

USA Council of Serra International

Audit Report

For the Year Ended

May 31, 2011

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

**USA Council of Serra International
Financial Statements
May 31, 2011**

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Independent Auditors' Report**

Board of Trustees
USA Council of Serra International
65 East Wacker Place, Suite 802
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Dear Boardmembers:

We have audited the accompanying Statement of Financial Position of USA Council of Serra International as of May 31, 2011 and May 31, 2010 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, 2011 and May 31, 2010 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

September 15, 2011

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

Exhibit A

ASSETS

	2011	2010		
Current Assets:				
Cash in Bank	\$ 91,996.27	128,635.04		
Accounts Receivable-Merchandise (See Note 1)	123.00	477.15		
Accounts Receivable-Per Capita (See (See Note 1)	15,912.71	8,732.21		
Prepaid Expenses	4,838.34	5,973.87		
Inventory (See Note 1)	<u>40,980.36</u>	<u>42,037.12</u>		
Total Current Assets	153,850.68	185,855.39		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
Equipment	23,653.84	23,112.46	541.38	971.38
Furniture & Fixtures	<u>14,715.36</u>	<u>14,692.35</u>	<u>23.01</u>	<u>487.89</u>
Total Fixed Assets	<u>38,369.20</u>	<u>37,804.81</u>	<u>564.39</u>	<u>1,459.27</u>
Total Assets	<u>\$ 154,415.07</u>		<u>187,314.66</u>	

LIABILITIES AND NET ASSETS

Current Liabilities:				
Accounts Payable	\$ 1,350.00	8,561.78		
Deferred Grant Income	14,862.40	14,862.40		
Deferred Dues	<u>19,375.75</u>	<u>52,094.58</u>		
Total Current Liabilities	<u>35,588.15</u>	<u>75,518.76</u>		
Long-Term Liabilities:	0.00	0.00		
Total Liabilities	35,588.15	75,518.76		
Net Assets:				
Total Net Assets (See Exhibit B)	<u>118,826.92</u>	<u>111,795.90</u>		
Total Liabilities and Net Assets	<u>\$ 154,415.07</u>		<u>187,314.66</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>2011</u>	<u>2011 Pctg of Rev</u>	<u>2010</u>	<u>2010 Pctg of Rev</u>
Changes in Net Assets:				
Revenues:				
Investment Income	\$ 1,248	0.23	992	0.18
Per Capita Dues	385,377	71.16	393,855	72.51
Gift Subscriptions	8,948	1.65	9,715	1.79
Other Income	3,243	0.60	1,669	0.31
Sale of Merchandise	41,839	7.73	41,597	7.66
Spouse per Capita Dues	33,396	6.17	33,636	6.19
Super Weekend Income	18,985	3.51	16,575	3.05
Direct Governor Revenue	2,575	0.48	3,010	0.55
Incoming Board Meeting	0	0.00	1,852	0.34
Grants - Unrestricted	45,918	8.48	27,746	5.11
Grants - USA Restricted	0	0.00	12,500	2.30
Total Revenue	<u>541,529</u>	<u>100.00</u>	<u>543,147</u>	<u>100.00</u>
 Operating Expenditures by Function:				
Membership	111,937	20.67	125,439	23.09
Communications	113,083	20.88	134,041	24.68
Program	1,142	0.21	2,628	0.48
Vocation	103,209	19.06	89,236	16.43
Standing Committee	44,890	8.29	43,166	7.95
General Administrative	121,759	22.48	112,320	20.68
Merchandise Costs	33,771	6.24	36,317	6.69
Total Operating Expenditures	<u>529,791</u>	<u>97.83</u>	<u>543,147</u>	<u>100.00</u>
 Increase (Decrease) in Net Assets	<u>11,738</u>	<u>2.17</u>	<u>0</u>	<u>0.00</u>
 Unrestricted Funds:				
Net Assets at Beginning of Year	<u>16</u>		<u>16</u>	
Net Assets Unrestricted at May 31	<u>\$ 11,754</u>		<u>16</u>	
 Net Assets (see also Footnote 8)				
Beginning Unrestricted Fund	\$ 16		16	
Beginning Board Restricted Funds	111,781		112,250	
Net Change in Board Restricted Funds	(4,706)		(470)	
Net Change in Unrestricted Funds	11,738		0	
Net Assets as of May 31	<u>\$ 118,827</u>		<u>111,796</u>	

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:	2011	2011 Pctg	2010	2010 Pctg
RTA/CTA Benefit	\$ 4,108	0.76	4,108	0.8
USA Serran Magazine	10,951	2.02	20,549	3.8
Cost of Merchandise	22,707	4.19	23,393	4.3
Employee Postage Credits	50	0.01	0	0.0
Subscriptions	1,784	0.33	2,942	0.5
Unemployment Taxes	439	0.08	324	0.1
Salaries	217,253	40.12	225,829	41.6
Temporary Services	200	0.04	3,244	0.6
Lease Payments	17,748	3.28	15,825	2.9
Rent and Utilities	55,185	10.19	54,457	10.0
Telephone Expense	8,494	1.57	7,242	1.3
General Insurance	6,942	1.28	6,541	1.2
Health/Life Insurance	27,071	5.00	31,642	5.8
Pension	8,004	1.48	8,167	1.5
Staff Travel - USA	5,577	1.03	13,693	2.5
ADP Expense	2,066	0.38	2,155	0.4
Payroll Taxes	16,620	3.07	17,276	3.2
Registration & Other Gov. Exp.	10	0.00	10	0.0
Postage & Freight	2,616	0.48	1,641	0.3
Stationery & Supplies	6,273	1.16	8,363	1.5
Episcopal Advisor Travel	323	0.06	508	0.1
President's Travel	398	0.07	1,862	0.3
Legal, Audit & Other Professional Fees	19,021	3.51	5,154	0.9
Bank Charges	555	0.10	432	0.1
Credit Card Fees	4,042	0.75	3,549	0.7
Office Equipment Expense	881	0.16	955	0.2
Contingency	275	0.05	275	0.1
Repairs & Maintenance	539	0.10	222	0.0
Staff Training	119	0.02	210	0.0
Depreciation	895	0.17	3,797	0.7
Board Mail	191	0.04	1	0.0
Vocations Committee	34,844	6.43	23,224	4.3
Membership Committee	3,898	0.72	7,324	1.3
Programs Committee	76	0.01	519	0.1
Communications Committee	2,550	0.47	2,029	0.4
General	1,804	0.33	2,285	0.4
ByLaws	180	0.03	521	0.1
Nominating Committee	5	0.00	0	0.0
Clubs in Formation	391	0.07	230	0.0
Board Meeting	11,370	2.10	8,734	1.6
National Conference Church Voc.	2,600	0.48	5,200	1.0
Long Range Planning	332	0.06	0	0.0
Super Weekend Expense	16,224	3.00	16,219	3.0
Relationships Committee	4,011	0.74	1,818	0.3
Meetings & Conventions	451	0.08	43	0.0
Leadership Development	8,668	1.60	9,909	1.8
Fund Development Committee	1,052	0.19	726	0.1
Total Operating Expenditures	\$ 529,792	100.00	543,147	100.0

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>2011</u>	<u>2010</u>
Net Income (Loss):	\$ 11,737	(0)
Depreciation & Amortization	895	3,797
Decrease (Increase) in Dues/Merchandise Receivable	(6,826)	20,790
Decrease (Increase) in Prepaid Expense	1,136	1,940
Decrease (Increase) in Inventory	1,057	(1,231)
Increase (Decrease) in Accounts Payables & Accrued Expenses	(7,212)	2,539
Increase (Decrease) in Deferred Revenue	<u>(32,719)</u>	<u>4,999</u>
Net Cash Generated from (Used in) Operating Activities	(31,933)	32,834
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	(31,933)	32,834
Increase to Restricted Funds	(4,706)	(470)
Cash and Equivalents Beginning of Year	<u>128,635</u>	<u>96,271</u>
Cash and Equivalents End of Year	<u>\$ 91,996</u>	<u>128,635</u>

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

USA Council of Serra International
Notes to Financial Statements
May 31, 2011

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.
- Vacations Fund to be used exclusively for vacations 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 \$55,184.93 in 2011, including taxes, building operating expenses, storage and electricity. Future minimum annual base facility rentals, including taxes, building operating expenses, storage and electricity are \$56,123.34 for 2012, \$57,240.09 for 2013, and \$14,099.22 for 2014. Equipment rental expense was \$ 17,747.87 in 2011. Future annual rentals are \$14,224.56 for 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. No Grants were received for the Serra International or the Serra International Foundation in 2011. 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, 2011:

Transactions with Serra International:

Initiation fees collected by the Council	\$ 5,398.45
Initiation fees paid to Serra International	\$ 5,398.45

Accounts Payable at May 31, 2011:

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, 2011 was \$ 8,003.73.

7. **Merchandise Sales:**

The following is a summary of the activity in merchandise sales for the year ended May 31, 2011

Sales	\$ 41,839.24
Cost of Merchandise	\$ <u>22,706.99</u>
Gross profit	19,132.25
Labor & Occupancy allocated	<u>11,064.01</u>
Net income (loss)	\$ <u>8,068.24</u>

8. **Board Designated Funds:**

The following is a summary of the activity in board designated funds for the year ended May 31, 2011:

	<u>Leadership</u>	<u>Vocations Board Rest.</u>	<u>Legal Defense</u>	<u>Total</u>	
Contributions & Transfers	\$ 0	\$29,245	\$0	\$ 41,255.80	
Disbursements designated	<u>0</u>	<u>(33,951)</u>	<u>0</u>	<u>(45,961.80)</u>	
Net Change in year	0	(4,706)	0	(4,706)	
Balance beginning of year	\$ 26,145	\$ 62,767	\$ 22,868	\$ 0	\$111,780
Balance end of year	\$ <u>26,145</u>	\$ <u>58,061</u>	\$ <u>22,868</u>	\$ <u>0</u>	\$ <u>107,074</u>

9. **Litigation Matter:**

The organization is a defendant in a lawsuit filed by another related organization seeking to seize the assets and dissolve this organization alleging various unsubstantiated charges. The organization believes the suit is without merit and is vigorously defending its position. The organization has received donor restricted funding for the legal defense and management believes adequate funding is in place such that none of the legal fees will need to be taken from the dues raised for normal operations. At this stage of the proceedings, legal counsel for the organization cannot offer an opinion as to the probable outcome.

End of Notes