

ON SLOW COMMUNITY OUTREACH, INC.

Audited Financial Statements
for the year ended
December 31, 2010

Table of Contents

Independent Auditor's Report.....	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements	6-10

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Onslow Community Outreach, Inc. ("OCO"), a nonprofit organization, as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows, for the year then ended. These financial statements are the responsibility of OCO's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCO as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bearman CPA P.C.

Wilmington, North Carolina
April 22, 2011

Onslow Community Outreach, Inc.
Statement of Financial Position
as of December 31, 2010

	12/31/10
Assets	
Cash and Cash Equivalents	\$ 278,146
Accounts Receivable (see Note 4)	8,558
Inventory (see Note 5)	9,192
Prepaid Expenses & Other Assets	8,711
Property & Equipment (see Note 6)	108,964
Total Assets	413,571
 Liabilities & Net Assets	
Accounts Payable	3,381
Other Accrued Liabilities (see Note 7)	34,676
Total Liabilities	38,057
 Net Assets	
Unrestricted	313,675
Temporarily Restricted (see Note 8)	61,839
Permanently Restricted	-
Total Net Assets	375,514
Total Liabilities & Net Assets	\$ 413,571

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.

Statement of Activities

as of December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Private Grants & Contributions	\$ 483,409	\$ 85,561	\$ -	\$ 568,970
Government Grants & Contracts	85,646	2,000	-	87,646
Special Events, net (see Note 3f)	51,316			51,316
Interest and Other Income	1,690	-	-	1,690
Net Assets Released from Restriction	91,452	(91,452)		-
Total Revenue	<u>713,513</u>	<u>(3,891)</u>	<u>-</u>	<u>709,622</u>
Expense				
Program	602,406			602,406
Management & General	84,294			84,294
Fundraising	22,341	-	-	22,341
Total Expense	<u>709,041</u>	<u>-</u>	<u>-</u>	<u>709,041</u>
Change in Net Assets	<u>4,472</u>	<u>(3,891)</u>	<u>-</u>	<u>581</u>
Net Assets Beginning of Year	309,203	65,730	-	374,933
Net Assets End of Year	<u>\$ 313,675</u>	<u>\$ 61,839</u>	<u>\$ -</u>	<u>\$ 375,514</u>

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.
Statement of Functional Expenses
as of December 31, 2010

<u>Expense Type</u>	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll	266,961	34,699	18,862	320,522
Contracted Services	11,322	19,924	-	31,246
Donated Services (see Note 9)	51,338	-	-	51,338
Client Assistance	61,532	-	-	61,532
Program Operations	45,154	20,400	2,878	68,432
Insurance	38,292	7,467	-	45,759
Occupancy & Vehicles	113,240	1,602	534	115,376
Depreciation (see Note 6)	14,567	202	67	14,836
Total Expense	\$ 602,406	\$ 84,294	\$ 22,341	\$ 709,041

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.

Statement of Cash Flows

as of December 31, 2010

	<u>12/31/10</u>
Cash Flows from Operating Activity	
Change in Net Assets	\$ 581
Adjustments to reconcile the change in net assets to net cash used in operating activities:	
Changes in certain assets and liabilities:	
Decrease in Accounts Receivable	4,412
Increase in Inventory	(1,070)
Decrease in Prepaid Expenses & Other Assets	5,703
Decrease in Accounts Payable	(15,997)
Decrease in Other Accrued Liabilities	(30,390)
Depreciation	<u>14,836</u>
Net Cash Used in Operating Activities	<u>(21,925)</u>
Cash Flows from Investing Activities	
None	<u>-</u>
Net Cash Used in Investing Activities	<u>-</u>
Cash Flows from Financing Activities	
None	<u>-</u>
Net Cash Used in Financing Activities	<u>-</u>
Net Decrease in Cash and Cash Equivalents	(21,925)
Cash and Cash Equivalents, beginning of year	<u>300,071</u>
Cash and Cash Equivalents, end of year	<u>\$ 278,146</u>

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2010

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 is dedicated to bringing together the talent, people and resources of the Onslow County, NC community in a collaborative effort to serve God by serving others. It seeks to extend the values of its faith by feeding the hungry, sheltering the homeless, healing the sick and providing for other unmet human needs.

In 2010, OCO operated a soup kitchen, a homeless shelter, a free clinic (the Caring Community Clinic) and a volunteer center. It coordinated “Christmas Cheer,” distributing more than 22,000 toys and 1,700 food boxes to over 1,400 families. In addition, it brought the local community together for the annual “Oktoberfest” event. As a result of these programs:

- More than 86,000 meals were served
- The clinic provided medical assistance for over 2,800 patient encounters
- The shelter housed residents for 2,998 bed nights
- Over 1,100 members of the community participated in volunteer efforts

3. Summary of Significant Accounting Policies

3a. Basis of Presentation

The 2010 financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenues are recorded when earned and expenses are recorded when incurred.

3b. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

3c. Net Asset Classes

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 958, “Not-for-Profit Entities,” requires the reporting of the organization’s activities by net asset class (FASB ASC 958-225) as described below:

See the Independent Auditor’s Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2010

Unrestricted Net Assets result from contributions to the organization that have no donor-imposed restrictions, less all expenses incurred in the operation of the organization.

Temporarily Restricted Net Assets result from contributions to the organization whose use is limited by a donor-imposed restriction. Restrictions are typically satisfied either by the passage of time or by the actions of the organization.

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.

3d. Cash and Cash Equivalents

The organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents for purposes of financial statement presentation.

3e. Contributions

Contributions subject to donor-imposed restrictions are initially recorded as temporarily restricted or permanently restricted net assets. Once restrictions are met, the contributions are reclassified to unrestricted net assets and appear on the Statement of Activities as “net assets released from restriction.” Also see *Note 8, Restrictions on Net Assets*.

Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 9, Contributed Services*.

3f. Functional Allocation of Expenses & Joint Costs of Fundraising

The Statement of Activities presents expenses by functional classification (program, general and administrative, and fundraising). The Statement of Functional Expenses presents these same expenses by natural classification (wages, contracted services, etc.). Certain costs have been allocated to the functional class using an objective basis (such as staff members’ time).

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 2010, OCO earned \$73,506 of special events revenue and incurred \$22,190 of expenses in connection with these events. The disbursements are considered primarily fundraising costs and are therefore netted against revenue. The net revenue amount of \$51,316 appears on the Statement of Activities as “Special Events, net.”

3g. Property & Equipment

OCO capitalizes property and equipment costing more than \$1,000. Lesser amounts are

See the Independent Auditor’s Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2010

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*.

4. Accounts Receivable

The accounts receivable balance of \$8,558 consists of invoices for which the organization had yet to receive payment as of 12/31/10. Management believes the amounts are fully collectible and so no provision has been made for uncollectible amounts.

5. Inventory

Inventory consists of the soup kitchen's food supplies and the clinic's pharmaceutical supplies 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	109,576
Furniture & Equipment	81,271
Vehicles	<u>125,211</u>
	331,044
Less accumulated depreciation	(<u>222,080</u>)
	\$108,964

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 \$14,836 and appears on the Statement of Functional Expenses.

7. Other Accrued Liabilities

As part of its mission to be a community resource, OCO assists local nonprofit and government agencies in various ways such as connecting them with volunteers. For several years, it has partnered with the City of Jacksonville to run the Sturgeon City Science Enrichment Program funded primarily by a three-year grant from the Burroughs Wellcome Fund. The summer program provides creative science enrichment activities for students in the sixth through twelfth grades. OCO hires temporary program staff to run the operation and uses its own staff to perform administrative functions such as payroll and bookkeeping services.

See the Independent Auditor's Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2010

During 2010, OCO, Burroughs Wellcome and the City of Jacksonville reached an agreement that allowed OCO to transfer responsibility for the summer program to a new program administrator, Sturgeon City of Jacksonville, Inc. In early February 2011, the agreement was formalized in writing. On March 22, 2011, OCO transferred the unspent balance of the fund, \$34,676, to Sturgeon City of Jacksonville, Inc. In so doing, it relieved itself of any further responsibility or liability associated with the program. The fund balance appears as a liability on the Statement of Financial Position as of 12/31/10.

8. Restrictions on Net Assets

The restrictions on net assets at the end of 2010 of \$61,839 are temporary and relate to the unspent portion of funds restricted for use in the Christmas Cheer toy and food distribution program (\$41,781) and the unspent portion of a grant from Kate B. Reynolds Foundation (\$20,058) awarded to OCO's Caring Community Clinic for dental service expansion.

9. Contributed 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, dentists, nurse practitioners, nurses and other healthcare professionals providing specialized medical skills. These professionals provided over 1,500 hours of services. OCO estimates that hourly rates for paid professionals in these capacities range from \$45 to \$75 per hour. As such, a calculated estimate of \$51,338 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."

10. 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.

See the Independent Auditor's Report

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2010

11. Leases

OCO leases clinic space under a three-year agreement with a member of the local community ending in 2011. The agreement calls for monthly rent payments of \$3,000. Rent expense over the three-year term will total \$108,000. Rent payments of \$36,000 are included on the Statement of Functional Expenses within the line item "Occupancy." Total payments remaining under the lease total \$21,000.

12. 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 at December 31, 2010 was \$89,560.

The endowment fund is an asset of the Foundation and therefore does not appear on the Statement of Financial Position of OCO. While OCO is entitled to an annual distribution from the fund, it chose to reinvest the 2010 amount in the funds' corpus. As such, OCO did not receive a distribution and no amount appears on the Statement of Activities in this regard.

13. 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 \$34,187 during 2010 for a variety of grocery items. As of December 31, 2010, OCO was owed a refund of \$4,702 by the vendor for returned food items. The refund was received in full in January 2011.

14. Subsequent Events

On January 1, 2011, OCO transferred responsibility for the administration of the Jacksonville-Onslow Volunteer Center to the United Way of Onslow County. The transfer was non-monetary and no assets or liabilities were created, transferred or extinguished as a result of the transaction.

On March 22, 2011, OCO transferred responsibility for the administration of the Sturgeon City Science Program to Sturgeon City of Jacksonville, Inc. See Note 7, above, for details of the transfer.

OCO has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2010) and through the date that the Independent Auditor's Report was available to be issued and was issued (April 22, 2011). No events have occurred during that period that would require adjustments to the audited financial statements or disclosures in these notes other than as previously noted above.

See the Independent Auditor's Report