and Department of Health and Human Services

Significant Deficiency

08-04 Community Development Block Grants and Community Service Block Grants – CFDA #'s 14.218 and 93.569 Grant period January 1, 2008 through December 31, 2008, passed through Chicago Department of Human Services Contracts #13554-7, 13554-8, 13554-9, and 13554-12

Reportable Condition: As discussed in Finding 08-01, the Organization is to assign project level cost centers to all expenditures within a program to identify which award they will be charged. However, there were several instances where the expenditures had not been assigned a project level in the accounting software, although they were found to be in the program the award covers. It does not appear the Organization is using the accounting system to ensure costs are not charged twice to funders.

Questioned Costs: None determined

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008**

Material Weakness

08-05 All Federal Awards

Condition: As discussed in Finding 08-02, the audit noted an absence of monitoring in the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. This absence of fiscal monitoring controls does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Questioned Costs: None determined

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

Department of Housing and Urban Development

06-1, 06-3, 07-3, 07-4 (June 30, 2007 year end) and 07-03, 07-04 (December 31, 2007 year end)
Emergency Shelter Grants Program – CFDA #'s 14.231 and 14.218; Grant period – July 1, 2005 through December 31, 2007, passed through Chicago Department of Human Services Contract # 9225, 13554-4, 13554-1, and 13554-3.

Condition: This finding was a reportable condition stating the Organization did not have controls in place to provide reasonable assurance that federal funds were expended only for allowable activities and that expenditures charged to federal awards were allowable and in accordance with OMB Circular A-122, 'Cost Principles for Non-Profit Organizations. Several costs were allocated to federal award programs that did not agree to the underlying support. OMB Circular A-122 requires charges to federal awards for salaries and wages be based on documented payrolls approved by a reasonable official of the Organization. Numerous individuals filled out their timesheets incorrectly. This included stating one program, but actually working in several programs. The allocation to the programs therefore did not agree to the timesheets. Furthermore, these timesheets were approved by supervisors indicating that the supervisors need further training or need to review the time sheets in more detail.

Recommendation: It was recommend that employees and supervisors be given adequate training to ensure that all timesheets are correctly filled out and thoroughly reviewed by a responsible official(s) as required under OMB Circular A-122. Furthermore, the allocation of payroll should be based on the actual timesheets or other documented measurable criteria. Any correction to timesheets should be evidenced by re-approval by the employee and the supervisor.

Current Status: The recommendation was fully implemented. No similar finding reported in the current year.