

**CORNERSTONE COMMUNITY
OUTREACH**

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

For Year Ended December 31, 2014

CORNERSTONE COMMUNITY OUTREACH

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
Cornerstone Community Outreach
Chicago, IL

We have audited the accompanying financial statements of Cornerstone Community Outreach (a non-profit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior-year summarized information has been derived from the Organization's 2013 financial statements, and, in our report dated September 19, 2014, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

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

Going Concern

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As indicated in the financial statements and as described in Note 1, the Organization incurred a net loss of \$444,033 for the year ended December 31, 2014. Additionally, as of December 31, 2014, the Company had an unrestricted net deficit position of \$405,617. These conditions raise substantial doubt about the Organization's ability to continue as a going concern at December 31, 2014. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued a report dated September 30, 2015 on our consideration of Cornerstone Community Outreach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Cornerstone Community Outreach's internal control over financial reporting and compliance.

Desmond & Ahern, Ltd

September 30, 2015
Chicago, IL

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FINANCIAL POSITION
As of December 31, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets		
Cash	\$ 19,894	\$ 31,907
Government contributions receivable	496,573	399,201
Contributions receivable	130,405	119,079
Other receivables	189	189
Deposits	2,893	18,811
Total current assets	<u>649,954</u>	<u>569,187</u>
Property and Equipment		
Land	355,947	355,947
Buildings and improvements	4,864,607	4,707,817
Construction in progress	532,698	532,698
Furniture and equipment	382,398	355,609
Vehicles	39,593	30,206
	<u>6,175,243</u>	<u>5,982,277</u>
Less accumulated depreciation	<u>(2,836,925)</u>	<u>(2,660,921)</u>
Net property and equipment	<u>3,338,318</u>	<u>3,321,356</u>
Other Assets		
Prepaid maintenance agreement	45,914	89,731
Debt issue costs	25,223	26,700
Total Assets	<u><u>\$ 4,059,409</u></u>	<u><u>\$ 4,006,974</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 113,213	\$ 18,304
Accounts payable	226,906	270,134
Accrued payroll and related expenses	351,776	308,830
Refundable advances	26,249	37,289
Line of credit and bank overdraft	249,000	-
Total current liabilities	<u>967,144</u>	<u>634,557</u>
Long-Term Debt		
Long-term debt, net of current portion	3,445,155	3,243,274
Employees and individual supporters	8,234	46,234
Total liabilities	<u>4,420,533</u>	<u>3,924,065</u>
Net Assets (Deficit)		
Unrestricted	(405,617)	36,176
Temporarily restricted	44,493	46,733
	<u>(361,124)</u>	<u>82,909</u>
Total Liabilities and Net Assets	<u><u>\$ 4,059,409</u></u>	<u><u>\$ 4,006,974</u></u>

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014 (with comparative totals for 2013)

	Unrestricted	Temporarily Restricted	2014 Total	2013 Total
<u>Public Support and Revenue</u>				
Chicago Department of :				
Family and Support Services	\$ 1,420,227	\$ -	\$ 1,420,227	\$ 1,514,951
Community Development	93,168	-	93,168	93,168
U.S. Dept. of Housing and Urban Development	261,518	-	261,518	258,790
Illinois State Board of Education	69,409	-	69,409	91,902
Contributions	551,100	-	551,100	504,332
Client fees	51,851	-	51,851	55,175
Donated food	708,606	-	708,606	857,264
Other	5,905	-	5,905	366
Net assets released from restrictions - satisfaction of program restrictions	2,240	(2,240)	-	-
Total public support and revenue	<u>3,164,024</u>	<u>(2,240)</u>	<u>3,161,784</u>	<u>3,375,948</u>
<u>Expenses</u>				
Program Services				
Leland Permanent Housing	346,374	-	346,374	277,076
Chronic Homeless Initiative	46,835	-	46,835	37,817
Hannah Interim Housing	527,365	-	527,365	593,768
Naomi Interim Housing	1,321,837	-	1,321,837	1,335,161
Sylvia Interim Housing	902,006	-	902,006	979,671
Computer and life skills	101,405	-	101,405	114,159
Other	48,330	-	48,330	65,600
Total program services	<u>3,294,152</u>	<u>-</u>	<u>3,294,152</u>	<u>3,403,252</u>
Management and general	299,633	-	299,633	213,173
Fundraising	12,032	-	12,032	16,762
Total expenses	<u>3,605,817</u>	<u>-</u>	<u>3,605,817</u>	<u>3,633,187</u>
Change in net assets	(441,793)	(2,240)	(444,033)	(257,239)
Net assets, beginning of year	36,176	46,733	82,909	340,148
Net assets (deficit), end of year	<u>\$ (405,617)</u>	<u>\$ 44,493</u>	<u>\$ (361,124)</u>	<u>\$ 82,909</u>

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014 (with comparative totals for 2013)

	Program Services	Management and General	Fundraising	2014 Total	2013 Total
<u>Functional Expenses</u>					
Salaries and wages	\$ 1,280,029	\$ 85,750	\$ -	\$ 1,365,779	\$ 1,293,144
Fringe benefits and related taxes	385,275	33,878	-	419,153	469,122
Professional fees	4,617	23,300	-	27,917	36,846
Donated food	708,606	-	-	708,606	857,264
Food	29,789	245	135	30,169	29,661
Client assistance	113,406	54	-	113,460	88,364
Supplies and small equipment purchases	65,788	2,212	6,744	74,744	112,168
Travel	14,124	11,729	282	26,135	19,060
Conferences and education	-	15	-	15	104
Postage and shipping	960	9	2,082	3,051	2,708
Printing and publications	-	-	2,059	2,059	1,491
Dues and subscriptions	133	742	586	1,461	1,782
Telephone	22,758	100	-	22,858	33,386
Occupancy	176,712	889	-	177,601	160,335
Repairs and maintenance	88,767	322	-	89,089	71,329
Insurance	91,566	550	-	92,116	112,703
Interest	134,813	5,110	-	139,923	107,963
Bank fees, fines and penalties	1	123,910	-	123,911	30,065
Miscellaneous	209	9,836	144	10,189	6,711
Depreciation and amortization	176,599	982	-	177,581	198,981
Total Expenses	\$ 3,294,152	\$ 299,633	\$ 12,032	\$ 3,605,817	\$ 3,633,187

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - funding agencies	\$ 2,275,684	\$ 2,362,405
Cash received - client fees	51,851	55,175
Cash received - other	5,905	366
Payments for interest	(139,923)	(178,087)
Payments for wages and other operating expenses	<u>(2,520,254)</u>	<u>(2,325,049)</u>
Net cash used by operating activities	<u>(326,737)</u>	<u>(85,190)</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	<u>(193,066)</u>	<u>(53,507)</u>
Net cash used by investing activities	<u>(193,066)</u>	<u>(53,507)</u>
<u>Cash Flows from Financing Activities</u>		
Net change in short-term borrowings	545,790	3,261,578
Reduction of long-term debt	-	(3,236,525)
Increase in debt issuance costs	-	(26,700)
Increase(decrease) in related party debt	<u>(38,000)</u>	<u>46,234</u>
Net cash provided by financing activities	<u>507,790</u>	<u>44,587</u>
Net decrease in cash	(12,013)	(94,110)
Cash, beginning of year	<u>31,907</u>	<u>126,017</u>
Cash, end of year	<u>\$ 19,894</u>	<u>\$ 31,907</u>
<u>Reconciliation of Change in Net Assets to Net Cash</u>		
<u>Used by Operating Activities</u>		
Change in net assets	\$ (444,033)	\$ (257,239)
Depreciation	176,104	182,999
Amortization	1,477	15,982
Decrease (increase) in assets		
Government contributions receivable	(97,372)	(110,650)
Contributions and other receivables	(11,326)	(1,137)
Deposits	15,918	(18,289)
Long term asset	43,817	(68,000)
Increase (decrease) in liabilities		
Accounts payable	(43,228)	94,284
Refundable advances	(11,040)	11,049
Accrued payroll and related expenses	42,946	135,935
Accrued interest	-	(70,124)
Net Cash Used by Operating Activities	<u>\$ (326,737)</u>	<u>\$ (85,190)</u>

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

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

Note 1 – Going Concern Uncertainty

The Organization incurred a net loss of \$444,033 for the year ended December 31, 2014. Additionally, as of December 31, 2014, the Company had an unrestricted net deficit position of \$405,617.

Net losses are expected to continue in the near future due to the Organization owing a minimum of \$110,000 in tax withholdings and IRS penalties, being in violation of its debt covenant, and the inability of the Organization to further cut expenses. In addition, the Organization is not aware of any additional significant sources of revenue to increase its net asset position. These conditions raise substantial doubt about the Company's ability to continue as a going concern at December 31, 2014.

Note 2 – 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 underprivileged 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:

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

Hannah Interim Housing – shelters 55 women with children, including 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 145 single women and men and provides 24 hour shelter and casework services including the other services mentioned above.

Sylvia Interim Housing – serves over 130 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.

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.

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

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.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

The Organization's annual information and income tax returns filed with the federal and state governments are subject to examination for the statutory period. Tax returns are open for examination by the Internal Revenue Service for three years after filing. Thus, returns for the years 2011 through 2014 remain open.

Basis of Accounting

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

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, 2014, 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

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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.

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, 2014, the Organization received approximately 58% of its funding from various government agencies and 5% from Jesus People USA. Additionally, donated food represented 22% of public support and revenue. Following is a breakdown by funding agency of the portion of the Organization's revenue from government agencies for the year ending December 31, 2014 and the grants receivable at December 31, 2014:

	% of Total Revenue	Government Contributions Receivable
Chicago Department of Family and Supportive Services	45%	84%
Chicago Department of Community Development	3%	0%
U.S. Department of Housing and Urban Development	8%	11%
Illinois State Board of Education	2%	5%
	<u>58%</u>	<u>100%</u>

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization did not receive any donated services required to be recognized during the year ended December 31, 2014.

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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, 2014, these volunteer hours exceeded 41,000.

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 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, 2014, this amounted to \$708,606 in donated food 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, 2014, 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, 2013, from which the summarized information was derived.

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

Note 3 – 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, 2014:

	<u>Term</u>	<u>Grant Amount</u>	<u>Advanced, Forfeited or Earned as of 12/31/2014</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	3/1/14 to 2/28/15	\$ 135,809	\$ (113,170)	\$ 22,639
Transitional Housing	3/1/14 to 2/28/15	80,551	(67,120)	13,431
Chronic Homless Initiative Program	9/1/14 to 8/31/15	45,559	(15,183)	30,376
		<u>\$ 261,919</u>	<u>\$ (195,473)</u>	<u>\$ 66,446</u>

Note 4 – Long-Term Debt

Long-term debt at December 31, 2014, consists of the following:

First mortgage note (on properties located at 4626-46 and 4615 N. Clifton, 4654 N. Malden and 1311-15 W. Leland buildings, with a combined book value of \$2,715,934 as of December 31, 2014) payable to the National Covenant Properties in monthly installments of \$22,522 through November 30, 2033, including variable interest at 4.5%, payable monthly.	\$ 3,558,368
Less current principal installments	<u>(113,213)</u>
Net long-term debt	<u>\$ 3,445,155</u>

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

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

<u>Years ended December 31,</u>	<u>Amount</u>
2015	\$ 113,213
2016	117,978
2017	123,834
2018	129,523
2019	135,473
Thereafter	<u>2,938,347</u>
	<u>\$ 3,558,368</u>

Note 5 – Related Party Debt

Loans payable to parties related to the Organization at December 31, 2014 are comprised of the following:

Sandra Ramsey, interest free	<u>\$ 8,234</u>
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These loans payable are not due on demand and therefore have not been shown as current on the Statement of Financial Position. Principal payments are to be made as funds are available.

Note 6 – Debt Issued Costs

Loan origination fees associated with the 2013 refinancing of long-term debt amounted to \$26,700 and is being amortized on the straight-line method over twenty years, the term of the associated debt. Amortization expense amounted to \$1,477 for the year ended December 31, 2014.

At December 31, 2014, debt issued costs were as follows:

Debt issued costs	\$ 26,700
Less accumulated amortization	<u>(1,477)</u>
Net debt issued costs	<u>\$ 25,223</u>

**CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 are available for the following purposes:

Elevator project	\$ 21,572
Facility improvement	10,000
Glenn Palmberg projects	5,183
Roof and masonry repair	2,453
Dressers for Hannah Interim Housing	285
Purchase of tables and chairs	5,000
	<u>\$ 44,493</u>

Note 8 – 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, 2014, JPUSA provided CCO with \$146,000 in contributions.

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

Note 9 – Subsequent Event

For the fiscal year ended December 31, 2014, the Organization's management has evaluated subsequent events through September 30, 2015, which is the date the financial statements were available to be issued. The following transaction was identified to be disclosed.

The Organization's line of credit provisions required repayment in full by June 30, 2015. As of September 30, 2015, the balance of \$249,000 on this line of credit has not yet been repaid. As such, the Organization is in violation of the terms of the agreement. In accordance with the agreement, Cornerstone is required to sell the Leland House property. As of the report date, a buyer has not yet been identified.

SUPPLEMENTARY INFORMATION

CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENSES BY PROGRAM
For the Year Ended December 31, 2014

	Leland Permanent Housing	Chronic Homeless Initiative	Hannah Interim Housing	Naomi Interim Housing	Sylvia Interim Housing	Computer and Life Skills	Other Programs	Total Program
<u>Expenditures</u>								
Salaries and wages	\$ 112,301	\$ 4,786	\$ 190,895	\$ 532,129	\$ 344,461	\$ 83,694	\$ 11,763	\$ 1,280,029
Fringe benefits and related taxes	50,969	298	66,323	163,974	88,239	12,538	2,934	385,275
Professional fees	420	-	-	1,402	-	-	2,795	4,617
Donated food	-	-	120,959	318,802	263,814	-	5,031	708,606
Food	1,800	-	4,545	12,288	9,811	-	1,345	29,789
Client assistance	-	38,851	1,040	41,142	16,665	-	15,708	113,406
Supplies and small equipment purchases	9,363	2,900	11,226	20,167	17,541	40	4,551	65,788
Travel	1,114	-	1,859	5,817	3,977	-	1,357	14,124
Postage and shipping	57	-	129	432	292	-	50	960
Dues and subscriptions	-	-	23	60	49	-	1	133
Telephone	5,456	-	4,884	7,136	5,119	56	107	22,758
Occupancy	18,358	-	32,148	92,191	32,723	417	875	176,712
Repairs and maintenance	10,080	-	18,251	32,257	27,721	74	384	88,767
Insurance	16,728	-	18,856	27,757	27,583	201	441	91,566
Interest	81,155	-	8,943	24,912	15,969	3,833	1	134,813
Bank fees, fines and penalties	1	-	-	-	-	-	-	1
Miscellaneous	-	-	-	-	101	-	108	209
Depreciation and amortization	38,572	-	47,284	41,371	47,941	552	879	176,599
Total Expenses	\$ 346,374	\$ 46,835	\$ 527,365	\$ 1,321,837	\$ 902,006	\$ 101,405	\$ 48,330	\$ 3,294,152

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

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

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Contract Number</u>	<u>Disbursements or Expenditures</u>
U.S. Department of Housing and Urban Development			
Supportive Housing Program			
March 1, 2013 to February 28, 2014	14.235	IL0158L5T101205	\$ 13,429
March 1, 2014 to February 28, 2015	14.235	IL0158L5T101306	67,120
Chronic Homeless			
September 1, 2013 to August 31, 2014	14.235	IL0391L5T101204	30,197
September 1, 2014 to August 31, 2015	14.235	IL0391L5T101305	15,183
Life Skills			
March 1, 2013 to February 28, 2014	14.235	IL0106L5T101205	22,419
March 1, 2014 to February 28, 2015	14.235	IL0106L5T101306	113,170
			<u>261,518</u>
Passed through the Chicago Department of Family and Support Services			
Community Development Block Grants			
Naomi Interim Housing			
January 1, 2014 to December 31, 2014	14.218	27128-17	396,851
Sylvia Center Interim Housing			
January 1, 2014 to December 31, 2014	14.218	27128-18	397,560
			<u>794,411</u> (1)
Emergency Solutions Grant Program			
Sylvia Center Interim Housing			
September 15, 2014 to December 31, 2014	14.231	27128-26	22,337
Total U.S. Department of Housing and Urban Development			<u>1,078,266</u>
U.S. Department of Agriculture			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program			
October 1, 2013 to September 30, 2014	10.558	15-016-675P-00	27,269
October 1, 2014 to September 30, 2015	10.558	15-016-675P-00	42,140
Total U.S. Department of Agriculture			<u>69,409</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, 2014 to December 31, 2014	93.569	27128-21	79,364
Total U.S. Department of Health and Human Services			<u>79,364</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,227,039</u></u>

(1) Major Program

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

CORNERSTONE COMMUNITY OUTREACH
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2014

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, 2014. 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, 2014.

Note 4 – Non-Cash Awards

Cornerstone Community Outreach did not have any outstanding Federal loans or loan guarantees at December 31, 2014, and did not receive any insurance assistance for reimbursement losses during the year ended December 31, 2014. The Organization did not receive any Federal non-cash awards during the year ended December 31, 2014.



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Directors of
Cornerstone Community Outreach
Chicago, IL

We have audited in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Cornerstone Community Outreach which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cornerstone Community Outreach's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cornerstone Community Outreach's internal control. Accordingly, we do not express such an opinion on the effectiveness of Cornerstone Community Outreach's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as identified in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control 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 schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cornerstone Community Outreach's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cornerstone Community Outreach's Response to Findings

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

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Cornerstone Community Outreach's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Desmond & Akers, Ltd

September 30, 2015
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the Board of Directors
Cornerstone Community Outreach
Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited Cornerstone Community Outreach's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Cornerstone Community Outreach's major federal programs for the year ended December 31, 2014. Cornerstone Community Outreach's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Unmodified Opinion on Each of the Major Federal Programs

In our opinion, Cornerstone Community Outreach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

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

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of the Report

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

Desmond & Ahern, Ltd

September 30, 2015
Chicago, IL

**CORNERSTONE COMMUNITY OUTREACH
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2014**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unmodified – Community Development Block Grant, Community Services Block Grant

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

Certification of Major Programs

CFDA Number

14.218

Name of Federal Program or Cluster

Community Development 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, 2014**

Section II – Financial Statement Findings

Material Weaknesses

2014-001 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, 2014.

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

Grantee Response: As of September 2015, Cornerstone Community Outreach is still searching for a volunteer to review the statements and ensure that all transactions have been properly recorded in accordance with GAAP standards.

Section III – Federal Award Findings and Questioned Costs

None

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

None