

UNITED STATES SERVAS, INC.

FINANCIAL STATEMENTS

December 31, 2008

TABLE OF CONTENTS

ACCOUNTANTS' REVIEW REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10

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ACCOUNTANTS' REVIEW REPORT

Board of Directors
United States Servas, Inc.
Arcata, California

We have reviewed the accompanying statement of financial position of United States Servas, Inc. (a non-profit organization) as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of United States Servas, Inc.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Hunter, Hunter & Hunt

July 28, 2009

UNITED STATES SERVAS, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2008

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 123,214
Investments	144,920
Prepaid expenses	927
TOTAL CURRENT ASSETS	<u>269,061</u>
Equipment, net	12,552
Deposits	1,389
TOTAL ASSETS	<u><u>\$ 283,002</u></u>

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	\$ 658
Accrued wages	2,626
Payroll tax liabilities	1,949
Accrued vacation	770
Due to Servas International	14,718
Refundable deposits	19,038
TOTAL CURRENT LIABILITIES	<u>39,759</u>

NET ASSETS:

Unrestricted	226,060
Temporarily restricted	17,183
TOTAL NET ASSETS	<u>243,243</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 283,002</u></u>

See accompanying notes and accountants' review report.

UNITED STATES SERVAS, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
REVENUES & OTHER SUPPORT:			
Registrations	\$ 94,720	\$ -	\$ 94,720
Contributions	41,002	17,183	58,185
Donated services	20,400	-	20,400
Interest & dividends	1,991	-	1,991
Conference fees	2,056	-	2,056
Workstudy program income	3,358	-	3,358
Net assets released from restrictions:			
Expirations of donor restrictions	15,988	(15,988)	-
TOTAL REVENUES & OTHER SUPPORT	179,515	1,195	180,710
EXPENSES & LOSSES:			
Program services	115,953	-	115,953
Supporting services:			
Fundraising	5,488	-	5,488
Management & general	84,733	-	84,733
TOTAL FUNCTIONAL EXPENSES	206,174	-	206,174
Net unrealized losses on investments	44,458	-	44,458
TOTAL EXPENSES & LOSSES	250,632	-	250,632
CHANGES IN NET ASSETS	(71,117)	1,195	(69,922)
NET ASSETS AT BEGINNING OF YEAR	297,177	15,988	313,165
NET ASSETS AT END OF YEAR	\$ 226,060	\$ 17,183	\$ 243,243

See accompanying notes and accountants' review report.

UNITED STATES SERVAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2008

FUNCTIONAL EXPENSES	Program Services	Fund-raising	Supporting Services	Total	Total
	Travel Services		Management & General		
Salaries & wages	\$ 55,976	\$ 3,093	\$ 27,494	\$ 30,587	\$ 86,563
Payroll taxes	5,167	288	2,556	2,844	8,011
Employee benefits	975	217	4,915	5,132	6,107
Total salaries & benefits	62,118	3,598	34,965	38,563	100,681
Bank charges	114	-	1,463	1,463	1,577
Communications	1,741	90	893	983	2,724
Contractual	-	-	240	240	240
Depreciation	-	-	4,046	4,046	4,046
Dues to Servas International	14,718	-	-	-	14,718
Insurance	779	40	2,807	2,847	3,626
Meals & entertainment	1,181	-	237	237	1,418
Meetings & conferences	3,562	28	397	425	3,987
Miscellaneous	939	-	420	420	1,359
Occupancy	7,173	372	3,390	3,762	10,935
Office	2,343	87	1,594	1,681	4,024
Postage	11,616	235	1,287	1,522	13,138
Printing	8,091	1,012	848	1,860	9,951
Professional services	-	-	31,532	31,532	31,532
Repairs	511	26	242	268	779
Travel	1,067	-	372	372	1,439
TOTAL FUNCTIONAL EXPENSES	\$ 115,953	\$ 5,488	\$ 84,733	\$ 90,221	\$ 206,174

See accompanying notes and accountants' review report.

UNITED STATES SERVAS, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets:	\$ (69,922)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	4,046
Unrealized losses on investments	44,458
Stock dividend	(325)
(Increase) decrease in operating assets:	
Contributions receivable	1,590
Prepays	(927)
Deposits	(32)
Increase (decrease) in operating liabilities:	
Accounts payable	199
Accrued wages	680
Payroll tax liabilities	(1,493)
Accrued vacation	(99)
Due to Servas International	(3,046)
Refundable deposits	6,003
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(18,868)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(18,868)
BEGINNING CASH & CASH EQUIVALENTS	142,082
ENDING CASH & CASH EQUIVALENTS	\$ 123,214

See accompanying notes and accountants' review report.

UNITED STATES SERVAS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of United States Servas, Inc. (US Servas) is presented to assist in understanding the organization's financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Nature of Activities

US Servas was established in 1963 as a non-profit membership corporation under the Membership Corporation Law of the State of New York. In 2002, US Servas became qualified to transact intrastate business in California and currently maintains one office located in Arcata, California. Its mission is to foster understanding of cultural diversity through a global, person-to-person network promoting a more just and peaceful world.

The basic means used to accomplish this goal is for travelers from foreign countries to stay with families of the nation that they are visiting, in order to exchange ideas and lifestyles. US Servas' activities are primarily supported by travelers' annual registrations and contributions from hosts and individuals. Travelers receive validated letters of introduction to present to the hosts that they are visiting.

Accounting Method

The financial statements of the organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Affiliation

US Servas is affiliated with Servas International. Servas International provides validation stamps to US Servas for travelers' letters of introduction. US Servas remits annual dues to Servas International based on the number of stamps used at the rate of zero Swiss francs (CHF) for the first 10 stamps, 7 francs for the next 40 stamps, and 17 francs for all stamps thereafter. At December 31, 2008, US Servas owed \$14,718 to Servas International for stamps received in 2008.

Basis of Presentation

US Servas is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, US Servas considers cash and cash equivalents to include all cash accounts held in banks and other financial institutions.

Contributions

US Servas accounts for contributions received and made in accordance with accounting standards for not-for-profit organizations. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are

UNITED STATES SERVAS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization. Many individuals volunteer their time and perform a variety of tasks that assist US Servas. These services do not meet the criteria for recognition as contributed services.

Equipment

Equipment is capitalized at its estimated fair value when donated or at cost when purchased. Equipment donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Equipment is depreciated using the straight-line method, over the assets' estimated useful lives, which range from five to seven years. The threshold for capitalizing equipment is \$300.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocations

The costs of providing program and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Directly identifiable expenses are charged to either program or supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of periodic time and expense studies.

Program services include providing approved travelers with opportunities to be guests of US residents and providing American travelers abroad with opportunities to be guests of foreign hosts. US Servas interviews and approves travelers and hosts, provides validated letters of introduction to travelers, and produces lists with host information that are loaned out to travelers.

Fundraising expenses include the costs related to soliciting donations from registered hosts and other contributors.

Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of US Servas.

Income Taxes

US Servas is exempt from federal and state income taxes under Section 501(c) (3) of the Internal Revenue Code and similar California and New York provisions. Accordingly, income taxes are not provided for in the financial statements.

UNITED STATES SERVAS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

Investments

Investments in marketable securities are recorded at the published market value. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Refundable Deposits

US Servas has a host book borrowing policy. Refundable deposits are required to borrow host books. The books are expected to be returned two weeks after the conclusion of the trip. If host books are not returned by one month after the expiration date of the letter of introduction under which they were borrowed, the deposit will be considered a donation. Travelers may also donate the refundable deposits to US Servas. At December 31, 2008, there was a balance of \$19,038 in refundable deposits.

Revenue Recognition

US Servas recognizes revenue on the accrual basis of accounting. Travelers pay annual registration fees which are recognized when received.

NOTE 2 - INVESTMENTS

US Servas' investments consist of mutual funds that have a readily determinable fair market value, are classified as available for sale and accordingly, are carried at fair value which was \$144,920 at December 31, 2008.

The components of investment return for the year ended December 31, 2008 are as follows:

Dividend income	\$	325
Unrealized losses on investments		<u>(44,458)</u>
Total	<u>\$</u>	<u>(44,133)</u>

NOTE 3 - EQUIPMENT

The change in equipment for the year ended December 31, 2008, is as follows:

	<u>Balance 12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/08</u>
Equipment	\$ 21,145	\$ -	\$ -	\$ 21,145
Accumulated depreciation	<u>(4,547)</u>	<u>(4,046)</u>	<u>-</u>	<u>(8,593)</u>
Property & equipment - net	<u>\$ 16,598</u>	<u>\$ (4,046)</u>	<u>\$ -</u>	<u>\$ 12,552</u>

Total depreciation expense charged to operations for the year ended December 31, 2008, was \$4,046.

UNITED STATES SERVAS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 4 - NET ASSETS

Unrestricted net assets at December 31, 2008, consist of the following:

Board designated operating reserve	\$ 35,000
Other unrestricted net assets	<u>191,060</u>
Total unrestricted net assets	<u>\$ 226,060</u>

Temporarily restricted net assets at December 31, 2008, consist of the following:

Bob Luitweiler Fund	\$ 215
2008 Host contributions	<u>16,968</u>
Total temporarily restricted net assets	<u>\$ 17,183</u>

NOTE 5 - LEASE COMMITMENT

The organization entered into a lease agreement, effective August 1, 2006, for its Arcata office location under a three-year operating lease with the monthly rent at \$874 for the first year, \$900 for the second year, and \$927 for the third year. The organization has exercised the option to extend the lease for one additional three-year period with the monthly rent at \$927 per month. Total rent expense under this lease for the year ended December 31, 2008, is \$10,935.

The organization's minimum payments under the new lease agreement are as follows:

Year ending December 31:	
2009	\$ 11,124
2010	11,124
2011	11,124
2012	6,489

NOTE 6 - RELATED PARTY TRANSACTION

Grant Barnes, a member of the Board of Directors, donates legal services to the organization. Total contributed services for the year ended December 31, 2008, is \$20,400.

NOTE 7 - MEMBERSHIP INFORMATION

Membership information for 2008 is as follows:

Voting members:	
Electors	204
Annual meeting attendees	40
Participating members:	
International and domestic travelers	1,117
Hosts	1,718

UNITED STATES SERVAS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 8 - FAIR VALUE MEASUREMENT

Fair value of assets measured on a recurring basis at December 31, 2008, are as follows:

Fair Value Measurements at Reporting Date Using:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Short-term investments	\$ <u>144,920</u>	\$ <u>144,920</u>

Fair values for short-term investments are determined by reference to quoted market prices and other relevant information generated by market transactions.