

ST. PAUL'S OUTREACH, INC.

REPORT ON AUDIT

JUNE 30, 2011



LETHERT, SKWIRA, SCHULTZ & CO. LLP

CERTIFIED PUBLIC ACCOUNTANTS ♦ BUSINESS CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
St. Paul's Outreach, Inc.**

We have audited the accompanying statement of financial position of **St. Paul's Outreach, Inc.** (a Minnesota nonprofit organization) as of **June 30, 2011**, and the related statements of activities, functional expenses, and cash flows for the year 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. The financial statements of **St. Paul's Outreach, Inc.** as of June 30, 2010, were audited by other auditors whose report dated October 21, 2010, expressed an unqualified opinion on those statements.

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 **St. Paul's Outreach, Inc.** as of **June 30, 2011**, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

September 20, 2011

Lethert, Skwira, Schultz & Co. LLP

LETHERT, SKWIRA, SCHULTZ & CO. LLP

ST. PAUL'S OUTREACH, INC.

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ST. PAUL'S OUTREACH, INC.
Statement of Financial Position
June 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
<u>Current Assets</u>		
Cash	\$ 388,820	\$ 224,049
Accounts receivable, net of allowance for doubtful accounts, 2011, \$2,501 and 2010, \$5,400	22,507	48,583
Pledges receivable, net of allowance for doubtful accounts, 2011, \$43,391 and 2010, \$46,668 (Note 4)	378,012	409,224
Prepaid expenses	19,916	2,630
Total Current Assets	809,255	684,486
<u>Property and Equipment</u>		
Grand Avenue house	216,493	201,879
Ashland house	546,913	545,000
Office equipment	18,230	14,899
Total	781,636	761,778
Less: Accumulated depreciation	160,704	144,997
Total Property and Equipment	620,932	616,781
<u>Other Assets</u>		
Security deposits	24,130	16,505
TOTAL ASSETS	\$ 1,454,317	\$ 1,317,772
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Current maturities of long-term debt	\$ 8,550	\$ -
Accounts payable	25,093	23,458
Accrued employee benefits	16,063	12,027
Security deposits	31,500	23,800
Unearned revenue	19,160	23,950
Total Current Liabilities	100,366	83,235
<u>Long-Term Debt (Note 6)</u>		
Mortgage payable	350,000	350,000
Less: Current maturities	8,550	-
Total Long-Term Debt	341,450	350,000
<u>Net Assets</u>		
Unrestricted	1,012,501	884,537
TOTAL LIABILITIES AND NET ASSETS	\$ 1,454,317	\$ 1,317,772

The accompanying notes are an integral part of this financial statement.

ST. PAUL'S OUTREACH, INC.
Statement of Activities
Years Ended **June 30, 2011** and 2010

	<u>2011</u>	<u>2010</u>
<u>Revenue, Gains, and Other Support</u>		
<u>Contributions</u>		
Annual campaign	\$ 466,804	\$ 243,452
Capital campaign	58,800	304,953
Benefit banquets	346,922	234,898
Contributed services	250,882	164,665
Golf classic	78,172	114,825
Sponsorship	270,597	251,890
Other contributions	111,505	102,681
Total Contributions	1,583,682	1,417,364
<u>Revenue</u>		
Retreats	123,495	88,290
Events	7,341	12,804
Households program	356,790	401,238
Subcontract income	70,456	60,548
Operations - other	137,901	87,835
Interest	1,680	1,028
Total Revenue	697,663	651,743
Total Revenue, Gains, and Other Support	2,281,345	2,069,107
<u>Expenses</u>		
<u>Program Services</u>		
Program services	1,554,898	1,298,511
<u>Supporting Services</u>		
Administrative	171,156	136,714
Development	427,327	273,163
Total Supporting Services	598,483	409,877
Total Expenses	2,153,381	1,708,388
Increase in Net Assets	127,964	360,719
Net Assets, Beginning of Year	884,537	523,818
Net Assets, End of Year	1,012,501	884,537

The accompanying notes are an integral part of this financial statement.

ST. PAUL'S OUTREACH, INC.
 Schedule of Functional Expenses
 Years Ended **June 30, 2011** and 2010

	<u>2011</u>				<u>2010</u>			
	<u>Program Services</u>	<u>Administrative</u>	<u>Development</u>	<u>Total All Funds</u>	<u>Program Services</u>	<u>Administrative</u>	<u>Development</u>	<u>Total All Funds</u>
Payroll (including benefits, taxes, fees)	\$ 630,393	\$ 141,586	\$ 231,643	\$ 1,003,622	\$ 539,056	\$ 89,457	\$ 151,215	\$ 779,728
Contributed service	250,882	-	-	250,882	151,088	5,031	8,546	164,665
Retreats	134,867	-	-	134,867	120,232	25	276	120,533
Events	56,178	358	112,859	169,395	40,569	1,499	63,144	105,212
Professional services	804	6,131	550	7,485	2,178	5,484	9,178	16,840
Public relations	1,266	28	9,672	10,966	1,513	364	4,073	5,950
Staff expense	17,749	1,810	5,939	25,498	11,702	1,544	5,349	18,595
Auto and travel	23,982	66	6,681	30,729	13,299	255	3,738	17,292
Households (including utilities)	375,373	3,301	-	378,674	381,912	1,161	676	383,749
Depreciation	20,691	2,138	382	23,211	19,921	235	64	20,220
Insurance	8,893	2,697	-	11,590	10,072	2,101	-	12,173
Office	33,826	11,720	52,509	98,055	6,965	23,372	26,863	57,200
Bank fees and miscellaneous	(6)	1,321	7,092	8,407	4	6,186	41	6,231
Total Expense	\$ 1,554,898	\$ 171,156	\$ 427,327	\$ 2,153,381	\$ 1,298,511	\$ 136,714	\$ 273,163	\$ 1,708,388

The accompanying notes are an integral part of this financial statement.

ST. PAUL'S OUTREACH, INC.
Statement of Cash Flows
Years Ended **June 30, 2011** and 2010

<u>Cash Flows From Operating Activities</u>	<u>2011</u>	<u>2010</u>
Increase in net assets	\$ 127,964	\$ 360,719
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	23,211	20,220
Allowance for bad debts	(6,176)	-
Increase (decrease) in cash flows from:		
Accounts receivable	28,975	(5,717)
Pledges receivable	34,489	(330,315)
Prepaid expenses	(17,286)	(1,886)
Security deposits	(7,625)	7,491
Accounts payable	1,635	21,230
Accrued employee benefits	4,036	-
Security deposits	7,700	13,408
Unearned revenue	(4,790)	-
Net Cash Provided by Operating Activities	192,133	85,150
<u>Cash Flows Used by Investing Activities</u>		
Purchase of property and equipment	(27,362)	(4,847)
Net Increase in Cash	164,771	80,303
Cash, Beginning of Year	224,049	143,746
Cash, End of Year	\$ 388,820	\$ 224,049

Supplemental Disclosures of Cash Flows Information

During the years ended **June 30, 2011** and 2010, the Organization made interest payments of **\$21,000** and \$19,250, respectively.

The accompanying notes are an integral part of this financial statement.

ST. PAUL'S OUTREACH, INC.
Notes to Financial Statements
June 30, 2011 and 2010

NOTE 1 NATURE OF ORGANIZATION

St. Paul's Outreach, Inc. (the Organization) is organized for religious reasons for the purpose of evangelizing college students and helping them to live as disciples of Jesus Christ in the fullness of the Catholic Church. The core values of the Organization are rooted in and faithful to the teaching of the Catholic Church. The Organization conducts its services both at its location in West St. Paul, MN, and on college campuses. Its administrative and fund raising operations are based in West St. Paul. The programs and services of the Organization are supported through a variety of donation drives and charitable events throughout the year. The Organization is currently extended in Minnesota, Arizona, Florida, Kansas, New Jersey, Ohio, and Texas.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES**

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting.

The Organization classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows.

Unrestricted net assets have no donor imposed restrictions, or the donor imposed restrictions have expired. Unrestricted net assets may be designated for a specific purposes by the Board of Directors.

Temporarily restricted net assets have donor imposed restrictions that are satisfied either by the passage of time or expenditures that meet the donor specified purpose.

Permanently restricted net assets have donor imposed restrictions which do not expire.

At **June 30, 2011**, the Organization has no temporarily or permanently restricted net assets.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. PAUL'S OUTREACH, INC.
Notes to Financial Statements
June 30, 2011 and 2010

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts and Pledges Receivable

The Organization utilizes the reserve method to account for bad debts. Accounts and pledges receivable are presented net of allowances for bad debts of **\$45,892** and \$52,068 for the years ended **June 30, 2011** and 2010, respectively. For the years ended **June 30, 2011** and 2010, bad debt expense was **\$17,528** and \$54,440, respectively. Accounts and pledges receivable are charged off at the discretion of management after all efforts to collect have been exhausted.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings	30 Years
Computer equipment	3-7 Years

Maintenance and repairs of property and equipment are charged to operations, and major renewals are capitalized.

Donations of property and equipment are recorded as contributions at their estimated fair values. Donations are reported as unrestricted contributions unless the donor has restricted the asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor restrictions regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

ST. PAUL'S OUTREACH, INC.
Notes to Financial Statements
June 30, 2011 and 2010

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

Donated Materials and Services

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

For the years ended **June 30, 2011** and 2010, the value of contributed services meeting the requirements for recognition in the financial statements was **\$250,882** and \$164,665, respectively.

Income Taxes

The Organization was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation. Accordingly, no provision for income taxes has been provided for in these financial statements.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on allocation measures determined by management.

Vacation Pay

Current Organization practice is to compensate employees for unused vacation. Accordingly, the Organization has made an accrual for vacation compensation that employees have earned but have not taken.

**NOTE 3 CONCENTRATIONS OF CREDIT RISK ARISING FROM
CASH DEPOSITED IN EXCESS OF INSURED LIMITS**

The Organization maintains its cash in a bank deposit which, at times, may exceed FDIC insured limits. The Organization has not experienced any losses on these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ST. PAUL'S OUTREACH, INC.
Notes to Financial Statements
June 30, 2011 and 2010

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable at **June 30, 2011** and 2010, are measured at present value of estimated future cash flows and is discounted at a rate of 5%. Collection of receivables is expected as follows:

	<u>2011</u>	<u>2010</u>
Due in one year or less	\$ 263,578	\$ 311,679
Due in one to five years	<u>170,334</u>	<u>155,000</u>
Total	433,912	466,679
Less: allowance for doubtful accounts	(43,391)	(46,668)
Less: discount to net present value	<u>(12,509)</u>	<u>(10,787)</u>
Total Pledges Receivable	\$ <u>378,012</u>	\$ <u>409,224</u>

NOTE 5 LINE OF CREDIT

At **June 30, 2011**, the Organization has an unsecured line of credit available from Premier Bank for \$50,000, maturing July 1, 2012. The credit line bears interest at 6.00%.

At **June 30, 2011** and 2010, no amounts were outstanding under this agreement.

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Mortgage payable to Catholic United Financial bearing interest at 6% with monthly installments of \$2,508, matures July, 2031. Secured by building.	\$ 350,000	\$ 350,000
Less: Current maturities	<u>8,550</u>	<u>-</u>
Total Long-Term Debt	\$ <u>341,450</u>	\$ <u>350,000</u>

ST. PAUL'S OUTREACH, INC.
Notes to Financial Statements
June 30, 2011 and 2010

NOTE 6 LONG-TERM DEBT (CONTINUED)

The aggregate annual maturities of long-term debt at **June 30, 2011**, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 8,550
2013	9,878
2014	10,487
2015	11,134
2016	11,820
After 2016	298,131
	<u>\$ 350,000</u>

On July 1, 2011, the Organization refinanced the mortgage payable to Catholic United Financial. The new mortgage has monthly payments beginning August 1, 2011, of \$2,508 including interest at 6.00%. This mortgage is due July, 2031, and is secured by the building.

NOTE 7 CONCENTRATIONS

Approximately **75** percent of pledges receivable are derived from 2 donors for both years.

NOTE 8 OPERATING LEASES

At **June 30, 2011**, the Company was obligated under various operating leases for student housing and office space, beginning to expire August, 2011.

Rent expense under these leases for the years ended **June 30, 2011** and 2010, was **\$269,119** and \$263,517, respectively.

The following is a schedule of future minimum lease payments under operating leases:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 180,180
2013	30,740
Total Minimum Future Lease Payments	<u>\$ 210,920</u>

NOTE 9 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through **September 20, 2011**, the date the financial statements were available to be issued.