

ONSLOW COMMUNITY OUTREACH, INC.

Audited Financial Statements

for the year ended

December 31, 2012

(with comparative totals for 2011)



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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., a nonprofit organization, which comprise the statement of financial position as of December 31, 2012, 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 Onslow Community Outreach, Inc. as of December 31, 2012, 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.

Other Matter

The prior year summarized comparative information has been derived from the organization's 2011 financial statements. In our report dated March 15, 2012, we expressed an unqualified opinion on those financial statements.

Bearman CPA PC

Wilmington, North Carolina
March 21, 2013

Onslow Community Outreach, Inc.
Statement of Financial Position
as of December 31, 2012
(with comparative totals for 2011)

	12/31/12	12/31/11
Assets		
Cash and Cash Equivalents	\$ 334,336	\$ 282,288
Accounts Receivable (see Note 4)	-	5,114
Inventory (see Note 5)	12,007	16,525
Prepaid Expenses & Other Assets	7,167	6,053
Property & Equipment (see Note 6)	86,753	95,976
Total Assets	440,263	405,956
 Liabilities & Net Assets		
Accounts Payable (Note 7)	11,913	10,835
Total Liabilities	11,913	10,835
 Net Assets		
Unrestricted	322,918	343,981
Temporarily Restricted (see Note 8)	105,432	51,140
Permanently Restricted	-	-
Total Net Assets	428,350	395,121
Total Liabilities & Net Assets	\$ 440,263	\$ 405,956

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.

Statement of Activities

as of December 31, 2012

(with comparative totals for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenue				
Private Grants & Contributions (Note 4)	\$ 351,103	\$ 101,726	\$ 452,829	\$ 463,986
Government Grants & Contracts (Note 4)	64,500	-	64,500	51,603
Special Events, net (see Note 3f)	28,227	-	28,227	42,234
Net Assets Released from Restriction	47,434	(47,434)	-	-
Total Revenue	491,264	54,292	545,556	557,823
Expense				
Program	435,156		435,156	454,872
Management & General	57,399		57,399	66,248
Fundraising	19,772	-	19,772	17,096
Total Expense	512,327	-	512,327	538,216
Change in Net Assets	(21,063)	54,292	33,229	19,607
Net Assets Beginning of Year	343,981	51,140	395,121	375,514
Net Assets End of Year	\$ 322,918	\$ 105,432	\$ 428,350	\$ 395,121

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.
Statement of Functional Expenses
as of December 31, 2012
(with comparative totals for 2011)

<u>Expense Type</u>	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2012 Total</u>	<u>2011 Total</u>
Payroll	\$ 204,276	\$ 38,787	\$ 15,515	\$ 258,578	\$ 253,059
Contracted Services	13,845	7,500	-	21,345	25,338
Donated Services (see Note 9)	29,175	-	-	29,175	42,840
Client Assistance	33,116	-	-	33,116	21,890
Program Operations	33,340	5,448	2,546	41,334	51,008
Insurance	26,247	4,754	1,347	32,348	33,500
Occupancy & Vehicles	85,934	910	364	87,208	97,593
Depreciation (see Note 6)	9,223	-	-	9,223	12,988
Total Expense	\$ 435,156	\$ 57,399	\$ 19,772	\$ 512,327	\$ 538,216

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.
Statement of Cash Flows
as of December 31, 2012
(with comparative totals for 2011)

	2012	2011
Cash Flows from Operating Activity		
Change in Net Assets	\$ 33,229	\$ 19,607
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	5,114	3,444
(Increase) / Decrease in Inventory	4,518	(7,333)
(Increase) / Decrease in Prepaid Expenses & Other Assets	(1,114)	2,658
Increase (Decrease) in Accounts Payable & Accrued Liabilities	1,078	(27,222)
Depreciation	9,223	12,988
Net Cash Provided by (Used in) Operating Activities	52,048	4,142
Cash Flows from Investing Activities		
None	-	-
Net Cash Used in Investing Activities	-	-
Cash Flows from Financing Activities		
None	-	-
Net Cash Used in Financing Activities	-	-
Net Decrease in Cash and Cash Equivalents	52,048	4,142
Cash and Cash Equivalents, beginning of year	282,288	278,146
Cash and Cash Equivalents, end of year	\$ 334,336	\$ 282,288

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2012

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 2012, OCO operated a soup kitchen, a homeless shelter and a free clinic (the Caring Community Clinic). It coordinated “Christmas Cheer,” assisting more than 5,100 adults and children during the holiday season. In addition, it brought the local community together for the annual “Oktoberfest” event. As a result of these programs:

- More than 140,000 meals were served
- The clinic provided medical assistance for over 750 patient encounters
- The shelter housed residents for more than 4,100 bed nights

3. Summary of Significant Accounting Policies

3a. Basis of Presentation

The 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:

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Onslow Community Outreach, Inc.
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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 2012, OCO earned \$45,237 of special events revenue and incurred \$17,010 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 \$28,227 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

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Onslow Community Outreach, Inc.
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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*.

3h. 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 year then ended, from which the summarized information is derived. Certain reclassifications of prior year amounts were made to conform to the current year presentation.

4. Grants & Contributions

OCO receives its revenue from a variety of grant sources including both governmental and private agencies as well as individual and corporate supporters. As of December 31, 2012, all grants receivable had been collected.

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	109,576
Furniture & Equipment	81,271
Vehicles	<u>125,211</u>
	331,044
Less accumulated depreciation	(<u>244,291</u>)
	\$86,753

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 \$9,223 and appears on the Statement of Functional Expenses.

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December 31, 2012

7. Accounts Payable

The accounts payable balance of \$11,913 consists of operational accounts payable and payroll-related liabilities.

8. Restrictions on Net Assets

The restrictions on net assets at the end of 2012 of \$105,432 are temporary and relate to the unspent portion of funds restricted for use in the Christmas Cheer toy and food distribution program.

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 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 \$29,175 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.

11. 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

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December 31, 2012

extend its lease for an additional three years at \$2,000 per month. Total rent expense for 2012 of \$21,948 appears within the "Occupancy" line item on the Statement of Activities.

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, 2012 was \$99,118.

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 2012, choosing instead to reinvest the distributable amounts.

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 \$9,224 during 2012 for a variety of grocery items. As of December 31, 2012, no amounts were due to or from the vendor.

14. Income Taxes

As a tax-exempt entity, OCO files an annual information return with the Internal Revenue Service. It does not generate unrelated business income tax and therefore has made no provision for income taxes or uncertain tax positions in the financial statements.

15. Subsequent Events

OCO has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2012) and through the date that the Independent Auditor's Report was available to be issued and was issued (March 21, 2013). 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