



ONslow COMMUNITY OUTREACH, INC.

Audited Financial Statements

for the year ended

December 31, 2016

(with comparative totals for 2015)



Table of Contents

Independent Auditor's Report.....	3
Financial Statements	
Statement of Financial Position	4
Statement of Activities.....	5
Statement of Functional Expenses.....	6
Statement of Cash Flows.....	7
Notes to the Financial Statements	8-15



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Onslow Community Outreach, Inc.
Jacksonville, North Carolina

We have audited the accompanying financial statements of Onslow Community Outreach, Inc. (OCO), a nonprofit organization, which comprise the statement of financial position as of December 31, 2016, 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. 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 risk 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.

Basis for Qualified Opinion

The organization was unable to provide sufficient documentation to support the amount of clinic inventory used during 2016 or the amount present as of December 31, 2016. Therefore, we were unable to obtain appropriate audit evidence in this regard. Consequently, we were unable to determine whether any adjustment to the inventory balance on the Statement of Financial Position or related items on the Statement of Activities was necessary.

Opinion

In our opinion, except for the possible effects of the matter described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of OCO, as of December 31, 2016, 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.

Bearman CPA PC

Wilmington, North Carolina
May 18, 2017



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Onslow Community Outreach, Inc.
Statement of Financial Position
as of December 31, 2016
(with comparative totals for 2015)

	12/31/16	12/31/15
Assets		
Cash and Cash Equivalents (Note 3c)	\$ 230,420	\$ 261,469
Grants Receivable (Note 4)	39,464	26,641
Inventory (Note 5)	34,686	33,175
Prepaid Expenses & Other Assets	-	10,370
Property & Equipment (Note 6)	1,349,813	739,945
Total Assets	1,654,383	1,071,600
Liabilities & Net Assets		
Accounts Payable and Accrued Liabilities (Note 7)	54,435	31,555
Notes Payable (Note 8)	788,597	525,000
Total Liabilities	843,032	556,555
Net Assets		
Unrestricted (Note 3b)	759,037	468,582
Temporarily Restricted (Notes 3b & 9)	52,314	46,463
Permanently Restricted (Note 3b)	-	-
Total Net Assets	811,351	515,045
Total Liabilities & Net Assets	\$ 1,654,383	\$ 1,071,600

The accompanying notes are an integral part of these financial statements.

Onslow Community Outreach, Inc.
Statement of Activities
for the year ended December 31, 2016
(with comparative totals for 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
Revenue				
Private Grants & Contributions (Note 4)	\$ 445,040	\$ 105,477	\$ 550,517	\$ 669,294
Government Grants & Contracts (Note 4)	83,764	6,750	90,514	84,298
Donated Facility (Note 6)	314,470	-	314,470	-
Donated Services (Note 10)	197,666	-	197,666	119,392
Special Events, net (Note 3d)	23,319	-	23,319	42,617
Other Income	14,448	-	14,448	10,554
Net Assets Released from Restriction	106,376	(106,376)	-	-
Total Revenue	1,185,083	5,851	1,190,934	926,155
Expense				
Program (Note 3e)	780,852		780,852	775,656
Management & General (Note 3e)	84,959		84,959	66,693
Fundraising (Note 3e)	28,817		28,817	26,315
Total Expense	894,628	-	894,628	868,664
Change in Net Assets	290,455	5,851	296,306	57,491
Net Assets Beginning of Year	468,582	46,463	515,045	457,554
Net Assets End of Year	\$ 759,037	\$ 52,314	\$ 811,351	\$ 515,045

The accompanying notes are an integral part of these financial statements.

Onslow Community Outreach, Inc.
Statement of Functional Expenses
for the year ended December 31, 2016
(with comparative totals for 2015)

<u>Expense Type</u>	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2016 Total</u>	<u>2015 Total</u>
Payroll	\$ 334,750	\$ 53,725	\$ 24,796	\$ 413,271	\$ 344,506
Contracted Services	6,796	12,012	-	18,808	15,228
Donated Medical Services (Note 10)	197,666	-	-	197,666	119,392
Pharmacy, Medical & Other Supplies (Note 3d)	23,854	2,022	-	25,876	169,904
Client Assistance	28,394	-	-	28,394	34,162
Program Operations	11,525	10,797	2,949	25,271	20,309
Insurance	42,015	2,322	1,072	45,409	32,934
Occupancy & Vehicles	105,734	4,081	-	109,815	120,467
Interest (Note 8)	23,679	-	-	23,679	3,741
Depreciation (Note 6)	6,439	-	-	6,439	8,021
Total Expense	\$ 780,852	\$ 84,959	\$ 28,817	\$ 894,628	\$ 868,664

The accompanying notes are an integral part of these financial statements.

Onslow Community Outreach, Inc.
Statement of Cash Flows
for the year ended December 31, 2016
(with comparative totals for 2015)

	2016	2015
Cash Flows from Operating Activity		
Change in Net Assets	\$ 296,306	\$ 57,491
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Changes in certain assets and liabilities:		
(Increase) / Decrease in Grants Receivable	(12,823)	(8,487)
(Increase) / Decrease in Inventory	(1,511)	(21,237)
(Increase) / Decrease in Prepaid Expenses & Other Assets	10,370	7,506
Increase (Decrease) in Accounts Payable & Accrued Liabilities	22,880	(13,965)
Donated Property	(314,470)	-
Contributions Restricted for Building Fund	(47,278)	(67,750)
Depreciation	6,439	8,021
Net Cash Provided by Operating Activities	(40,087)	(38,421)
Cash Flows from Investing Activities		
Building Purchase	-	(651,000)
Building Improvements	(301,838)	-
Building Fund Contributions	47,278	67,750
Net Cash Used in Investing Activities	(254,560)	(583,250)
Cash Flows from Financing Activities		
Proceeds from Debt Financing	280,000	525,000
Repayment of Note Payable	(16,402)	-
Net Cash Provided by (Used in) Financing Activities	263,598	525,000
Net Increase in Cash and Cash Equivalents	(31,049)	(96,671)
Cash and Cash Equivalents, beginning of year	261,469	358,140
Cash and Cash Equivalents, end of year	\$ 230,420	\$ 261,469

The accompanying notes are an integral part of these financial statements.

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

1. Organization

Onslow Community Outreach, Inc. (“OCO”) is a North Carolina nonprofit corporation organized in February 1990. The organization is exempt from income taxes under the Internal Revenue Service Code Section 501(c)(3). As such, contributions to the organization are tax deductible.

2. Mission and Activities

OCO aims to provide for the basic human care needs of less fortunate citizens of Onslow County, North Carolina. It seeks to fight hunger and homelessness, provide quality medical care to people who lack insurance and cannot afford health care, give benevolent assistance to families in financial crisis, and to help those less fortunate have a joyful Christmas. It seeks to be the personification of benevolence in the Onslow community.

OCO operates a soup kitchen, a homeless shelter and a free clinic (the Caring Community Clinic). It coordinated “Christmas Cheer,” assisting more than 4,500 adults and children during the holiday season. In addition, it brings the local community together for an annual “Oktoberfest” event.

3. Summary of Significant Accounting Policies

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. As such, revenues are recorded when earned and expenses are recorded when incurred. The significant accounting and reporting policies used by the organization are described below to enhance the usefulness and understandability of the financial statements.

3a. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The organization’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

3b. Net Asset Classes

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 958, “Not-for-Profit Entities,” requires the reporting of an organization’s activities by net asset class. The financial statements report net assets and changes in net assets in three classes that are based upon the existence of restrictions on use that are placed by its donors, as follows:

See the Independent Auditor’s Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The organization's unspent contributions are classified in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets (*also see Note 9, Restrictions on Net Assets*).

Permanently restricted net assets result from contributions to the organization that must be maintained permanently. Typically, the future investment returns on such assets may be used in full or in part for the operations of the organization. *As of December 31, OCO held no permanently restricted net assets. Also see Note 13, Endowment Fund.*

3c. Cash and Cash Equivalents

The organization considers short-term, interest bearing, highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of financial statement presentation.

3d. Contributions, Grant and Contracts

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless the use of the contributed assets is specifically restricted by the donor (see *Note 3b*, previously). Also see *Note 9, Restrictions on Net Assets*.

Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 10, Contributed Services*. Donations of pharmaceutical and medical supplies to the clinic are valued at replacement cost based on current wholesale prices of the items (*Note 4*).

See the Independent Auditor's Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

OCO hosts occasional special events designed to bring together the local community, raise funds for the organization, and bring greater awareness of its mission. Its primary special event is the annual Onslow County “Oktoberfest.” In 2016, OCO earned \$62,229 of revenue and incurred \$38,910 of expenses in connection with the event. The disbursements are considered primarily fundraising costs and are therefore netted against revenue. The net revenue amount of \$23,319 appears on the Statement of Activities as “Special Events, net.”

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

3e. Expense Allocations

The Statement of Activities presents expenses by functional classification (program, management and general, and fundraising). Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using an objective basis (such as staff members’ time). The Statement of Functional Expenses presents these same expenses by natural classification (e.g. wages, contracted services).

Management and General activities include the functions necessary to provide support for the organization’s program. These include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

3f. Property & Equipment

The organization capitalizes property and equipment costing more than \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor specifically restricts the asset’s use. Also see *Note 6, Property & Equipment*.

See the Independent Auditor’s Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

3g. Prior Year Information

The financial statements display prior-year, summarized information for comparative purposes. The prior year information is presented in total but not by net asset class (unrestricted, temporarily restricted, and permanently restricted). Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the prior year from which the summarized information is derived. Certain prior year amounts have been reclassified for consistency with the current period presentation.

4. Grants & Contributions

OCO receives its revenue from a wide variety of grant sources including both governmental and private agencies as well as individual and corporate supporters. Major components of support are summarized as follows:

Local businesses, churches & individuals	\$ 189,884
Local charities & foundations	255,156
Government agencies	83,764
Christmas Cheer (see Note 9)	64,950
Building Fund (see Note 9)	<u>47,277</u>
Total Grants & Contributions	\$ 641,031

The grants receivable balance of \$39,464 consists of reimbursable expenses that management believes are collectible in full. As such, no allowance for uncollectible amounts has been established.

5. Inventory

Inventory consists of the soup kitchen's food supplies of \$15,637, recorded at cost and the clinic's primarily donated pharmaceutical and medical supplies of \$19,049, recorded at replacement cost based on wholesale prices of the donated inventory.

As noted in the Independent Auditor's Report, the organization was unable to provide sufficient documentation to support the amount of clinic inventory used during 2016 or the amount present as of December 31, 2016. Therefore, the Independent Auditor's Report is qualified in this regard.

See the Independent Auditor's Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

6. Property and Equipment

In October 2015, OCO purchased a building and land located at 1210 Hargett Street in Jacksonville, North Carolina for \$650,000. The organization has commenced renovations to the property in order to provide a future Services Center of more than 27,000 square feet for administrative and program space (also see *Note 8*). As such, the building and related improvements are listed within a “construction in progress” category in the table below.

In December 2016, OCO received a donation of a 3,500-square foot property at 1 DeWitt Street in Jacksonville, North Carolina from a local philanthropist. The building and land were recorded at their appraised value of \$314,470. The associated gift-in-kind appears as a line item on the Statement of Activities. The organization intends to renovate the property in order to provide future dental and safety net health services to the community. As such, the building and land are listed within the “Property Held for Future Programming” in the table below.

As of December 31, 2016, the property and equipment balance of \$1,349,813 consists of the following major categories, stated at cost:

Land	\$	14,986
Buildings & Improvements		131,196
Construction in Progress (Services Center)		
Land		358,050
Building		292,950
Improvements		<u>301,838</u>
		952,838
Property Held for Future Programming (DeWitt Street)		
Land		81,890
Building		<u>232,580</u>
		314,470
Equipment		<u>26,023</u>
Total Property & Equipment		1,439,513
Less accumulated depreciation		<u>(89,700)</u>
Property & Equipment, Net		\$ 1,349,813

Depreciation is computed using the straight-line method over the estimated useful lives of the assets (up to 40 years for buildings and improvements, 3 to 7 years for furniture and equipment). Depreciation expense totaled \$6,439 and appears as a line item on the Statement of Functional Expenses.

See the Independent Auditor’s Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

7. Accounts Payable and Accrued Liabilities

The accounts payable and accrued liabilities balance of \$54,435 consists of operational accounts payable of \$23,533 and payroll-related liabilities of \$30,902.

8. Notes Payable

The organization's total long-term debt of \$788,597 as of 12/31/16 consists of a loan from Wells Fargo Bank with a principal balance of \$508,597 and two loans from the City of Jacksonville with a combined principal totaling \$280,000. The loans are further described below.

Wells Fargo Bank

In October 2015, OCO obtained \$525,000 of financing from Wells Fargo Bank to assist in the purchase of the property described in Note 6, above. Monthly payments of \$3,340, including interest at a fixed rate of 4.5% per annum are due for a period of five years, after which a balloon payment of \$437,383 is due in October 2020. The loan is secured by the property at 1210 Hargett Street in Jacksonville, North Carolina. Interest expense for the year ended December 31, 2016 totaled \$23,679 and appears as a line item on the Statement of Functional Expenses.

The loan matures in November 2025, when a final balloon payment of \$70,002 is due. Future scheduled maturities of the long-term debt are as follows:

FY 2017	\$ 17,553
FY 2018	18,359
FY 2019	19,202
FY 2020	<u>453,483</u>
Total	<u>\$ 508,597</u>

The organization also maintains a line of credit with Wells Fargo Bank to assist with seasonal cash flow needs. The line of credit has a limit of \$50,000 and had no outstanding balance as of December 31.

City of Jacksonville (Community Development Block Grant Funding)

During 2016, OCO received \$280,000 from the City of Jacksonville of federal pass-through Community Development Block Grant funds (CDBG). The funds were provided in the form of two potentially forgivable loans. The loans were provided in order to finance a portion of the renovations completed during 2016 on the Hargett Street property (see Note 6).

Each of the loans is forgivable at a rate of 10% per year over 10 years beginning July 1, 2018 provided that certain conditions are met. OCO must adhere to key milestones over the course of the loan period. The key milestones include completion of the specified renovations (parking lot infrastructure and sprinkler system installation completed in 2016); occupancy of the facility

See the Independent Auditor's Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

prior to June 30, 2018; and use of the facility throughout the 10-year term for community support functions.

While OCO's failure to meet the milestones would result in the unforgiven balance becoming due at the time of noncompliance, the City may at its discretion extend the repayment terms and/or convert the debt to an interest-bearing loan with interest accruing at 2% per annum. The City of Jacksonville has indicated its willingness to extend the June 30, 2018 occupancy date if the ultimate scope of the project should warrant it.

9. Restrictions on Net Assets

The restrictions on net assets at the end of 2016 of \$52,314 are temporary and relate to the unspent portion of funds restricted for use in the Christmas Cheer toy and food distribution program. During the course of the year, \$106,376 of restricted funding was used for its intended purposes and was released from restriction (\$47,277 for building renovation, \$59,099 for Christmas Cheer program).

10. Donated Services

The requirements for the recognition of contributed services in the financial statements are set forth in FASB ASC 958-605-25-16, "Contributed Services." Donated services should be recorded when (1) they create or enhance non-financial assets; or (2) they require specialized skills provided by individuals possessing those skills and are services that typically would be purchased if not provided by donation.

OCO has valued and recorded the donated services of its doctors, nurses, pharmacists and other healthcare professionals providing specialized medical skills. These professionals provided over 3,900 hours of services. OCO estimates that hourly rates for paid professionals in these capacities range from \$15 to \$97 per hour. As such, a calculated estimate of \$197,666 of contributed services revenue and offsetting expense is included on the Statement of Activities as the revenue line item "Donated Services" and on the Statement of Functional Expenses as the expense type "Donated Medical Services."

11. Agency Transactions

As part of its mission, OCO's Caring Community Clinic connects its patients to healthcare resources in the local community. In particular, it participates in a prescription assistance program with pharmaceutical suppliers. The program facilitates free medication access and management for uninsured, low income individuals. FASB ASC 958-605, "Revenue Recognition" provides guidance on the accounting for gifts directed to specified beneficiaries. It notes that if the recipient organization has little or no discretion in determining the use of the assets provided, a contribution should not be recognized. As such, the prescription medications

See the Independent Auditor's Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2016

provided by pharmaceutical suppliers to patients of the clinic *are not included* in OCO's Statement of Activities as either contributions revenue or donated pharmaceuticals expense.

12. Leases

In March 2016, OCO entered into a twelve-month agreement with a local corporation to lease a suite of offices to house its clinic operations. The lease requires monthly payments of \$3,075. OCO may exercise an option at the end of the lease term to extend its lease for two additional five-year terms. Total rent expense for 2016 of \$34,550 appears within the "Occupancy" line item on the Statement of Activities.

13. Endowment Fund

OCO is the sole beneficiary of an annual distribution from the "Onslow Community Outreach Endowment Fund" and the "Caring Community Clinic Endowment Fund" of the North Carolina Community Foundation. The balance in the two funds as of December 31, 2016 was approximately \$127,000. The endowment funds are assets of the community foundation and therefore do not appear on the Statement of Financial Position of OCO. While OCO is entitled to an annual distribution from the funds, it did not receive one in 2016, choosing instead to reinvest the distributable amounts.

14. Income Taxes

The organization is exempt from federal income taxation under Section 501(c) (3) of the Internal Revenue Code. Additionally, it does not generate business income unrelated to its exempt purpose and therefore has made no provision for income taxes or uncertain tax positions in the financial statements. There are no federal or state tax audits of the organization in progress and the organization believes it is not subject to tax examinations for fiscal years prior to 2013.

15. Subsequent Events

OCO has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2016) and through the date that the Independent Auditor's Report was available to be issued and was issued (May 18, 2017). No events have occurred during that period that would require adjustments to the audited financial statements or disclosure in these notes other than as noted in the preceding paragraph.

See the Independent Auditor's Report