



ONslow COMMUNITY OUTREACH, INC.

Audited Financial Statements

for the year ended

December 31, 2019

(with comparative totals for 2018)



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bearmancpa

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, 2019, 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, 2019, 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 OCO's 2018 financial statements and our report dated April 18, 2019 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bearman CPA PC

Wilmington, North Carolina
May 21, 2020

Onslow Community Outreach, Inc.
Statement of Financial Position
as of December 31, 2019
(with comparative totals for 2018)

	12/31/19	12/31/18
Assets		
Cash and Cash Equivalents (Note 3c)	\$ 209,341	\$ 431,821
Grants Receivable (Note 5)	49,416	40,470
Inventory (Note 6)	25,060	58,891
Property & Equipment (Note 7)	1,407,787	1,408,971
Total Assets	1,691,604	1,940,153
 Liabilities & Net Assets		
Accounts Payable and Accrued Liabilities (Note 9)	39,010	40,920
Notes Payable (Note 10)	495,524	808,325
Total Liabilities	534,534	849,245
Net Assets		
Without Donor Restrictions (Note 3b)	1,073,657	1,007,252
With Donor Restrictions (Notes 3b & 11)	83,413	83,656
Total Net Assets	1,157,070	1,090,908
Total Liabilities & Net Assets	\$ 1,691,604	\$ 1,940,153

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

Onslow Community Outreach, Inc.
Statement of Activities
for the year ended December 31, 2019
(with comparative totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenue				
Grants & Contributions				
Private Grants & Contributions (Note 5)	\$ 559,237	\$ 154,314	\$ 713,551	\$ 732,634
Government Grants & Contracts (Note 5)	365,453	-	365,453	305,480
Donated Services (Note 11)	171,285	-	171,285	301,135
Donated Goods (Note 3d)	938,117	-	938,117	1,038,725
	<u>2,034,092</u>	<u>154,314</u>	<u>2,188,406</u>	<u>2,377,974</u>
Gross Special Events Revenue	59,795	-	59,795	66,293
less Special Event Direct Costs	<u>(36,924)</u>	<u>-</u>	<u>(36,924)</u>	<u>(31,442)</u>
Special Events, Net (Note 3e)	22,871	-	22,871	34,851
Other Income	26,415	-	26,415	34,807
Net Assets Released from Restriction	<u>154,557</u>	<u>(154,557)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>2,237,935</u>	<u>(243)</u>	<u>2,237,692</u>	<u>2,447,632</u>
Expense				
Program (Note 3e)	2,022,972		2,022,972	2,066,796
Management & General (Note 3e)	102,541		102,541	88,170
Fundraising (Note 3e)	<u>46,017</u>		<u>46,017</u>	<u>41,081</u>
Total Expense	<u>2,171,530</u>	<u>-</u>	<u>2,171,530</u>	<u>2,196,047</u>
Change in Net Assets	<u>66,405</u>	<u>(243)</u>	<u>66,162</u>	<u>251,585</u>
Net Assets Beginning of Year	<u>1,007,252</u>	<u>83,656</u>	<u>1,090,908</u>	<u>839,323</u>
Net Assets End of Year	<u>\$ 1,073,657</u>	<u>\$ 83,413</u>	<u>\$ 1,157,070</u>	<u>\$ 1,090,908</u>

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, 2019
(with comparative totals for 2018)

Expense Type	Program	Management & General	Fundraising	2019 Total	2018 Total
Payroll	\$ 409,635	\$ 54,289	\$ 29,612	\$ 493,536	\$ 457,447
Contracted Services	97,427	8,750	3,000	109,177	94,540
Donated Medical Services (Note 11)	171,285	-	-	171,285	301,135
Donated Goods (Note 3d)	938,117	-	-	938,117	1,005,659
Pharmacy, Medical & Other Supplies	88,003	3,862	-	91,865	47,125
Client Assistance	61,066	-	-	61,066	33,908
Program Operations	69,155	13,758	11,369	94,282	54,026
Insurance	35,482	8,020	2,036	45,538	34,193
Occupancy & Vehicles	121,251	12,866	-	134,117	133,518
Interest (Note 9)	19,534	-	-	19,534	22,044
Depreciation (Note 7)	12,017	996	-	13,013	12,452
Total Expenses per Statement of Activities	\$ 2,022,972	\$ 102,541	\$ 46,017	\$ 2,171,530	\$ 2,196,047

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, 2019
(with comparative totals for 2018)

	2019	2018
Cash Flows from Operating Activity		
Change in Net Assets	\$ 66,162	\$ 251,585
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	(8,946)	(4,057)
(Increase) / Decrease in Inventory	33,831	(33,066)
Increase (Decrease) in Accounts Payable & Accrued Liabilities	(1,910)	7,767
Contributions Restricted for Building Fund	(80,967)	(137,332)
Depreciation	13,013	12,452
Net Cash Provided by (Used in) Operating Activities	21,183	97,349
Cash Flows from Investing Activities		
Purchases of Property & Equipment	(11,829)	(57,250)
Building Fund Contributions	80,967	137,332
Net Cash Provided by (Used in) Investing Activities	69,138	80,082
Cash Flows from Financing Activities		
Proceeds from Debt Financing	160,524	30,000
Repayment of Note Payable	(473,325)	(18,038)
Net Cash Provided by (Used in) Financing Activities	(312,801)	11,962
Net Increase (Decrease) in Cash and Cash Equivalents	(222,480)	189,393
Cash and Cash Equivalents, beginning of year	431,821	242,428
Cash and Cash Equivalents, end of year	\$ 209,341	\$ 431,821

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

Onslow Community Outreach, Inc.
Notes to the Audited Financial Statements
December 31, 2019

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) providing both medical and dental services to the uninsured and low-income residents of Onslow County. It coordinates “Christmas Cheer,” assisting around 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

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Onslow Community Outreach, Inc.
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asset class. The financial statements report net assets and changes in net assets based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions are resources available for use in general operations and not subject to donor (or certain grantor) restrictions. The only limits on their use 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.

Net assets with donor restrictions are resources that are subject to donor (or certain grantor) - imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. *As of December 31, 2019, OCO held no net assets with permanent donor restrictions.* See Note 10 for a discussion of other donor-restricted net assets held as of December 31.

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, Grants 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 10, Restrictions on Net Assets*.

Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 11, Contributed Services*. Donations of pharmaceutical and medical supplies to the clinic are valued at replacement cost based on current wholesale prices of the items.

The organization receives a large amount of donated food that is distributed to clients through its soup kitchen. The agency logs and weighs all food received and assigns a fair value to the donation based on its weight. Donations are assigned a value based on the average price per pound established by the USDA. The donated food goods were valued at \$1.67 per pound. OCO also receives a large amount of donated medicine and medical supplies from Direct

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Relief that is distributed through its clinic. The agency logs all medicine and supplies received and assigns a value to the donation based on the cost provided by Direct Relief. OCO also receives donated supplies that are used in the shelter and for direct client assistance. The agency logs all supplies received and assigns value based on the cost of the individual items.

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. Functional Allocation of Expenses

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 for the following expense categories:

<u>Expense Category</u>	<u>Method of Allocation by Function</u>
Payroll	Time and effort (e.g. staff members' time tracking)
Program Operations	Time and effort (e.g. staff members' time tracking)
Insurance	Time and effort (e.g. staff members' time tracking)
Occupancy & Vehicles	Usage of space (e.g. square footage by function)
Interest	Usage of space (e.g. square footage by function)
Depreciation	Usage of space (e.g. square footage by function)

The Statement of Functional Expenses presents these same expenses by both the functional category (program, management and general, and fundraising) and by natural classification (e.g. payroll, 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.

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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 recognizing special events revenue, OCO follows the guidance provided by FASB ASC-958-605, *Revenue Recognition*. OCO considers its events to be on-going and central to its operations and therefore records gross revenues less those direct costs that benefit event attendees. Other fundraising costs appear on the Statement of Functional Expenses.

3f. Property & Equipment

The organization capitalizes property and equipment costing more than \$5,000. 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 7, 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 (with donor restrictions, without donor restrictions). Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, the summarized information should be read in conjunction with the organization’s financial statements for the prior year from which it is derived. Certain prior-year amounts have been reclassified to conform to the current year presentation.

4. Liquidity and Availability

OCO has calculated that as of December 31, 2019, it had financial assets of \$825,803 that will become available within one year for general expenditure. The calculation was determined as follows:

Total Cash & Cash Equivalents	\$ 209,341
Accounts Receivable due within one year	49,416
less donations held for restricted purposes	-83,413
Total Available	\$ 175,344

In 2019, the organization had average daily expenses of \$2,834, after excluding depreciation and donated goods and services. Therefore, the \$175,344 of available financial assets could theoretically fund operations for 62 days at 2019 expenditure levels.

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As part of the organization's liquidity management plan, cash in excess of daily requirements may be invested in short-term investments and money market funds.

5. 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	\$ 238,319
Onslow Memorial Hospital	233,382
Local charities & foundations	241,850
Government agencies	365,453
Christmas Cheer (see Note 9)	66,925
Building Fund (see Note 9)	72,389
Donated Goods & Services (see Note 12)	<u>1,109,402</u>
Total Grants & Contributions	\$ 2,188,406

The grants receivable balance of \$49,416 consists of reimbursable expenses that management believes are collectible in full. As such, no allowance for uncollectible amounts has been established.

6. Inventory

Inventory consists of the soup kitchen's food supplies of \$22,182, recorded at cost, shelter supplies of \$6,212, recorded at cost, and the clinic's primarily donated pharmaceutical and medical supplies of \$30,497, recorded at replacement cost based on wholesale prices of the donated inventory.

7. 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 9*). As such, the building and related improvements are listed within a "construction in progress" category in the table below.

As of December 31, 2019, the property and equipment balance of \$1,407,787 consisted of the following major categories, stated at cost:

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Onslow Community Outreach, Inc.
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Property Categories

Land	\$	96,876
Buildings & Improvements		363,776
Construction in Progress (Services Center)		
Land		358,050
Building		292,950
Improvements		<u>380,700</u>
		1,031,700
Vehicles & Equipment		<u>41,273</u>
Total Property & Equipment		1,533,625
Less accumulated depreciation		<u>(125,838)</u>
Property & Equipment, Net		\$ 1,407,787

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 \$13,013 and appears as a line item on the Statement of Functional Expenses.

8. Accounts Payable and Accrued Liabilities

The accounts payable and accrued liabilities balance of \$39,010 consists of standard payroll-related liabilities and operational accounts payable.

9. Notes Payable

The organization's total long-term debt of \$495,524 as of 12/31/19 consists of a loan from Coastal Bank & Trust with a principal balance of \$160,524 and four loans from the City of Jacksonville with a combined principal totaling \$335,000. The loans are further described below.

Coastal Bank & Trust

In September 2019, OCO obtained approval for up to \$1,000,000 of financing from Coastal Bank & Trust Bank to refinance existing debt and to assist in the renovation of the property described in Note 6, above. At that time, OCO paid off its previous loan with Wells Fargo Bank using \$300,000 of its cash reserves and borrowing \$160,524 from Coastal Bank and Trust. It did not borrow further in 2019.

Under the terms of the loan, monthly interest-only payments at a fixed rate of 4.95% per annum are due for a period of one year, after which 48 payments of principal and interest are due with a

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Onslow Community Outreach, Inc.
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final balloon payment due in September 2024. The loan is secured by the property at 1210 Hargett Street in Jacksonville, North Carolina.

Interest expense for the year ended December 31, 2019 totaled \$19,534 and appears as a line item on the Statement of Functional Expenses.

City of Jacksonville (Community Development Block Grant Funding)

From 2016 to 2018, OCO received a total of \$335,000 from the City of Jacksonville of federal pass-through Community Development Block Grant funds (CDBG). The funds were provided in the form of four potentially forgivable loans to finance a portion of the renovations on the Hargett Street property.

Each of the loans is forgivable at a rate of 10% per year over 10 years beginning July 1, 2020 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; occupancy of the facility for shelter use prior to June 30, 2020; 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.

In a letter to OCO dated April 20, 2020, the City Manager indicated that he would recommend loan modifications to the Mayor and Council moving the required completion deadline to September 30, 2020. Management believes that the project is on course to meet the requirement to open the homeless shelter by the new deadline.

Line of Credit

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 was not used in 2019 and had no outstanding balance as of December 31.

10. Restrictions on Net Assets

The restrictions on net assets at the end of 2018 of \$83,413 relate to the unspent portion of funds restricted for use in the Christmas Cheer toy and food distribution program as well as grants restricted for the renovation of the Hargett Street property. During the course of the year, \$154,557 of funds restricted by donors were used for the intended purposes and were released from restriction.

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Onslow Community Outreach, Inc.
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11. 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 medical and dental professionals providing specialized skills. These professionals provided over 2,000 hours of services. OCO estimates that hourly rates for paid professionals in these capacities ranged from \$85 to \$100 per hour. As such, a calculated estimate of \$171,285 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."

12. 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.

13. 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. No updated lease agreements have been signed in 2019 and OCO is currently paying rent month-to-month. Total rent expense for 2019 of \$36,900 appears within the "Occupancy" line item on the Statement of Activities.

14. 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, 2019 was \$149,906.

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Onslow Community Outreach, Inc.
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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 2019, choosing instead to reinvest the distributable amounts.

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 2016.

16. Subsequent Events

As of the date of this report, the COVID-19 virus has created worldwide disruption to economic activity. It is too early to assess the financial or programmatic impacts of this massive public health crisis. OCO's employees continue to work to the extent possible and management is actively monitoring State and federal relief bills and private grant sources for opportunities to seek funding to offset any negative financial impact that might occur.

OCO has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2019) and through the date that the Independent Auditor's Report was available to be issued and was issued (May 21, 2020). 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 and in Note 9 regarding the City of Jacksonville's loan modification agreement.

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