

DALLAS ROTARY CLUB FOUNDATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Dallas Rotary Club Foundation
Dallas, Texas

We have audited the accompanying financial statements of Dallas Rotary Club Foundation (the "Foundation"), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of June 30, 2019, and the related statements of cash receipts, cash disbursements, and other changes in net assets - modified cash basis and cash flows - modified cash basis for the year 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 the modified cash basis of accounting as described in the significant accounting policies disclosure; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 auditor's 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 auditor considers 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 assets, liabilities, and net assets of the Foundation as of June 30, 2019, and its cash receipts, cash disbursements, other changes in net assets and cash flows for the year then ended, in accordance with the modified cash basis of accounting as described in the significant accounting policies disclosure.

Basis of Accounting

We draw attention to the significant accounting policies disclosure, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Saville, Dodgen & Company, P.L.L.C.
Dallas, Texas

February XX, 2020

DALLAS ROTARY CLUB FOUNDATION
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2019

ASSETS

ASSETS	
Cash and cash equivalents	\$ 103,934
Investments	<u>3,088,654</u>
TOTAL ASSETS	<u><u>\$ 3,192,588</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	<u>\$ -</u>
NET ASSETS	
Without donor restriction	1,810,106
With donor restriction	<u>1,382,482</u>
Total net assets	<u><u>3,192,588</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,192,588</u></u>

See accompanying independent auditors' report and notes.

DALLAS ROTARY CLUB FOUNDATION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Contributions	\$ 13,335	\$ 272,466	\$ 285,801
Investment income	68,811	19,983	88,794
Net assets released from restrictions	236,125	(236,125)	-
TOTAL SUPPORT AND REVENUE	318,271	56,324	374,595
EXPENSES			
Program services			
Bike Rodeo	5,126	-	5,126
Camp RYLA	2,700	-	2,700
Dream Team Mentoring	2,626	-	2,626
I Like Me - Literacy	10,005	-	10,005
International Project Fund: Zambia	210	-	210
Cooper/Kidwell Family Emergency Fund	6,082	-	6,082
Margaret Eliasoff Scholarship	36,000	-	36,000
Reserve Fund	200	-	200
Water Wells Project - Ghana	53,245	-	53,245
Safer Dallas, Better Dallas	66,278	-	66,278
Salute to America's Vets	75,590	-	75,590
Stop Hunger Now	8,000	-	8,000
Teacher Recognition Award	7,987	-	7,987
	274,049	-	274,049
Supporting activities			
General and administrative	76,250	-	76,250
TOTAL EXPENSES	350,299	-	350,299
CHANGES IN NET ASSETS	(32,028)	56,324	24,296
NET ASSETS, beginning of year	1,842,134	1,326,158	3,168,292
NET ASSETS, end of year	\$ 1,810,106	\$ 1,382,482	\$ 3,192,588

See accompanying independent auditors' report and notes.

DALLAS ROTARY CLUB FOUNDATION
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 24,296
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Realized/unrealized gain on investments	39,123
Donated securities	(18,279)
Decrease in related party receivables	25,000
Net cash provided in operating activities	<u>70,140</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	1,382,000
Purchase of investments	(1,533,844)
Net cash used by investing activities	<u>(151,844)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(81,704)
CASH AND CASH EQUIVALENTS, beginning of year	<u>185,638</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 103,934</u></u>

See accompanying independent auditors' report and notes.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

ORGANIZATION AND NATURE OF ACTIVITIES

Nature of the Foundation

The Dallas Rotary Club Foundation (the “Foundation”, “we”, “us”, or “our”) was formed to serve the community of Dallas by providing funding for education, civic, and welfare related activities. We are primarily supported by contributions from members of The Rotary Club of Dallas, investment income, and donations from the general public.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our financial statements have been prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis of accounting, as herein applied, does not include the presentation of expenses on a functional basis and the liquidity and endowment-related disclosures required by generally accepted accounting principles. Contributions are recorded when cash is received. Expenses are recorded when paid.

In addition, our financial statements have been prepared to present revenues, expenses, gains, losses, and net assets according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into two classes of net assets – with donor restriction and without donor restriction. Accordingly, net assets and changes therein are classified as follows:

Without donor restriction – Net assets not subject to donor-imposed stipulations.

With donor restriction – Net assets subject to donor-imposed stipulations that may be met by actions of the Foundation and/or passage of time or may be maintained permanently by the Foundation.

Use of Estimates

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

See accompanying independent auditors’ report.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates (Continued)

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year, and the amounts ultimately realized could differ materially.

Change in Presentation

During the year ended June 30, 2019, the Foundation adopted the changes in net asset classification in accordance with Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Under the guidance, Not-for-Profit Entities (NFP) are required to present on the face of the consolidated statement of assets, liabilities, and net assets, and the statement of cash receipts, cash disbursements, and other changes in net assets – modified cash basis amounts for two classes of net assets at the end of the period, rather than the previously required three classes. That is, a NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the previously required amount for total net assets. The implementation of this update had no effect in total net assets for the year ended June 30, 2019.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with maturities of three months or less when purchased. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

Investment Income

Investments are recorded and carried at fair value. Unrealized gains and losses are included in investment income. Donated marketable securities are recorded as contributions at fair value as of the date of donation.

Unrealized investment gains and losses increase and decrease, respectively, net assets without donor restriction unless the unrealized appreciation or depreciation is associated with investments underlying restricted net assets in cases where the donor requires that these amounts increase or reduce the amount with donor restriction.

See accompanying independent auditors' report.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Income (Continued)

Realized gains and dividend and interest income increase net assets without donor restriction unless these amounts are required to be used for certain programs or during specified time periods in which cases these amounts would increase net assets with donor restriction. Realized losses reduce net assets without donor restriction unless these amounts are associated with investments underlying restricted net assets in cases where the donor requires that these amounts reduce net assets with donor restriction.

Net assets with permanent donor restriction generally cannot be reduced by unrealized and realized losses below the amount originally donated.

Contributions

Contributions are reflected as increases in net assets without donor restriction if the contribution is made with no donor restrictions. Contributions received from donors that designate a specific purpose or time restriction are recorded as increases in net assets with donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction. Contributions received that have restrictions that are not satisfied by the passage of time are also recorded as increases in net assets with donor restriction.

Related Party Transactions

As a part of the Foundation's operations, payments are made to The Rotary Club of Dallas (the "Club"), a related party. The largest payment is for various administrative services provided to us. During the year ended June 30, 2019, the administrative fee amounted to approximately \$34,975. All other payments to the Club totaled to \$16,970.

During the year ended June 30, 2019, the Foundation received \$25,000 from the Club, as payments for a loan made to the Club in the prior fiscal year.

Income Tax Status

We are a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. We qualify for the charitable contribution deduction under Section 170(b)(1)(A) and are not classified as a private foundation under Section 509(a)(2). We are exempt from federal income tax on income related to our exempt purpose. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements.

See accompanying independent auditors' report.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

No amounts have been reflected in the financial statements for donated services. The Foundation pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs and various committee assignments.

INVESTMENTS

Investments of the Foundation are stated at fair value. The following describes the components of the Foundation's investments at June 30, 2019:

Exchange traded funds	\$ 446,332
Fixed income securities	250,088
Mutual funds	<u>2,392,234</u>
	<u><u>\$ 3,088,654</u></u>

FAIR VALUE MEASUREMENTS

The fair value standards ("FV Standards") that the Foundation has adopted, in accordance with the modified cash basis of accounting, define fair value, establish a framework for measuring fair value, and require certain enhanced disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS (Continued)

The FV Standards established a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs used in measuring fair value, as follows:

- *Level 1* - Inputs based on unadjusted quoted prices in active markets for identical assets or liabilities the Foundation has the ability to access. Since inputs are based on quoted prices that are readily and regularly available in an active market, Level 1 inputs require the least judgment.
- *Level 2* - Inputs based on quoted prices for similar instruments in active markets, or are observable either directly or indirectly. Inputs are obtained from various sources including financial institutions and brokers.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

- *Mutual funds* - Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.
- *Fixed income securities* – Valued at the daily closing price as reported by the issuer. The fixed income securities are not deemed to be actively traded.
- *Exchange-traded funds* - Funds that invest in a variety of assets traded on an active market. These funds are valued at the daily closing price reported on the public stock exchange.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS (Continued)

The following is a summary of the categorization within the fair value hierarchy of the Foundation's financial assets and liabilities measured at fair value:

Description	Fair Value Measurements at June 30, 2019			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Using: Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Exchange traded funds	\$ 446,332	\$ -	\$ -	\$ 446,332
Fixed income securities	-	250,088	-	250,088
Mutual funds	2,392,234	-	-	2,392,234
Total investments	\$ 2,838,566	\$ 250,088	\$ -	\$ 3,088,654

See accompanying independent auditors' report.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NET ASSETS

Net assets were comprised of the following as of June 30, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>
Net assets without donor restriction	\$ 1,810,106	\$ -
Net assets with donor restriction:		
Temporarily restricted:		
4 Year Scholarship Match	-	53,850
Bike Rodeo	-	3,337
Centennial Project	-	30,343
Cooper/Kidwell Family Emergency Fund	-	229,056
Dream for Scholars Fund	-	274,738
Margaret Eliasoff Scholarship	-	116,186
GSE	-	500
Human Rights Symposium	-	300
Hurricane Relief	-	80
International Projects – Other	-	1,500
Rotary International	-	4,050
Russell Revell, Jr. Scholarship	-	21,943
Safer Dallas, Better Dallas	-	49,592
Salute to America’s Vets	-	5,493
Student Interact Funds	-	2,032
Teachers Recognition Award	-	8,747
Tuition Assistance for DCCC	-	6,000
Victor Hancock – Service Award	-	151
Water Wells Project – Ghana	-	4,957
International Project Fund: Zambia	-	70
Women of Rotary Scholarship Fund	-	11,294
Permanently restricted:		
Dream for Scholars Fund	-	314,604
Russell Revell, Jr. Scholarship	-	15,139
Teachers Recognition Award	-	166,270
Ted Buhl Fund	-	49,803
Women of Rotary Scholarship Fund	-	12,447
Total net assets	<u>\$ 1,810,106</u>	<u>\$ 1,382,482</u>

See accompanying independent auditors’ report.

DALLAS ROTARY CLUB FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

CONCENTRATIONS

We maintain our cash and cash equivalents at a single brokerage institution. Investment assets are not insured against a decline in value and are subject to market risks. We carry a diversified portfolio of investment holdings, consisting primarily of mutual funds, which are held by the same brokerage institution.

Cash amounts on deposit with financial institutions may periodically exceed amounts insured by the Federal Deposit Insurance Corporation.

SUBSEQUENT EVENTS

The Foundation evaluated subsequent events that occurred from July 1 to February XX, 2020, which is the date these financial statements were available to be issued, and no subsequent events that met recognition or disclosure criteria were identified.

SUPPLEMENTAL INFORMATION

DRAFT

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

The Board of Directors
Dallas Rotary Club Foundation
Dallas, Texas

We have audited the financial statements of Dallas Rotary Club Foundation for the period July 1, 2018 to June 30, 2019, and have issued our report thereon dated February XX, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of General and Administrative Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Saville, Dodgen & Company, P.L.L.C.
Dallas, Texas

February XX, 2020

DALLAS ROTARY CLUB FOUNDATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

Accounting and audit	\$ 22,000
Administrative fee	34,975
Bank charges	937
Foundation awards	991
Investment fees	17,031
Postage	316
	<u>\$ 76,250</u>

DRAFT

See accompanying independent auditors' report.