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ONSLOW COMMUNITY OUTREACH, INC.

Audited Financial Statements

for the year ended

December 31, 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 statement of financial position of Onslow Community Outreach, Inc. ("OCO"), a nonprofit organization, as of December 31, 2011, 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, 2011, 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 PLLC*

Wilmington, North Carolina  
March 15, 2012

Onslow Community Outreach, Inc.  
**Statement of Financial Position**  
as of December 31, 2011

	<b>12/31/11</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 282,288
Accounts Receivable (see Note 4)	5,114
Inventory (see Note 5)	16,525
Prepaid Expenses & Other Assets	6,053
Property & Equipment (see Note 6)	95,976
<b>Total Assets</b>	<b>405,956</b>
 <b>Liabilities &amp; Net Assets</b>	
Accounts Payable (Note 7)	10,835
<b>Total Liabilities</b>	<b>10,835</b>
Net Assets	
Unrestricted	343,981
Temporarily Restricted (see Note 8)	51,140
Permanently Restricted	-
<b>Total Net Assets</b>	<b>395,121</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 405,956</b>

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.

**Statement of Activities**

as of December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue</b>				
Private Grants & Contributions (Note 4)	\$ 382,966	\$ 73,687	\$ -	\$ 456,653
Government Grants & Contracts (Note 4)	49,603	2,000	-	51,603
Special Events, net (see Note 3f)	42,234			42,234
Interest and Other Income	7,333	-	-	7,333
Net Assets Released from Restriction	86,386	(86,386)		-
<b>Total Revenue</b>	<b><u>568,522</u></b>	<b><u>(10,699)</u></b>	<b><u>-</u></b>	<b><u>557,823</u></b>
<b>Expense</b>				
Program	454,872			454,872
Management & General	66,248			66,248
Fundraising	17,096	-	-	17,096
<b>Total Expense</b>	<b><u>538,216</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>538,216</u></b>
<b>Change in Net Assets</b>	<b><u>30,306</u></b>	<b><u>(10,699)</u></b>	<b><u>-</u></b>	<b><u>19,607</u></b>
Net Assets Beginning of Year	313,675	61,839	-	375,514
<b>Net Assets End of Year</b>	<b><u>\$ 343,981</u></b>	<b><u>\$ 51,140</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 395,121</u></b>

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.  
**Statement of Functional Expenses**  
as of December 31, 2011

<u>Expense Type</u>	<u>Program</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll	210,039	32,898	10,122	<b>253,059</b>
Contracted Services	17,838	7,500	-	<b>25,338</b>
Donated Services (see Note 9)	42,840	-	-	<b>42,840</b>
Program Operations	56,881	12,211	3,806	<b>72,898</b>
Insurance	29,623	3,270	607	<b>33,500</b>
Occupancy & Vehicles	86,083	9,375	2,135	<b>97,593</b>
Depreciation (see Note 6)	11,568	994	426	<b>12,988</b>
<b>Total Expense</b>	<b>\$ 454,872</b>	<b>\$ 66,248</b>	<b>\$ 17,096</b>	<b>\$ 538,216</b>

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.

**Statement of Cash Flows**

as of December 31, 2011

	<u>12/31/11</u>
<b>Cash Flows from Operating Activity</b>	
Change in Net Assets	\$ 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	3,444
Increase in Inventory	(7,333)
Decrease in Prepaid Expenses & Other Assets	2,658
Decrease in Accounts Payable & Accrued Liabilities	(27,222)
Depreciation	<u>12,988</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><b>4,142</b></u>
<b>Cash Flows from Investing Activities</b>	
None	<u>-</u>
<b>Net Cash Used in Investing Activities</b>	<u>-</u>
<b>Cash Flows from Financing Activities</b>	
None	<u>-</u>
<b>Net Cash Used in Financing Activities</b>	<u>-</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>4,142</b>
Cash and Cash Equivalents, beginning of year	<u>278,146</u>
<b>Cash and Cash Equivalents, end of year</b>	<u><b>\$ 282,288</b></u>

See the Independent Auditor's Report and accompanying notes.

Onslow Community Outreach, Inc.  
**Notes to the Audited Financial Statements**  
December 31, 2011

**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 2011, OCO operated 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 brought the local community together for the annual “Oktoberfest” event. As a result of these programs:

- More than 100,000 meals were served
- The clinic provided medical assistance for over 600 patient encounters
- The shelter housed residents for 3,500 bed nights

**3. Summary of Significant Accounting Policies**

***3a. Basis of Presentation***

The 2011 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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*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 2011, OCO earned \$69,632 of special events revenue and incurred \$27,398 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 \$42,234 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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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 \$5,114 consists of a grant award for which the organization had yet to receive payment as of 12/31/11. Management believes the amount is fully collectible and so no provision has been made for any uncollectible amount.

**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>235,068</u> )
	\$95,976

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 \$12,988 and appears on the Statement of Functional Expenses.

**7. Accounts Payable**

The accounts payable balance of \$10,835 consists of operational accounts payable and payroll-related liabilities.

**8. Restrictions on Net Assets**

The restrictions on net assets at the end of 2011 of \$51,140 are temporary and relate to the unspent portion of funds restricted for use in the Christmas Cheer toy and food distribution program.

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**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 1,100 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 \$42,840 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**

OCO leased clinic space under a three-year agreement with a member of the local community which ended in 2011. Rent payments of \$36,000 are included on the Statement of Functional Expenses within the line item "Occupancy." In February 2012, OCO entered into a lease with a North Carolina corporation for approximately 1,500 square feet of clinic space. The initial 35-month lease term is agreed upon at a monthly rent of \$1,900 through December 2014.

**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, 2011 was \$89,997.

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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 2011, choosing rather 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 \$21,665 during 2011 for a variety of grocery items. As of December 31, 2011, no amounts were due to or from the vendor.

**14. Subsequent Events**

OCO has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2011) and through the date that the Independent Auditor's Report was available to be issued and was issued (March 15, 2012). 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