

Serra's National Council for the United States

(A Not-for-profit Corporation)

Audit Report

For the Year Ended

May 31, 2014

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

Serra's National Council for the United States
(A Not-for-profit Corporation)
Financial Statements
May 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Serra's National Council for the United States:

We have audited the accompanying financial statements of Serra's National Council for the United States, (A Not-for-profit Corporation) which comprise the statements of financial position as of May 31, 2014 and May 31, 2013 and the related statements of activities and changes in net assets and cash flows for the years 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.

Auditors' 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 from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Serra's National Council for the United States as of May 31, 2014 and May 31, 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,



Walter J. Newton & Co.
Certified Public Accountants
Chicago, Illinois
October 20, 2014

**Serra's National Council for the United States
(A Not-for-profit Corporation)
Statement of Financial Position
As of May 31, 2014 and 2013**

Exhibit A

ASSETS

	2014	2013
Current Assets:		
Cash in Bank	\$ 10,847	\$ 58,627
Accounts Receivable-Merchandise	0	-63
Accounts Receivable-Per Capita (See Note 1)	143,753	106,646
Prepaid Expenses	5,226	9,507
Inventory (See Note 1)	<u>0</u>	<u>26,126</u>
Total Current Assets	159,826	200,842
<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 159,826</u>	<u>\$ 200,842</u>

TOTAL LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 46,018	\$ 1,436
Accrued Liabilities	521	0
Due to Serra International	5,973	3,070
Deferred Grant Income	8,862	8,862
Deferred Dues	<u>0</u>	<u>38,612</u>
Total Current Liabilities	<u>61,374</u>	<u>51,981</u>
Long-Term Liabilities:	0	0
Total Liabilities	61,374	51,981
Net Assets:		
Total Net Assets (See Exhibit B)	<u>98,452</u>	<u>148,861</u>
Total Liabilities and Net Assets	<u>\$ 159,826</u>	<u>\$ 200,842</u>

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

Serra's National Council for the United States
(A Not-for-profit Corporation)
Statement of Activities
For the years ended May 31, 2014 and 2013

Exhibit B

	<u>2014</u>	<u>2014</u> <u>Pctg of Rev</u>	<u>2013</u>	<u>2013</u> <u>Pctg of Rev</u>
Changes in Net Assets:				
Revenues:				
Bishop Britt Vocation Fund	\$ 11,280	3.19	0	0.00
Leadership Fund	75	0.02	0	0.00
Legal Defense Fund	1,516	0.43	0	0.00
Investment Income	0	0.00	1,041	0.25
Per Capita Dues (see note 1)	322,614	91.33	335,955	79.95
Other Revenue (see note 9)	1,097	0.31	3,490	0.83
Sale of Merchandise	5,622	1.59	10,503	2.50
Super Weekend Income	7,300	2.07	12,495	2.97
District Governor Planning Conference	3,750	1.06	2,225	0.53
Grants - Unrestricted	<u>0</u>	<u>0.00</u>	<u>54,491</u>	<u>12.97</u>
Total Revenue	<u>353,254</u>	<u>100.00</u>	<u>420,200</u>	<u>100.00</u>
Operating Expenditures by Function:				
Membership	121,252	34.32	129,523	30.82
Communications	120,446	34.10	121,177	28.84
Program	2,807	0.79	849	0.20
Vocation	34,418	9.74	65,438	15.57
Standing Committee	22,908	6.48	21,870	5.20
General Administrative	75,256	21.30	122,784	29.22
Merchandise Costs	<u>26,577</u>	<u>7.52</u>	<u>13,553</u>	<u>3.23</u>
Total Operating Expenditures	<u>403,664</u>	<u>114.27</u>	<u>475,194</u>	<u>113.09</u>
Increase (Decrease) in Net Assets	<u>(50,410)</u>	<u>(14.27)</u>	<u>(54,994)</u>	<u>(13.09)</u>
Unrestricted Funds:				
Net Assets at Beginning of Year	98,210		141,286	
Net Transfer (To) From Restricted	<u>(9,370)</u>		<u>11,918</u>	
Net Assets Unrestricted at May 31	<u>\$ 38,430</u>		<u>\$ 98,210</u>	
Net Assets (see also Footnote 8)				
Beginning Unrestricted Fund	\$ 98,210		\$ 141,286	
Net Change in Unrestricted Funds	<u>(59,780)</u>		<u>(43,076)</u>	
Net Assets Unrestricted May 31	38,430		98,210	
Beginning Board Restricted Funds	50,651		110,306	
Net Change in Board Restricted Funds	<u>9,371</u>		<u>(59,654)</u>	
Net Assets Restricted May 31	60,022		50,652	
Total Net Assets as of May 31	<u>\$ 98,432</u>		<u>\$ 148,862</u>	

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

Serra's National Council for the United States
(A Not-for-profit Corporation)
Statement of Operating Expenditures
For the 12 Months ended May 31, 2014 and 2013

Exhibit C

	2014	2014 Pctg	2013	2013 Pctg
Operating Expenditures:				
RTA/CTA Benefit	\$ 3,288	0.81	4,139	0.87
Cost of Merchandise	2,603	0.64	8,888	1.87
Employee Postage Credits	3	0.00	0	0.00
Subscriptions	801	0.20	951	0.20
Unemployment Taxes	213	0.05	213	0.04
Salaries	150,759	37.35	179,113	37.69
Temporary Services	23,133	5.73	19,500	4.10
Lease Payments	16,673	4.13	20,658	4.35
Rent and Utilities	52,707	13.06	57,378	12.07
Telephone Expense	10,398	2.58	10,210	2.15
General Insurance	5,411	1.34	5,500	1.16
Health/Life Insurance	34,128	8.45	33,318	7.01
Pension	5,410	1.34	7,568	1.59
Staff Travel - USA	3,957	0.98	3,970	0.84
ADP Expense	2,450	0.61	2,263	0.48
Payroll Taxes	11,533	2.86	13,670	2.88
Registration & Other Gov. Exp.	15	0.00	10	0.00
Postage & Freight	997	0.25	2,014	0.42
Stationery & Supplies	2,931	0.73	3,599	0.76
Legal Fees	920	0.23	34,216	7.20
Audit Fees	11,750	2.91	5,750	1.21
Bank Charges	1,394	0.35	588	0.12
Credit Card Fees	2,133	0.53	4,600	0.97
Office Equipment Expense	259	0.06	478	0.10
Contingency	250	0.06	250	0.05
Relocation	3,118	0.77	0	0.00
Repairs & Maintenance	3,529	0.87	1,830	0.39
Depreciation	0	0.00	133	0.03
Inventory valuation adjustment	23,975	5.94	0	0.00
Board Mail	14	0.00	0	0.00
Vocations Committee	1,972	0.49	20,498	4.31
Membership Committee	456	0.11	414	0.09
Communications Committee	794	0.20	173	0.04
General	1,145	0.28	2,393	0.50
Nominating Committee	132	0.03	75	0.02
Board Meeting	597	0.15	9,920	2.09
Super Weekend Expense	20,760	5.14	20,142	4.24
Relationships Committee	122	0.03	199	0.04
Meetings & Conventions	0	0.00	37	0.01
Leadership Development	2,936	0.73	535	0.11
Total Operating Expenditures	\$ 403,664	100.00	475,195	100.00

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

**Serra's National Council for the United States
(A Not-for-profit Corporation)
Statement of Cash Flows
For the Years Ended May 31, 2014 and 2013**

Exhibit D

	<u>2014</u>	<u>2013</u>
Net Income (Loss):	\$ (50,409)	(54,995)
Depreciation & Amortization	0	133
Decrease (Increase) in Dues/Merchandise Receivable	(37,170)	(65,298)
Decrease (Increase) in Prepaid Expense	4,281	(294)
Decrease (Increase) in Inventory	26,126	6,861
Increase (Decrease) in Accounts Payables & Accrued Expenses	48,006	2,676
Increase (Decrease) in Deferred Revenue	<u>(38,612)</u>	<u>16,345</u>
Net Cash Generated from (Used in) Operating Activities	(47,780)	(94,571)
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	(47,780)	(94,571)
Increase (Decrease) to (from) Restricted Funds	0	(47,736)
Cash and Equivalents Beginning of Year	<u>58,627</u>	<u>200,934</u>
Cash and Equivalents End of Year	<u>\$ 10,847</u>	<u>58,627</u>

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

Serra's National Council for the United States
(A Not-for-profit Corporation)
Notes to Financial Statements
May 31, 2014

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

Serra's National Council for the United States, (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 U.S. generally accepted accounting principles.

Revenue and Expense Recognition and Accounts Receivable

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 uncollectible billings. The total outstanding billings for dues as of May 31, 2014 are \$321,159.44 and the allowance for uncollectible billings as of May 31, 2014 is \$177,406.31, resulting in the Accounts Receivable presented on the Statement of Financial Position as \$143,753.13.

The Per Capita Dues Revenue billed for the current year was \$381,708 and was offset by a provision for the uncollectible amount of \$59,094 resulting in the net Per Capita Dues revenue of \$322,614 as shown on Exhibit B under Revenue.

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 U.S. 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 was removed from the statement of financial position and expensed in the amount of \$ 23,974.53 as a valuation adjustment due to the slow movement of the items which are now stored in an offsite storage facility.

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 its related party, Serra International with a contractual arrangement. The council pays \$ 2,765 per month for the office space and for offsite storage space. In addition, the Council shares certain office equipment including a copier and postage meter and pays Serra International for usage of all equipment.

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 2012. The Council also collects Initiation Fees from the clubs.

The following is a summary of the various related party transactions included in the Council's financial statements for the year ended May 31, 2014:

Transactions with Serra International:

Beginning of Fiscal Year	\$ 3,070.00
Initiation fees collected by the Council	\$ 2,903.00
Initiation fees paid to Serra International	\$ 00.00

Accounts Payable at May 31, 2014:

Serra International - Initiation Fees	\$ 5,973.00
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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, 2014 was \$ 5,410.16.

7. **Merchandise Sales:**

The following is a summary of the activity in merchandise sales for the year ended May 31, 2014

Sales	\$ 5,621.52
Cost of Merchandise	\$ <u>2,602.54</u>
Gross profit	3,018.98

No Labor or Occupancy has been allocated due to the immaterial affect of this revenue item. See also footnote number 1 regarding the devaluation of inventory.

8. **Board Designated Funds:**

The following is a summary of the activity in board designated funds for the year ended May 31, 2014:

	Bishop Britt				Total
	<u>Leadership</u>	<u>Vocations</u>	<u>Unrestricted.</u>	<u>Legal Defense</u>	
Contributions & Transfers	\$ 75	\$11,280	\$296,027	\$ 1,516	\$ 353,254
Disbursements designated	<u>(75)</u>	<u>(1,909)</u>	<u>(383,664)</u>	<u>(1,516)</u>	<u>(403,664)</u>
Net Change in year	0	9,371	(87,637)	0	(50,410)
Balance beginning of year	\$ 0	\$ 50,651	\$ 98,210	\$ 0	\$148,861
Balance end of year	\$ <u>0</u>	\$ <u>60,022</u>	\$ <u>38,429</u>	\$ <u>0</u>	\$ <u>98,452</u>

End of Notes