

**CORNERSTONE COMMUNITY
OUTREACH**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
(Including Reports Required by
OMB's Uniform Guidance)**

For Year Ended December 31, 2018

CORNERSTONE COMMUNITY OUTREACH

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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, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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, 2018, 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.

Substantial Doubt About the Organization's Ability to Continue as a 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 had a net deficit position in net assets without donor restrictions of \$430,000. These conditions raise substantial doubt about the Organization's ability to continue as a going concern at December 31, 2018. 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.

Report on Summarized Comparative Information

We have previously audited Cornerstone Community Outreach's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenses by Program on Page 15 is presented for purposes of additional analysis 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 August 14, 2019 on our consideration of the 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Cornerstone Community Outreach adopted the Financial Accounting Standards Board's Accounting Standards update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Desmond & Ahern, Ltd

August 14, 2019
Chicago, IL

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FINANCIAL POSITION
As of December 31, 2018 (with comparative totals for 2017)

	2018	2017
<u>Assets</u>		
Current Assets		
Cash	\$ 41,688	\$ 1,675
Restricted cash - mortgage reserve, current	51,325	49,071
Government contributions receivable	301,837	220,902
Contributions receivable	82,400	84,200
Other receivables	54,255	1,417
Deposits	5,990	5,210
Total current assets	<u>537,495</u>	<u>362,475</u>
Property and Equipment		
Land	232,947	232,947
Buildings and improvements	3,786,230	3,783,438
Construction in progress	543,600	532,699
Furniture and equipment	392,555	386,425
Vehicles	42,939	42,939
	<u>4,998,271</u>	<u>4,978,448</u>
Less accumulated depreciation	<u>(2,925,769)</u>	<u>(2,785,404)</u>
Net property and equipment	<u>2,072,502</u>	<u>2,193,044</u>
Other Assets		
Restricted cash - mortgage reserve, long-term	64,325	257,126
Prepaid maintenance agreement	21,731	21,731
Total Assets	<u><u>\$ 2,696,053</u></u>	<u><u>\$ 2,834,376</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 51,325	\$ 49,071
Accounts payable	202,652	271,442
Accrued payroll and related expenses and bank overdraft	12,491	153,761
Related party short-term debt	31,610	-
Refundable advances	26,249	26,249
Total current liabilities	<u>324,327</u>	<u>500,523</u>
Long-Term Debt		
Long-term debt, net of current portion	<u>2,758,425</u>	<u>2,817,180</u>
Total liabilities	<u>3,082,752</u>	<u>3,317,703</u>
Net Assets (Deficit)		
Without donor restrictions	(427,023)	(530,462)
With donor restrictions	40,324	47,135
	<u>(386,699)</u>	<u>(483,327)</u>
Total Liabilities and Net Assets	<u><u>\$ 2,696,053</u></u>	<u><u>\$ 2,834,376</u></u>

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

CORNERSTONE COMMUNITY OUTREACH

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018 (with comparative totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<u>Public Support and Revenue</u>				
Chicago Department of Family and Support Services	\$ 2,161,618	\$ -	\$ 2,161,618	\$ 1,578,569
Illinois State Board of Education	81,790	-	81,790	92,158
Contributions	770,920	-	770,920	702,871
Debt forgiveness	-	-	-	13,167
Donated food	584,718	-	584,718	544,773
Other	8,578	-	8,578	8,964
Release of restrictions -				
Satisfaction of purpose restrictions	6,811	(6,811)	-	-
Total public support and revenue	3,614,435	(6,811)	3,607,624	2,940,502
<u>Expenses</u>				
Program Services				
Hannah Interim Housing	599,710	-	599,710	582,914
Naomi Interim Housing	1,495,107	-	1,495,107	1,406,518
Sylvia Interim Housing	1,102,938	-	1,102,938	1,055,740
Other	33,055	-	33,055	38,569
Total program services	3,230,810	-	3,230,810	3,083,741
Management and general	240,491	-	240,491	232,715
Fundraising	39,695	-	39,695	13,330
Total expenses	3,510,996	-	3,510,996	3,329,786
Change in net assets	103,439	(6,811)	96,628	(389,284)
Net assets, beginning of year	(530,462)	47,135	(483,327)	(94,043)
Net assets end of year	<u>\$ (427,023)</u>	<u>\$ 40,324</u>	<u>\$ (386,699)</u>	<u>\$ (483,327)</u>

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018 (with comparative totals for 2017)

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
<u>Functional Expenses</u>					
Salaries and wages	\$ 1,457,446	\$ 112,570	\$ 23,727	\$ 1,593,743	\$ 1,466,192
Fringe benefits and related taxes	398,251	38,802	3,775	440,828	451,060
Professional fees	1,194	24,885	-	26,079	27,900
Donated food	584,718	-	-	584,718	544,773
Food	20,969	-	-	20,969	22,284
Client assistance	77,667	-	-	77,667	63,127
Supplies and small equipment purchases	49,938	3,988	1,082	55,008	41,446
Travel	34,695	1,179	76	35,950	30,684
Conferences and education	487	-	-	487	-
Postage and shipping	146	266	500	912	4,649
Printing and publications	-	20	8,253	8,273	1,995
Dues and subscriptions	1,149	1,918	1,009	4,076	3,097
Telephone	16,377	375	-	16,752	16,754
Occupancy	156,018	823	-	156,841	168,399
Repairs and maintenance	77,584	94	-	77,678	72,731
Insurance	84,318	33	-	84,351	84,629
Interest	128,710	5,957	1,104	135,771	123,435
Bank fees, fines and penalties	-	36,470	-	36,470	29,687
Miscellaneous	1,593	12,296	169	14,058	13,084
Depreciation and amortization	139,550	815	-	140,365	163,860
Total Expenses	\$ 3,230,810	\$ 240,491	\$ 39,695	\$ 3,510,996	\$ 3,329,786

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

CORNERSTONE COMMUNITY OUTREACH
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018 (with comparative totals for 2017)

	2018	2017
<u>Reconciliation of Change in Net Assets to Net Cash</u>		
<u>Provided (Used) by Operating Activities</u>		
Change in net assets	\$ 96,628	\$ (389,284)
Depreciation	140,365	140,599
Amortization	-	23,261
Decrease (increase) in assets		
Government contributions receivable	(80,935)	15,801
Contributions and other receivables	(51,038)	(76,472)
Deposits	(780)	(3,236)
Increase (decrease) in liabilities		
Accounts payable	(68,790)	144,172
Accrued payroll and related expenses	(141,270)	153,171
Net cash (used) provided by operating activities	<u>(105,820)</u>	<u>8,012</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of property and equipment	<u>(19,823)</u>	<u>(34,457)</u>
Net cash used by investing activities	<u>(19,823)</u>	<u>(34,457)</u>
<u>Cash Flows from Financing Activities</u>		
Payments on debt	(56,501)	(56,506)
Increase in related party debt	<u>31,610</u>	<u>-</u>
Net cash used by financing activities	<u>(24,891)</u>	<u>(56,506)</u>
Net decrease in cash	(150,534)	(82,951)
Cash, beginning of year	<u>307,872</u>	<u>390,823</u>
Cash, end of year	<u><u>\$ 157,338</u></u>	<u><u>\$ 307,872</u></u>
<u>Supplemental cash flow information</u>		
Interest paid	<u><u>\$ 135,771</u></u>	<u><u>\$ 123,435</u></u>
Cash and Cash Equivalents		
Cash	\$ 41,688	\$ 1,675
Restricted cash - mortgage reserve, current	51,325	49,071
Restricted cash - mortgage reserve, long-term	<u>64,325</u>	<u>257,126</u>
	<u><u>\$ 157,338</u></u>	<u><u>\$ 307,872</u></u>

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

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 1 – Going Concern Uncertainty

As of December 31, 2018, the Organization had a net deficit position in net assets without donor restrictions of approximately \$430,000. These conditions raise substantial doubt about the Organization's ability to continue as a going concern at December 31, 2018.

To address this issue the Organization has renegotiated several contracts in 2018, including negotiating with the City of Chicago for an increase in its reimbursement rate which helped realize an increase in its grant revenue of approximately 37% for the year ended December 31, 2018. This increased reimbursement is expected to continue through 2021. The Organization also increased its fundraising efforts during 2018, resulting in an increase of approximately 10% in public contributions and a net income of \$96,628.

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

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 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.

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 2 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

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.

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 maintains an exemption from federal income taxes with 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 by the IRS, generally for three years after they have been filed.

The Organization has adopted the requirements for accounting for uncertain tax positions and management has determined that the Organization was not required to record a liability related to uncertain tax positions as of December 31, 2018.

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, 2018

Note 2 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Basis of Presentation

The Organization is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions, as required by Generally Accepted Accounting Principles. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Items that affect this net asset category principally consist of gifts without restrictions, including those designated by the Board, fees for service and related expenses associated with the core activities of the Organization.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, endowment gifts, pledges, and investment returns on endowment funds. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations.

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 times, such balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Restricted Cash

Restricted cash represents escrow accounts held by National Covenant Properties pursuant to terms of the mortgage payable (see Note 3).

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 2 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Accounts Receivable

Accounts receivable are related to grants and contributions from government and private funding sources. The Organization has determined that an allowance for uncollectible accounts is not deemed necessary at December 31, 2018.

Construction in Progress

As of December 31, 2018, the Organization has \$543,600 of construction in progress for the installation of an elevator. Construction has not been substantially completed and assets have not been depreciated.

Property and Equipment

Expenditures for property and equipment and items, which substantially increase the useful lives of existing assets, are capitalized at cost. The Organization capitalizes assets with a cost of \$1,000 or more. 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions.

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

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 2 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Government Grants

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 is 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, 2018, the Organization received approximately 54% of its funding from Chicago Department of Family and Supportive Services. This source also represented 95% of the government contributions receivable at December 31, 2018. Additionally, donated food represented 19% of public support and revenue.

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, 2018.

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, 2018, these volunteer hours exceeded 14,500.

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, 2018, this amounted to \$584,718 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, 2018, and therefore, no accrual has been recorded in the accompanying financial statements.

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 2 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Functional Expenses

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, square footage 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, 2017, from which the summarized information was derived.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Organization has evaluated subsequent events through August 14, 2019, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed as of that date.

Not-for-Profit Financial Statement Presentation

During fiscal 2018, the Organization adopted Accounting Standards Update ("ASU") No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction of a net asset without donor restrictions where the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

No reclassification of 2017 net assets were necessary by the adoption of ASU No. 2016-14 by the Organization as of December 31, 2018.

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 3 – Financial Assets and Liquidity Resources

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and current debt obligations, were as follows:

Financial assets at December 31, 2018	
Cash and cash equivalents	\$ 157,338
Accounts and contributions receivable	<u>384,237</u>
Total financial assets	541,575
Less restricted cash - mortgage reserve	(115,650)
Less net assets with donor restrictions	<u>(40,324)</u>
Total financial assets available within one year	<u>\$ 385,601</u>

The Association manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. The Organization considers contributions with donor restrictions for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general operating purposes. To manage liquidity, the Organization defers expenses to the extent practicable and obtains short-term operating loans from various related parties.

Note 4 – Long-Term Debt

The Organization maintains a mortgage note on properties located at 4628-46 and 4615 N. Clifton, with a combined net book value of \$1,621,205 as of December 31, 2018 payable to the National Covenant Properties in monthly installments of \$14,790 through November 30, 2033, including variable interest at 4.5%, payable monthly.

Long-term debt is reflected in the Statement of Financial Position as follows at December 31, 2018:

Total outstanding debt	\$ 2,809,750
Less current portion	<u>(51,325)</u>
Net long-term debt	<u>\$ 2,758,425</u>

CORNERSTONE COMMUNITY OUTREACH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 4 – Long-Term Debt (cont.)

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

<u>Years Ended December 31,</u>	
2019	\$ 51,325
2020	53,683
2021	56,149
2022	58,729
2023	61,427
Thereafter	<u>2,528,437</u>
	<u>\$ 2,809,750</u>

Pursuant to the terms of the note, the Organization is required to maintain two escrow accounts with National Covenant Properties: 1.) a mortgage escrow account to cover 6-months of mortgage payments and 2.) a construction escrow account to fund unexpected major repairs or maintenance costs. The accounts were combined in 2018 and have a balance of \$115,650 as of December 31, 2018.

Note 5 – Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018 are available for the following purposes:

Elevator project	\$ 21,572
Facility improvement	10,000
Glenn Palmberg projects	3,467
Dressers for Hannah Interim Housing	285
Purchase of tables and chairs	<u>5,000</u>
	<u>\$ 40,324</u>

Note 6 – Related Party Transactions

Jesus People USA Evangelical Covenant Church (JPUSA) founded Cornerstone Community Outreach (CCO). As of December 31, 2018, the Board of Directors of the Organization consists predominantly of all JPUSA members. In addition, the Organization employs four members of JPUSA. Furthermore, the Executive Director's spouse is a paid employee of the Organization. Finally, a Board Member's daughter was a paid employee of CCO until August 2018.

The Organization also received short term operating funds from Lakefront Roofing Supply which is owned by JPUSA. At December 31, 2018, the balance of these loans was \$31,610. The loan does not charge interest and has no maturity date.

SUPPLEMENTARY INFORMATION

CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENSES BY PROGRAM
For the Year Ended December 31, 2018

	Hannah Interim Housing	Naomi Interim Housing	Sylvia Interim Housing	Other Programs	Total Program
<u>Expenditures</u>					
Salaries and wages	\$ 278,883	\$ 697,567	\$ 480,996	\$ -	\$ 1,457,446
Fringe benefits and related taxes	68,082	193,226	136,943	-	398,251
Professional fees	376	594	224	-	1,194
Donated food	96,713	255,054	228,683	4,268	584,718
Food	3,559	9,186	7,963	261	20,969
Client assistance	2,523	43,089	20,445	11,610	77,667
Supplies and small equipment purchases	8,230	20,564	15,997	5,147	49,938
Travel	3,712	15,279	8,084	7,620	34,695
Conferences and education	487	-	-	-	487
Postage and shipping	-	-	-	146	146
Dues and subscriptions	83	218	249	599	1,149
Telephone	3,838	6,779	5,670	90	16,377
Occupancy	35,807	87,813	31,737	661	156,018
Repairs and maintenance	13,421	31,401	31,931	831	77,584
Insurance	14,330	36,439	32,920	629	84,318
Interest	23,048	56,442	48,989	231	128,710
Miscellaneous	-	1,485	-	108	1,593
Depreciation and amortization	46,618	39,971	52,107	854	139,550
Total Expenses	\$ 599,710	\$ 1,495,107	\$ 1,102,938	\$ 33,055	\$ 3,230,810

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

**REPORTS REQUIRED BY
OMB'S UNIFORM GUIDANCE**

CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Contract Number</u>	<u>Passed Through to Subrecipients</u>	<u>Disbursements or Expenditures</u>
U.S. Department of Housing and Urban Development				
Passed through the Chicago Department of Family and Support Services				
Community Development Block Grants				
Naomi Interim Housing				
January 1, 2018 to December 31, 2018	14.218	67651	- (1)	\$ 566,704
Sylvia Center Interim Housing				
January 1, 2018 to December 31, 2018	14.218	67652	- (1)	425,700
Hannah House Interim Housing				
January 1, 2018 to December 31, 2018	14.218	80010	- (1)	6,808
Total U.S. Department of Housing and Urban Development			-	999,212
U.S. Department of Agriculture				
Passed through the Illinois State Board of Education				
Child and Adult Care Food Program				
October 1, 2017 to September 30, 2018	10.558	15-016-675P-00	-	34,975
October 1, 2018 to September 30, 2019	10.558	15-016-675P-00	-	46,816
Total U.S. Department of Agriculture			-	81,791
U.S. Department of Health and Human Services				
Passed through the Chicago Department of Family and Support Services				
Community Services Block Grant				
January 1, 2018 to December 31, 2018	93.569	67654	- (1)	271,096
Total U.S. Department of Health and Human Services			-	271,096
Federal Emergency Management Agency				
Passed through the United Way of Metro Chicago				
Emergency Food and Shelter National Board Program				
February 1, 2018 to January 31, 2019	97.024	237800-099	-	25,387
Total Federal Emergency Management Agency			-	25,387
Total Expenditures of Federal Awards			\$ -	\$ 1,377,486

(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, 2018

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the Federal grant activity of Cornerstone Community Outreach (the Organization) under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of *Title 2 US. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. 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 SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein, certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Other Matters

Amount of non-cash assistance	None
Amount of insurance	None
Amount of loans	None
Amount of loan guarantees	None



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, 2018, 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 August 14, 2019.

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 an opinion on the effectiveness of the Cornerstone Community Outreach's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cornerstone Community Outreach's financial statements are free from 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*.

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 results 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 the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Desmond & Ahern, Ltd

August 14, 2019
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Compliance for
Each Major Federal Program and Report on Internal
Control over Compliance Required by the Uniform Guidance**

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 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

Opinion on Each Major Federal Program

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, 2018.

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 types of requirements that could have a direct and material effect on each 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 the Uniform Guidance, 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Desmond & Allen, Ltd

August 14, 2019
Chicago, Illinois

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? _____ yes X 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

Any audit findings disclosed that are required to be reported under 2 CFR section 200.516(a)? _____ yes X no

Certification of Major Programs

CFDA Number

14.218
93.569

Name of Federal Program or Cluster

Community Development Block Grant
Community Services Block Grant

Dollar threshold used to distinguish between type A and type B Programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

**CORNERSTONE COMMUNITY OUTREACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

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

None