

# ONSLOW COMMUNITY OUTREACH, INC.

## Audited Financial Statements

for the year ended

December 31, 2013

(with comparative totals for 2012)



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## 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, 2013, 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.

### **Opinion**

*In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCO as of December 31, 2013, 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.*

### **Prior Year Summarized Comparative Information**

We have previously audited the organization's 2012 financial statements and our report dated March 21, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized, comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bearman CPA PC*

Wilmington, North Carolina  
April 17, 2014

Onslow Community Outreach, Inc.  
**Statement of Financial Position**  
as of December 31, 2013  
(with comparative totals for 2012)

	<u>12/31/13</u>	<u>12/31/12</u>
<b>Assets</b>		
Cash and Cash Equivalents (Note 3c)	\$ 349,909	\$ 334,336
Grants Receivable (Note 4)	19,926	-
Inventory (Note 5)	10,738	12,007
Prepaid Expenses & Other Assets	9,856	7,167
Property & Equipment (Note 6)	<u>100,713</u>	<u>86,753</u>
<b>Total Assets</b>	<b><u>491,142</u></b>	<b><u>440,263</u></b>
 <b>Liabilities &amp; Net Assets</b>		
Accounts Payable (Note 7)	19,978	11,913
Line of Credit (Note 8)	<u>17,010</u>	<u>-</u>
<b>Total Liabilities</b>	<b><u>36,988</u></b>	<b><u>11,913</u></b>
 Net Assets		
Unrestricted (Note 3b)	354,450	322,918
Temporarily Restricted (Notes 3b & 9)	99,704	105,432
Permanently Restricted (Note 3b)	<u>-</u>	<u>-</u>
<b>Total Net Assets</b>	<b><u>454,154</u></b>	<b><u>428,350</u></b>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 491,142</u></b>	<b><u>\$ 440,263</u></b>

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

Onslow Community Outreach, Inc.  
**Statement of Activities**  
for the year ended December 31, 2013  
(with comparative totals for 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
<b>Revenue</b>				
Grants & Contributions (Note 4)	\$ 412,851	\$ 101,769	<b>\$ 514,620</b>	\$ 517,329
Special Events, net (Note 3d)	20,748	-	<b>20,748</b>	28,227
Net Assets Released from Restriction	107,497	(107,497)	-	-
<b>Total Revenue</b>	<b>541,096</b>	<b>(5,728)</b>	<b>535,368</b>	545,556
<b>Expense</b>				
Program (Note 3e)	426,528		<b>426,528</b>	435,156
Management & General (Note 3e)	59,488		<b>59,488</b>	57,399
Fundraising (Note 3e)	23,548	-	<b>23,548</b>	19,772
<b>Total Expense</b>	<b>509,564</b>	<b>-</b>	<b>509,564</b>	512,327
<b>Change in Net Assets</b>	<b>31,532</b>	<b>(5,728)</b>	<b>25,804</b>	33,229
Net Assets Beginning of Year	322,918	105,432	428,350	395,121
<b>Net Assets End of Year</b>	<b>\$ 354,450</b>	<b>\$ 99,704</b>	<b>\$ 454,154</b>	<b>\$ 428,350</b>

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, 2013  
(with comparative totals for 2012)

<u>Expense Type</u>	<u>Program</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>2013 Total</u>	<u>2012 Total</u>
Payroll	\$ 200,835	\$ 41,732	\$ 18,258	<b>\$ 260,825</b>	\$ 258,578
Contracted Services	8,657	8,978	830	<b>18,465</b>	21,345
Donated Services (Note 10)	21,113	-	-	<b>21,113</b>	29,175
Client Assistance	61,633	-	-	<b>61,633</b>	33,116
Program Operations	28,893	3,736	2,898	<b>35,527</b>	41,334
Insurance	24,188	3,839	1,036	<b>29,063</b>	32,348
Occupancy & Vehicles	73,549	1,203	526	<b>75,278</b>	87,208
Depreciation (Note 6)	7,660	-	-	<b>7,660</b>	9,223
<b>Total Expense</b>	<b>\$ 426,528</b>	<b>\$ 59,488</b>	<b>\$ 23,548</b>	<b>\$ 509,564</b>	<b>\$ 512,327</b>

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, 2013  
(with comparative totals for 2012)

	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activity</b>		
Change in Net Assets	\$ 25,804	\$ 33,229
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Changes in certain assets and liabilities:		
Decrease in Grants Receivable	(19,926)	5,114
(Increase) / Decrease in Inventory	1,269	4,518
(Increase) / Decrease in Prepaid Expenses & Other Assets	(2,689)	(1,114)
Increase (Decrease) in Accounts Payable & Accrued Liabilities	8,065	1,078
Depreciation	7,660	9,223
<b>Net Cash Provided by Operating Activities</b>	<b>20,183</b>	<b>52,048</b>
<b>Cash Flows from Investing Activities</b>		
Building Improvements	(21,620)	-
<b>Net Cash Used in Investing Activities</b>	<b>(21,620)</b>	<b>-</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Line of Credit	17,010	-
<b>Net Cash Provided by Financing Activities</b>	<b>17,010</b>	<b>-</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>15,573</b>	<b>52,048</b>
Cash and Cash Equivalents, beginning of year	334,336	282,288
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 349,909</b>	<b>\$ 334,336</b>

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

Onslow Community Outreach, Inc.  
**Notes to the Audited Financial Statements**  
December 31, 2013

**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 5,000 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:

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Onslow Community Outreach, Inc.  
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*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. At various times during the year, the organization's cash balance in its financial institution exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per depositor. The financial institution has a strong credit rating and management believes that the credit risks related to these deposits are minimal.

**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*.

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 2013, OCO earned \$49,996 of special events revenue and incurred \$29,248 of expenses in connection with these events. The disbursements

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are considered primarily fundraising costs and are therefore netted against revenue. The net revenue amount of \$20,748 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*.

***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.

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**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	\$ 215,602
Local charities & foundations	109,250
State & local government agencies	73,604
Christmas Cheer	57,599
Federal agencies	37,452
Contributed services (see Note 10)	<u>21,113</u>
Total Grants & Contributions	\$ 514,620

The grants receivable balance of \$19,926 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 and is recorded at cost.

**6. Property and Equipment**

Property and equipment is stated at cost and consists of the following:

Land	\$ 14,986
Buildings and Improvements	131,196
Equipment	<u>22,138</u>
	168,320
Less accumulated depreciation	<u>( 67,607)</u>
	\$100,713

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 \$7,660 and appears on the Statement of Functional Expenses. Approximately \$184,000 of fully depreciated equipment was removed from the above list as of 12/31/13.

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**7. Accounts Payable**

The accounts payable balance of \$19,978 consists of operational accounts payable and payroll-related liabilities.

**8. Line of Credit**

The organization maintains a line of credit with Wells Fargo Bank. The balance of \$17,010 as of December 31 was paid in full prior to the issuance of this report. The organization has a credit limit of \$50,000.

**9. Restrictions on Net Assets**

The restrictions on net assets at the end of 2013 of \$99,704 are temporary and predominantly 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, \$107,497 of restricted funding was used for its intended purposes and was released from restriction.

**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 500 hours of services. OCO estimates that hourly rates for paid professionals in these capacities range from \$30 to \$77 per hour. As such, a calculated estimate of \$21,113 of contributed services revenue and offsetting expense is included on the Statement of Activities within the revenue line item "Private Grants and Contributions" and on the Statement of Functional Expenses as the expense type "Donated 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 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.

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**12. Leases**

In February 2012, OCO entered into a three-year agreement with a local corporation to lease clinic space of approximately 1,500 square feet. The 35-month lease requires monthly payments of \$1,900 through December 2014. OCO may exercise an option at the end of the lease term to extend its lease for an additional three years at \$2,000 per month. Total rent expense for 2013 of \$22,800 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, 2013 was approximately \$116,500.

The endowment funds are assets of the 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 2013, choosing instead to reinvest the distributable amounts.

**14. Related Party Transactions**

As explained in Note 2, above, OCO distributes food to clients in need of assistance at various times throughout the year. One local food vendor is also a member of the organization's board of directors. The organization paid the director's company \$45,830 during 2013 for a variety of grocery items, primarily related to the Christmas Cheer program. As of December 31, 2013, no amounts were due to or from the vendor.

**15. 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 2010.

**16. Subsequent Events**

OCO has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2013) and through the date that the Independent Auditor's Report was available to be issued and was issued (April 17, 2014). No events have occurred during that period that would require adjustments to the audited financial statements or disclosure in these notes.

See the Independent Auditor's Report