

**CORNERSTONE COMMUNITY
OUTREACH**

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

For Year Ended December 31, 2011

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, 2011, 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. The prior-year summarized information has been derived from the Organization's 2010 financial statements, in which we expressed an unqualified opinion on those financial statements.

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, 2011, 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 July 6, 2012 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted 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 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 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 statement 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.

Desmond & Ahern, Ltd

July 6, 2012
Chicago, IL

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FINANCIAL POSITION
As of December 31, 2011 (with comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current Assets		
Cash	\$ 2,728	\$ 41,324
Government contributions receivable	467,938	337,794
Contributions receivable	99,164	62,849
Other receivables	189	17,544
Deposits	10,886	1,964
Total current assets	<u>580,905</u>	<u>461,475</u>
Property and Equipment		
Land	355,947	355,947
Buildings and improvements	4,665,317	4,603,658
Construction in progress	515,438	295,865
Furniture and equipment	324,363	324,063
Vehicles	30,206	30,206
	<u>5,891,271</u>	<u>5,609,739</u>
Less accumulated depreciation	<u>(2,317,527)</u>	<u>(2,137,663)</u>
Net property and equipment	<u>3,573,744</u>	<u>3,472,076</u>
Other Assets		
Prepaid maintenance agreement	21,731	-
Debt issue costs, net of amortization of \$5,281	17,163	18,344
Total Assets	<u>\$ 4,193,543</u>	<u>\$ 3,951,895</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 295,495	\$ 107,681
Line of credit and bank overdraft	503,255	500,000
Accounts payable	201,022	49,450
Accrued payroll and related expenses	103,169	3,257
Accrued interest	29,106	22,957
Refundable advances	16,873	20,594
Total current liabilities	<u>1,148,920</u>	<u>703,939</u>
Long-Term Debt		
Long-term debt, net of current portion	<u>2,519,824</u>	<u>2,629,679</u>
Total liabilities	<u>3,668,744</u>	<u>3,333,618</u>
Net Assets		
Unrestricted	458,590	539,966
Temporarily restricted	66,209	78,311
	<u>524,799</u>	<u>618,277</u>
Total Liabilities and Net Assets	<u>\$ 4,193,543</u>	<u>\$ 3,951,895</u>

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011 (with comparative totals for 2010)

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
<u>Public Support and Revenue</u>				
Chicago Department of Family and Support Services	\$ 1,736,460	\$ -	\$ 1,736,460	\$ 1,530,999
Chicago Department of Community Development	90,948	-	90,948	92,496
U.S. Dept. of Housing and Urban Development	240,465	-	240,465	221,811
Illinois State Board of Education	199,005	-	199,005	184,527
Contributions	694,036	44,972	739,008	678,604
Client fees	55,483	-	55,483	51,252
Donated food	114,544	-	114,544	83,591
Donated equipment - capitalized	34,489	-	34,489	-
Donated services	7,600	-	7,600	-
Other	7,208	-	7,208	24,534
Net assets released from restrictions - satisfaction of program restrictions	57,074	(57,074)	-	-
Total public support and revenue	<u>3,237,312</u>	<u>(12,102)</u>	<u>3,225,210</u>	<u>2,867,814</u>
<u>Expenses</u>				
Program Services				
Leland Permanent Housing	288,332	-	288,332	262,641
Chronic Homeless Initiative	29,791	-	29,791	13,737
Hannah Interim Housing	505,798	-	505,798	465,453
Naomi Interim Housing	1,195,130	-	1,195,130	1,064,379
Sylvia Interim Housing	870,025	-	870,025	763,055
Computer and life skills	112,972	-	112,972	116,317
Other	47,957	-	47,957	40,065
Total program services	<u>3,050,005</u>	<u>-</u>	<u>3,050,005</u>	<u>2,725,647</u>
Management and general	254,794	-	254,794	201,014
Fundraising	13,889	-	13,889	6,384
Total expenses	<u>3,318,688</u>	<u>-</u>	<u>3,318,688</u>	<u>2,933,045</u>
Change in net assets	(81,376)	(12,102)	(93,478)	(65,231)
Net assets, beginning of year	<u>539,966</u>	<u>78,311</u>	<u>618,277</u>	<u>683,508</u>
Net assets, end of year	<u>\$ 458,590</u>	<u>\$ 66,209</u>	<u>\$ 524,799</u>	<u>\$ 618,277</u>

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011 (with comparative totals for 2010)

	Program Services	Management and General	Fundraising	2011 Total	2010 Total
Functional Expenses					
Salaries and wages	\$ 1,260,869	\$ 92,387	\$ -	\$ 1,353,256	\$ 1,316,407
Fringe benefits and related taxes	543,411	69,123	-	612,534	600,640
Professional fees	35,351	28,468	-	63,819	55,448
Donated food	114,544	-	-	114,544	83,591
Donated services	7,600	-	-	7,600	-
Food	78,575	557	-	79,132	50,951
Client assistance	94,778	-	-	94,778	73,052
Supplies and small equipment purchases	129,180	629	2,364	132,173	89,056
Travel	47,419	-	-	47,419	30,070
Conferences and education	110	30	-	140	566
Postage and shipping	840	41	1,674	2,555	1,330
Printing and publications	-	150	9,563	9,713	5,107
Dues and subscriptions	-	1,621	-	1,621	374
Telephone	27,643	177	105	27,925	19,456
Occupancy	188,224	1,167	-	189,391	147,608
Repairs and maintenance	75,823	721	-	76,544	72,914
Insurance	88,201	431	-	88,632	69,800
Interest	171,550	10,345	-	181,895	124,126
Bank fees, fines and penalties	-	8,307	-	8,307	13,318
Miscellaneous	7,673	13,491	183	21,347	7,809
Bad debts expense	-	25,023	-	25,023	140
Depreciation and amortization	178,214	2,126	-	180,340	171,282
Total Expenses	\$ 3,050,005	\$ 254,794	\$ 13,889	\$ 3,318,688	\$ 2,933,045

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011 (with comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - funding agencies	\$ 2,828,038	\$ 2,826,251
Cash received - client fees	55,483	51,252
Cash received - other	7,208	24,534
Payments for interest	(175,746)	(161,475)
Payments for wages and other operating expenses	<u>(2,585,200)</u>	<u>(3,035,874)</u>
Net cash provided (used) by operating activities	<u>129,783</u>	<u>(295,312)</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	(246,338)	(20,896)
Disposal of construction in process	-	25,854
Net cash (used) provided by investing activities	<u>(246,338)</u>	<u>4,958</u>
<u>Cash Flows from Financing Activities</u>		
Net change in short-term borrowings	197,072	500,000
Reduction of long-term debt	<u>(119,113)</u>	<u>(168,592)</u>
Net cash provided by financing activities	<u>77,959</u>	<u>331,408</u>
Net (decrease) increase in cash	(38,596)	41,054
Cash, beginning of year	<u>41,324</u>	<u>270</u>
Cash, end of year	<u>\$ 2,728</u>	<u>\$ 41,324</u>
<u>Reconciliation of Change in Net Assets to Net Cash</u>		
<u>Provided (Used) by Operating Activities</u>		
Change in net assets	\$ (93,478)	\$ (65,231)
Depreciation	179,159	170,101
Amortization	1,181	1,181
Donated equipment - capitalized	(34,489)	-
Decrease (increase) in assets		
Government contributions receivable	(130,144)	41,679
Contributions and other receivables	(18,960)	70,277
Deposits	(8,922)	2,526
Prepaid maintenance contract	(21,731)	-
Increase (decrease) in liabilities		
Accounts payable	151,572	(228,864)
Refundable advances	(3,721)	5,858
Bank overdrafts	3,255	(22,163)
Accrued payroll and related expenses	99,912	(233,327)
Accrued interest	<u>6,149</u>	<u>(37,349)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 129,783</u>	<u>\$ (295,312)</u>

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

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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, 2011**

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.

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, 2011**

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, 2011, 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. The Organization received donated lighting upgrades for Hannah and Sylvia Center valued at \$34,489 during the year ended December 31, 2011.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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, 2011, the Organization received approximately 71% of its funding from various government agencies and 16% 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, 2011 and the grants receivable at December 31, 2011:

	% of Total Revenue	Government Contributions Receivable
Chicago Department of Family and Supportive Services	54%	91%
Chicago Department of Community Development	3%	0%
U.S. Department of Housing and Urban Development	7%	5%
Illinois State Board of Education	6%	4%
	<u>71%</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. For the year ending December 31, 2011, the Organization received \$7,600 of donated architectural services.

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, 2011, these volunteer hours exceeded 64,734.

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, 2011, this amounted to \$114,544 in donated food received and distributed. The Organization also received donated lighting upgrades for Hannah and Sylvia Center in the amount of \$34,489.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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, 2011, 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, 2010, 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, 2011:

	<u>Term</u>	<u>Grant Amount</u>	<u>Advanced, Forfeited or Earned as of 12/31/2011</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	3/1/11 to 2/28/12	\$ 132,224	\$ (110,214)	\$ 22,010
Supportive Housing Program - Life Skills	3/1/11 to 2/28/12	79,017	(65,454)	13,563
Chronic Homless Initiative Program	9/1/11 to 8/31/12	44,037	(11,500)	32,537
		<u>\$ 255,278</u>	<u>\$ (187,168)</u>	<u>\$ 68,110</u>

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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 July 6, 2012. At December 31, 2011, 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, 2011 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, 2011, consists of the following:

First mortgage note (on 4628 and 4615 N. Clifton building, with a book value of \$2,616,172 as of December 31, 2011) payable to the National Covenant Properties in monthly installments of \$13,888 through April 30, 2025, including interest at 5.75%	\$ 1,545,734
First mortgage note (on 1311 W. Leland, with a book value of \$894,781 as of December 31, 2011) payable to National Covenant Properties in monthly installments of \$9,321 through May 2027, including interest of 5.75%	1,100,006
Fourth mortgage note (on 4628 and 4615 N. Clifton building, with a book value of \$2,616,172 as of December 31, 2011) payable on demand to the National Covenant Properties, including interest of 4%, payable monthly.	<u>169,579</u>
	2,815,319
Less current principle installments	<u>(295,495)</u>
Net long-term debt	<u><u>\$ 2,519,824</u></u>

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

<u>Years ended December 31,</u>	<u>Amount</u>
2012	\$ 295,495
2013	122,202
2014	130,180
2015	138,680
2016	147,736
Thereafter	<u>1,981,026</u>
	<u><u>\$ 2,815,319</u></u>

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

Note 5 - Debt Issued Costs

Loan origination fees and other fees associated with the issuance of long-term debt amounted to \$23,625 and is 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, 2011. Accumulated amortization was \$6,462 at December 31, 2011.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 are available for the following purposes:

Elevator project	\$ 26,292
Playground	12,000
Tuckpointing	10,000
Glenn Palmberg projects	8,000
Fire alarm repair	5,079
Roof and masonry repair	2,453
Direct assistance to people in crisis or transition	2,100
Dressers for Hannah Interim Housing	285
	<hr/>
	\$ 66,209

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, 2011, JPUSA provided CCO with \$520,000 in contributions, including \$87,334 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, 2011, the Organization's management has evaluated subsequent events through July 6, 2012, 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, 2011

	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	\$ 80,777	\$ 3,388	\$ 200,657	\$ 509,103	\$ 384,518	\$ 72,875	\$ 9,551	\$ 1,260,869
Fringe benefits and related taxes	51,925	250	102,058	197,044	159,078	30,652	2,404	543,411
Professional fees	-	-	1,792	22,259	4,793	-	6,507	35,351
Donated food	-	-	20,011	50,686	43,217	-	630	114,544
Donated services	-	-	-	-	7,600	-	-	7,600
Food	900	-	12,172	38,734	26,385	-	384	78,575
Client assistance	1,136	24,902	6,568	35,505	14,661	-	12,006	94,778
Supplies and small equipment purchases	6,812	872	21,532	53,857	42,654	44	3,409	129,180
Travel	591	-	7,105	20,298	17,092	-	2,333	47,419
Conferences and education	-	-	19	49	41	-	1	110
Postage and shipping	15	-	139	361	299	-	26	840
Telephone	3,668	-	4,187	11,425	8,233	27	103	27,643
Occupancy	20,502	-	32,008	94,876	39,299	400	1,139	188,224
Repairs and maintenance	27,158	-	10,662	20,130	16,990	56	827	75,823
Insurance	15,351	-	16,030	33,779	22,542	154	345	88,201
Interest	39,274	379	22,463	57,162	43,032	8,164	1,076	171,550
Miscellaneous	-	-	11	1,237	39	-	6,386	7,673
Depreciation and amortization	40,223	-	48,384	48,625	39,552	600	830	178,214
Total Expenses	\$ 288,332	\$ 29,791	\$ 505,798	\$ 1,195,130	\$ 870,025	\$ 112,972	\$ 47,957	\$ 3,050,005

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, 2011**

<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 - March 1, 2010 to February 28, 2011	14.235	IL0158B5T100802	\$ 22,756
Leland - March 1, 2011 to February 28, 2012	14.235	IL0158B5T101003	110,214
Chronic Homeless - September 1, 2010 to August 31, 2011	14.235	IL0391B5T100901	27,823
Life Skills - March 1, 2010 to February 28, 2011	14.235	IL0106B5T100802	13,167
Life Skills - March 1, 2011 to February 28, 2012	14.235	IL0106B5T101003	65,454
			<u>239,414</u>
Passed through the Chicago Department of Family and Support Services			
Emergency Shelter Grants Program			
Sylvia Elevator - January 1, 2011 to December 31, 2011	14.231	18337-16	140,000
Sylvia Elevator - January 1, 2011 to December 31, 2011	14.231	18337-17	7,900
			<u>147,900</u>
Passed through the Chicago Department of Family and Support Services			
Community Development Block Grants			
Naomi Interim Housing - January 1, 2011 to December 31, 2011	14.218	18337-19	514,222
Sylvia Center Interim Housing - January 1, 2011 to December 31, 2011	14.218	18337-23	295,248
			<u>809,470</u> (1)
Total U.S. Department of Housing and Urban Development			<u>1,196,784</u>
U.S. Department of Agriculture			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program			
September 1, 2010 to February 28, 2012	10.558	15-016-675P-00	199,005
Passed through the Greater Chicago Food Depository			
Emergency Food Assistance Program			
	10.569	Not available	114,544
Total U.S. Department of Agriculture			<u>313,549</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, 2011 to December 31, 2011			
	93.569	18837-18	316,085
Total U.S. Department of Health and Human Services			<u>316,085</u> (1)
Total Expenditures of Federal Awards			<u>\$ 1,826,418</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, 2011

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, 2011. 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, 2011.

Note 4 – Non-Cash Awards

Cornerstone Community Outreach did not have any outstanding Federal loans or loan guarantees at December 31, 2011, and did not receive any insurance assistance for reimbursement losses during the year ended December 31, 2011. The Organization received \$114,544 in Federal non-cash awards during the year ended December 31, 2011.



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 the financial statements of Cornerstone Community Outreach as of and for the year ended December 31, 2011 and have issued our report thereon dated July 6, 2012. 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

Management of Cornerstone Community Outreach is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 such 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or

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. We consider the deficiencies described in the accompanying scheduled of findings and questioned costs as item 11-01 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, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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

July 6, 2012
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Compliance with
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on 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 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 its major federal programs for the year ended December 31, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of Cornerstone Community Outreach is responsible for establishing and maintaining effective internal controls 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 the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 & Akers, Ltd

July 6, 2012
Chicago, IL

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011**

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? 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(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes X no

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

Unqualified – 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, 2011**

Section II - Financial Statement Findings

Material Weaknesses

11-01 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, 2011.

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: Cornerstone Community Outreach is actively recruiting Board members with knowledge of financial statement preparation in accordance with GAAP. Additionally, accounting staff are obtaining additional training. Consideration of hiring accounting consultants is also being considered.

Section III - Federal Award Findings and Questioned Costs

None noted

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

None noted