

USA Council of Serra International

Audit Report

For the Year Ended

May 31, 2010

**Walter J. Newton & Co., CPAs
Chicago, IL**

**USA Council of Serra International
Financial Statements
May 31, 2010**

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Independent Auditors' Report**

Board of Trustees
USA Council of Serra International
65 East Wacker Place, Suite 802
Chicago, IL 60601

Dear Boardmembers:

We have audited the accompanying Statement of Financial Position of USA Council of Serra International as of May 31, 2010 and May 31, 2009 and the related statements of changes in Fund Balances and Fund Revenue and Expenses and Statement of Cash Flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 USA Council of Serra International as of May 31, 2010 and May 31, 2009 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Respectfully submitted,



Walter J. Newton & Co.
Certified Public Accountants
Chicago, Illinois

July 12, 2010

USA Council of Serra International
Statement of Financial Position
As of May 31,

Exhibit A

ASSETS

	2010	2009		
Current Assets:				
Cash in Bank	\$ 128,635.04	96,271.02		
Accounts Receivable-Merchandise (See Note 1)	477.15	1,017.45		
Accounts Receivable-Per Capita (Se (See Note 1)	8,732.21	28,982.17		
Prepaid Expenses	5,973.87	7,913.68		
Inventory (See Note 1)	<u>42,037.12</u>	<u>40,806.48</u>		
Total Current Assets	185,855.39	174,990.80		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
Equipment	23,653.84	22,682.46	971.38	4,059.34
Furniture & Fixtures	<u>14,715.36</u>	<u>14,227.47</u>	<u>487.89</u>	<u>1,196.47</u>
Total Fixed Assets	<u>38,369.20</u>	<u>36,909.93</u>	<u>1,459.27</u>	<u>5,255.81</u>
Total Assets	<u>\$ 187,314.66</u>			<u>180,246.61</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 8,561.78	6,022.66
Deferred Grant Income	14,862.40	26,785.00
Deferred Dues	<u>52,094.58</u>	<u>35,173.15</u>
Total Current Liabilities	<u>75,518.76</u>	<u>67,980.81</u>
Long-Term Liabilities:	0.00	0.00
Total Liabilities	75,518.76	67,980.81
Net Assets:		
Total Net Assets (See Exhibit B)	<u>111,795.90</u>	<u>112,265.80</u>
Total Liabilities and Net Assets	<u>\$187,314.66</u>	<u>180,246.61</u>

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

**USA Council of Serra International
Statement of Activities
For the years ended May 31,**

Exhibit B

	<u>2010</u>	<u>2010 Pctg of Rev</u>	<u>2009</u>	<u>2009 Pctg of Rev</u>
Changes in Net Assets:				
Revenues:				
Investment Income	\$ 992	0.18	969	0.17
Per Capita Dues	393,855	72.51	408,249	71.14
Gift Subscriptions	9,715	1.79	9,544	1.66
Other Income	1,669	0.31	12,669	2.21
Sale of Merchandise	41,597	7.66	47,593	8.29
Spouse per Capita Dues	33,637	6.19	34,992	6.10
Super Weekend Income	16,575	3.05	36,914	6.43
Direct Governor Revenue	3,010	0.55	0	0.00
Incoming Board Meeting	1,852	0.34	0	0.00
Grants - Unrestricted	27,746	5.11	18,644	3.25
Grants - USA Restricted	12,500	2.30	4,300	0.75
Total Revenue	543,148	100.00	573,874	100.00
 Operating Expenditures by Function:				
Membership	125,297	23.07	126,581	22.06
Communications	134,041	24.68	154,039	26.84
Program	2,628	0.48	2,716	0.47
Vocation	89,236	16.43	83,383	14.53
Standing Committee	43,166	7.95	76,754	13.37
General Administrative	112,320	20.68	87,104	15.18
Merchandise Costs	36,317	6.69	43,298	7.54
Total Operating Expenditures	543,147	100.00	573,875	100.00
 Increase (Decrease) in Net Assets	1	0.00	(1)	0.00
 Unrestricted Funds:				
Net Assets at Beginning of Year	15		(78)	
Net Transfer (To) From Restricted	0		94	
Net Assets Unrestricted at May 31	\$ 16		15	
 Net Assets (see also Footnote 8)				
Beginning Unrestricted Fund	\$ 15		(78)	
Beginning Board Restricted Funds	112,250		113,062	
Net Change in Board Restricted Fnds	(470)		(814)	
Net Change in Unrestricted Funds	1		94	
Net Assets as of May 31	\$ 111,796		112,266	

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

**USA Council of Serra International
Statement of Operating Expenditures
For the 12 Months ended May 31,**

Exhibit C

Operating Expenditures:	2010	2010 Pctg	2009	2009 Pctg
RTA/CTA Benefit	\$ 4,108	0.76	3,897	0.7
USA Serran Magazine	20,549	3.78	13,815	2.4
Cost of Merchandise	23,393	4.31	29,180	5.1
Subscriptions	2,942	0.54	1,879	0.3
Unemployment Taxes	324	0.06	370	0.1
Salaries	225,829	41.58	224,362	39.1
Temporary Services	3,244	0.60	754	0.1
Lease Payments	15,825	2.91	14,804	2.6
Rent and Utilities	54,457	10.03	57,615	10.0
Telephone Expense	7,242	1.33	6,376	1.1
General Insurance	6,541	1.20	7,035	1.2
Health/Life Insurance	31,642	5.83	27,271	4.8
Pension	8,167	1.50	8,123	1.4
Staff Travel - USA	13,693	2.52	11,491	2.0
ADP Expense	2,155	0.40	1,819	0.3
Payroll Taxes	17,276	3.18	17,164	3.0
Registration & Other Gov. Exp.	10	0.00	10	0.0
Postage & Freight	1,641	0.30	2,124	0.4
Stationery & Supplies	8,363	1.54	9,544	1.7
Episcopal Advisor Travel	508	0.09	1,167	0.2
President's Travel	1,862	0.34	2,583	0.5
Legal, Audit & Other Professional Fees	5,154	0.95	5,479	1.0
Bank Charges	432	0.08	317	0.1
Credit Card Fees	3,549	0.65	3,342	0.6
Office Equipment Expense	955	0.18	670	0.1
Contingency	275	0.05	275	0.0
Repairs & Maintenance	222	0.04	836	0.1
Staff Training	210	0.04	0	0.0
Depreciation	3,797	0.70	5,981	1.0
Board Mail	1	0.00	11	0.0
Vocations Committee	23,224	4.28	18,647	3.2
Membership Committee	7,324	1.35	5,156	0.9
Programs Committee	519	0.10	1,216	0.2
Communications Committee	2,029	0.37	4,524	0.8
General	2,285	0.42	2,356	0.4
ByLaws	521	0.10	409	0.1
Nominating Committee	0	0.00	5	0.0
Clubs in Formation	230	0.04	486	0.1
Board Meeting	8,734	1.61	16,702	2.9
National Conference Church Voc.	5,200	0.96	5,000	0.9
Super Weekend Expense	16,219	2.99	48,359	8.4
Relationships Committee	1,818	0.33	1,384	0.2
Meetings & Conventions	43	0.01	173	0.0
Leadership Development	9,909	1.82	9,682	1.7
Fund Development Committee	726	0.13	1,484	0.3
Total Operating Expenditures	<u>\$ 543,147</u>	<u>100.00</u>	<u>573,875</u>	<u>100.0</u>

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

**USA Council of Serra International
Statement of Cash Flows
For the Years Ended May 31,**

Exhibit D

	<u>2010</u>	<u>2009</u>
Net Income (Loss):	\$ (0)	0
Depreciation & Amortization	3,797	5,981
Decrease (Increase) in Dues/Merchandise Receivable	20,790	244
Decrease (Increase) in Prepaid Expense	1,940	299
Decrease (Increase) in Inventory	(1,231)	(3,068)
Increase (Decrease) in Accounts Payables & Accrued Expenses	2,539	4,673
Increase (Decrease) in Deferred Revenue	<u>4,999</u>	<u>(17,731)</u>
Net Cash Generated from (Used in) Operating Activities	32,834	(9,604)
Net Investment/Sale of Fixed Assets	<u>0</u>	<u>0</u>
Net Cash Used in Investing Activities	<u>0</u>	<u>0</u>
Financing Activities		
Increase (Decrease) in Cash and Equivalents	32,834	(9,604)
Increase to Restricted Funds	(470)	(1,681)
Cash and Equivalents Beginning of Year	<u>96,271</u>	<u>107,556</u>
Cash and Equivalents End of Year	<u>\$ 128,635</u>	<u>96,271</u>

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

USA Council of Serra International
Notes to Financial Statements
May 31, 2010

1. **Nature of Organization and Significant Accounting Policies:**

USA Council of Serra International (the Council) was incorporated on June 29, 1994 as an Illinois not-for-profit corporation. The purposes of the Council are to foster and promote vocations to the ministerial priesthood and religious life for the Catholic Church, to further Catholicism, to establish and maintain liaison with the Roman Catholic Church Hierarchy, to enhance the spirituality of its members through education and fellowship, to communicate and disseminate the voice of Serra International, to assist in the orientation and coordination of club programs, to promote membership growth and the establishment of new clubs, to organize and carry out events, to support clubs in all ways, to publish and distribute magazines, newsletters, etc., to promote the ideals and objectives of Serra International, to set realistic goals for the Council and to be accountable to the membership. The Council is affiliated with Serra International and is subject to its Constitution, Bylaws and guidelines established by the Board of Serra International and Amendments thereto.

The accompanying financial statements are presented in accordance with generally accepted accounting principles.

Revenue and Expense Recognition

Revenue and expenses are recorded on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized as incurred. All contributions are considered to be available for unrestricted use unless otherwise specifically restricted by donors. Unrestricted contributions are recorded and recognized as income when received. Temporarily restricted contributions are recorded as revenue when they are received and/or pledged to the council and transferred to the unrestricted fund when they are expended. The Accounts Receivable amounts presented in the Statement of Financial Position are presented net of an allowance for bad debts.

Furniture and Fixtures

Furniture and fixtures are recorded at cost and contributed assets are recorded at the fair market value on the date of the donation. Depreciation is on a straight-line method over the estimated life (five to ten years) of the assets using a half-year convention.

Functional Expense Allocation

The cost of providing the various programs and activities has been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated to programs and to supporting services based on estimates, which were made by management.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Inventory

The Council values inventory at lower of cost (principally on a first-in, first-out method) or net realized value and consists mainly of club supplies and items bearing the Serra insignia which are available for sale to clubs and members. The inventory amounts presented in the Statement of Financial Position are presented net of an allowance for loss due to obsolete inventory.

2. **Description of net assets (fund balances):**

The Council has the following net assets:

Unrestricted Net Assets

This fund includes all resources over which the Board of Directors has discretionary control. All unrestricted revenue and expenses of the Council are included in the revenue and expenses of this fund. The fund also includes certain funds that the Board has designated to be used for certain purposes. These funds are considered restricted by the Board but the Board has discretion over these funds and can remove their designations at anytime.

The Board has set aside certain funds and designated them as follows:

- Leadership Fund to establish a one month cash reserve with funds segregated from operating funds but available for cash shortages with the stipulation that they be repaid in one year.
- Vocations Fund to be used exclusively for vocations promotion and work in the US with the funds segregated from operating funds with up to 25% of the corpus available for annual use upon approval of the Executive Committee.

Temporarily Restricted Net Assets

This fund includes all resources that are donor restricted. As the restrictions are met, the funds are transferred to the unrestricted fund..

3. **Lease commitments:**

The Council leases its office facility from an unrelated party under a non-cancelable lease, which was entered into, effective September 1, 2005 for a period of five years and has been extended through August 31, 2013. Facility's rent expense was \$54,456.76 in 2010, including taxes, building operating expenses, storage and electricity. Future minimum annual base facility rentals, including taxes, building operating expenses, storage and electricity are \$55,000.05 for 2011, \$56,123.34 for 2012, \$57,240.09 and \$14,099.22 for 2014. Equipment rental expense was \$ 15,825.40 in 2010. Future annual rentals are \$14,224.56 for 2011 and 2012, and \$ 9,909.52 for 2013 and \$ 5,168.00 for 2014.

4. **Related Entities Transactions:**

The Council is affiliated with Serra International and Serra International Foundation. In the past, Serra International and the Foundations both made grants to the Council. A College Connection Restricted Grant for \$10,000.00 was received in 2009. The Council also collects Initiation Fees from the clubs and remits these on a monthly basis to Serra International.

The following is a summary of the various related party transactions included in the Council's financial statements for the year ended May 31, 2010:

Transactions with Serra International:

Initiation fees collected by the Council	\$ 5,979.58
Initiation fees paid to Serra International	\$ 5,979.58

Accounts Payable at May 31, 2010:

Serra International - Initiation Fees	\$ 0.00
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5. **Taxes:**

The Council is exempt from income tax under Section 501 (c)(3). The Council has no unrelated business income and accordingly, the accompanying financial statements contain no provision for income taxes. The Council has elected the reimbursement method for Illinois unemployment tax but has been assessed and is paying on a rate basis.

6. **Pension:**

Effective June 1, 1999, the Council established a tax deferred annuity pension plan Section 403(b) of the Internal Revenue Code. The Council contributes 3% of compensation of all eligible employees, which is immediately vested. All employees who are at least 21 years of age, have completed at least one year of service and work at least 1,000 hours per year are eligible for participation in the plan. All employees may elect to and do make non-matching contributions to the plan. Pension expense for the year ended May 31, 2010 was \$ 8,166.84.

7. **Merchandise Sales:**

The following is a summary of the activity in merchandise sales for the year ended May 31, 2010

Sales	\$ 41,596.98
Cost of Merchandise	\$ <u>23,392.82</u>
Gross profit	18,204.16
Labor & Occupancy allocated	<u>12,924.18</u>
Net income (loss)	\$ <u>5,279.98</u>

8. **Board Designated Funds:**

The following is a summary of the activity in board designated funds for the year ended May 31, 2010:

	<u>Leadership</u>	<u>Vocations</u>	<u>Board Rest.</u>	<u>Total</u>
Contributions & Transfers	\$ 350	\$25,004	\$ 0	\$ 25,354
Disbursements designated	<u>0</u>	<u>(10,070)</u>	<u>(15,754)</u>	<u>(25,824)</u>
Net Change in year	350	14,933	(15,754)	(470)
Balance beginning of year	\$ <u>25,795</u>	\$ <u>47,833</u>	\$ 38,622	\$112,250
Balance end of year	\$ <u>26,145</u>	\$ <u>62,767</u>	\$ <u>22,868</u>	\$ <u>111,780</u>

End of Notes

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July 12, 2010

To the Board of Directors of USA Council of Serra International:

We have audited the financial statements of USA Council of Serra International for the year ended May 31, 2010, and have issued our report thereon dated July 12, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter dated May 15, 2010, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of USA Council of Serra International. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Other Information in Documents Containing Audited Financial Statements:

Significant Accounting Policies:

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by USA Council of Serra International are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended May 31, 2010. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under the professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop any accounting estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Audit Adjustments:

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Organization, either individually or in the aggregate, indicate matters that could have a significant effect on the Organization's financial reporting process.

Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit:

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other:

An ideal system of internal controls calls for the highest level of segregation of financial duties. However, the costs associated with such controls must not exceed the benefits derived from the personnel needed to completely segregate all functions within the accounting system. This situation in modest size organizations causes an inherent limitation in the auditor's full reliance on the system of internal controls. It is therefore recommended that the audit committee periodically review the organization's procedures to see that they are considered to be adequate in the safeguarding of the organization's assets and in the accuracy of the day-to-day accounting of the organization's financial transactions. On behalf of the audit committee, we performed such a review prior the year end, and did so on a surprise basis. We are pleased to report that the organization's procedures were well documented and made readily available to us. Further, we determined, based on our testing, that the organization adequately follows these documented procedures. We encourage this surprise inspection to continue annually.

We have concluded that the financial records have been professionally and adequately maintained during the course of our audit and we appreciate the courtesy of all staff in the assistance with this audit engagement.

This information is intended solely for the use of the Board of Directors and management of USA Council of Serra International and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Walter J. Newton & Co".

Walter J. Newton & Company
Certified Public Accountants