

December 2, 2019

Fellow Rotarians:

Attached you will find the final accounting of District 5520 funds for the 2018-2019 Rotary year as required by our District Bylaws and Rotary International. This report consists of three sections: District Governor Linda Woodward's allocation from Rotary International, District Grant funding, and finally, the reconciliation of the Governor Woodward's District Budget verses actual expenses for the year.

The information in all three sections has been thoroughly reviewed by members of our District Audit team chaired by Rotarian Rob Butler (CPA & District Audit Committee Chair)(Albuquerque Del Norte), and District Audit Members Dacia Card (CPA)(Albuquerque Del Sol), Cyndi Maestas Henry (CPA)(El Paso), John Perner (CPA)(Albuquerque Del Norte) and Kimberly Warren (CPA)(Roswell). Use of the in-house audit team is permitted under Rotary International bylaws, results in a savings of over \$2,000.00, and ensures the reviewers are familiar with Rotary customs and procedures.

Section 1 – District Governor's Allocation:

Each year Rotary International provides funds to assist the District Governor in completing assigned duties such as visiting each club in the District, attending Zone level training, office expenses, etc.

During the 2018-2019 Rotary year, District Governor Linda Woodward received an allocation of \$29,887.00. She provided documentation for \$27,689.10 in expenses. The unused portion of her allocation, \$2,197.90, was returned to Rotary international. The Audit Team review disclosed no discrepancies in the expenses, documentation or return of funds. In addition, the Audit Team reported that District Governor Linda Woodward incurred \$6,700.00 in unreimbursed expenses related directly or indirectly to the unplanned visit to the district by the Rotary International President in January 2019 and made the following finding and recommendation.

Finding: The Audit Committee feels that District Governors sacrifice untold amounts of time and likely money in the performance of their job and that they should not be personally penalized for necessary but unanticipated expenses simply because they were not included in the budget. Accordingly, the Audit Committee recommends that the finance committee have the authority to authorize adjustments to the budget when special circumstance arise such as what occurred in this last year.

Action: The Finance Committee concurs with this finding and will ensure it has the authority to consider reimbursement of these types of unanticipated expenses from contingency funds in the future.

Section 2 - District Grant Funding:

During the 2018-2019 Rotary year, the District received \$61,778.00 for District from The Rotary Foundation. These funds, designated District Designated Funds, represented a return of approximately one-half of the donations to the Rotary Foundation's Annual Fund for the 2015-2016 Rotary year.

District 5520 Foundation Committee has a Financial Management Plan governing the disbursement of funds, grant award procedures, and administration of grants. The plan adheres to the requirements of The Rotary Foundation. Under this plan, all \$59,925.00 of the District Grant money was distributed to 25 District clubs to support approved projects. Review by the Audit Team revealed no findings.

Section 3 – Budget Reconciliation:

The Audit Committee did not find any major accounting or reporting errors in the District's financial records for FY19. This was a definite improvement over past years. The committee commended Debbie LeMon, District Bookkeeper, for a job well done and thanked her for her cooperation.

District income for the year was \$385,687.00 while expenses were \$416,160.00, reflecting a loss of \$30,473.00. Of this, \$21,624.00 is for RYLA which is covered by reserves in the RYLA account. This converts to an actual loss of \$8,849.00.

The 2019 District Conference was held in El Paso. Conference income surpassed expenses significantly for the first time in several years. Governor Linda is to be commended for her adherence to and control of the conference budget.

PETS encountered a loss. Registration income was \$12,925.00 while expenses amounted to \$25,797.00 for a loss of \$12,872.00.. The approved budget projected a subsidy from the District Training Fund of \$9,500. The continuing losses posted by PETS was reviewed by the Finance Committee. PETS is now being scheduled in conjunction with the District Conference in order to achieve a significant savings in facility costs.

In summary the Audit report states that "The 2018-2019 Budget showed a projected loss of \$21,418.00. The actual loss was \$30,473.00 for FY 19, a difference of \$9,055.00. This loss was made up using District 5520 and RYLA reserve funds.

The Audit Team members made eight recommendations. These are listed below with actions taken by the District Finance Committee:

1. The Youth Exchange Program had two savings accounts that were not recorded in the District books for the prior year. The reconciled balance was entered in the District books in February 2019 and has been properly accounted for since.

Action: Proper accounting of Youth Exchange funds is now being strictly adhered to.

2. The Youth Exchange Program maintains its' own set of books on QuickBooks and provides a copy of the monthly financial and bank statements to the District Bookkeeper. The Audit Committee reviewed the Youth Exchange Program's QuickBooks file, bank statements and reconciliations and did not note

anything unusual. The committee recommended that the Youth Exchange Program provide a monthly backup copy of the program's QuickBooks to the District Bookkeeper, along with bank reconciliations.

Action: The Youth Exchange Program will furnish bank reconciliations in addition to financial reports currently be reported to the District Bookkeeper. A copy of the general ledger will be furnished to the District Bookkeeper in lieu of a backup copy of the program's QuickBooks.

3. As was noted in last year's report and was repeated this year, the District budgeted for a loss during the year (\$21,418 budgeted loss with an actual loss of \$30,473). The District cannot survive by budgeting for losses and make matters worse by then not meeting that budget. The District needs to be realistic in its budgets and respond to budget deficits by either increasing revenues (dues, registration fees, etc.) or reducing spending.

Action: The District will make every effort to present a balanced budget in the future. The current 2019-2020 budget is a balanced budget. An increase to revenues will be studied.

4. Though there was great improvement in the District's bookkeeping in the current year there are two things that still need to improve.
 - a. There should not be postings of revenues or expenses to "header" accounts in QuickBooks. This creates an account with an "other" title in QuickBooks financial reports and does not force accounts to be posted to the more detailed subaccounts where they can be more easily compared to budgeted amounts.

Action: These entries will be made to the appropriate budget account in the future.

- b. Transactions (deposits, checks, journal entries) should not be directly edited or deleted if the transaction was originally recorded in a prior month or year. Corrections should be made using adjusting journal entries in the current period. Transactions posted in QuickBooks that are edited or deleted in the current period for a prior period result in a restatement of the prior period financial statement. This reduces the reliability of the financial statements. In short, once the books for a period have been finalized/closed they should not be changed.

Action: When voiding a check, QuickBooks automatically makes the entry to the time period during which the check was written. Since the books are essentially closed out each month after the financials have been sent to the finance committee members, in future all checks will be voided in the current period.

5. The timing of RYLA presents a problem for the District Bookkeeper because it overlaps the fiscal year end. As a consequence, checks are written after the year end and dated back to the prior year to match against the revenue that was received in the prior year. This presents a problem in reconciling the back account and causes changes in previously issued financial statements (see 4b. above). The solution is to record an accurate accounts payable amount in the year end books for the final RYLA expenses with the expenses posted to the correct detail RYLA expense account. This will mean that the June year end books will need to be kept open until all RYLA expenses have been accounted for. When the checks are actually written in the new year, they should be posted directly against the account payable account. This should clear out the balance in the accounts payable account and get the expenses in the correct Rotary year.

Action: This was caused by prematurely closing the books at the end of the Fiscal Year before RYLA expenses were accounted for. RYLA activities occur over the end of the Fiscal Year and complete accounting cannot be accomplished. The books will not be closed in the future until RYLA has been closed out. This necessitates filing for an extension to the IRS Form 990 which has been done for FY 2019

6. All financial transactions for the District Conference (checks, credit cards, etc.) should be processed through the District Conference bank account. During the year many of the transactions were processed through the District's general operating bank account and then recorded, as such, in QuickBooks. This resulted in numerous "transfers" between the two general ledger accounts and made it difficult to reconcile the bank accounts. This also created more work for the District Bookkeeper and increased the chance of mistakes being made.

Action: The District will no longer maintain a separate District Conference bank account. All conference transactions will be processed through the District operating account and categorized as conference expenses.

7. The District Grant Allocation for administrative expenses (\$1,853 in the year) was recorded twice during the year as a revenue and expense. It was recorded twice by being included in the total grant from TRF and again as a separate entry. Though this does not affect overall net income it results in an offsetting overstatement of revenues and expenses.

Action: Care will be taken to not repeat this action.

8. The audit committee should be allowed on-line "read only" access to all District bank accounts. This will allow the committee to review images of the cancelled checks to verify the accuracy of recorded disbursements.

Action: The audit committee will be furnished with copies of all bank statements in lieu of "read only" access to the accounts. Citizens Bank of Las Cruces does not include copies of cancelled checks in their monthly statements. However, NM Bank & Trust does and statements will include copies of cancelled checks once we move our accounts to NM Bank & Trust in October 2019.

I would like to thank the members of the Finance Committee and especially the Audit Committee for their assistance.

Gary King
District Governor 2019-2020

Regner C. Rider
Finance Committee Chair

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Gary King
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ANNUAL ASSESSMENT OF ROTARY DISTRICT 5520 FINANCES

DISTRICT 5520 AUDIT COMMITTEE REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The District 5520 audit committee, consisting of John Perner, CPA, Dacia Card, CPA, Kimberly Warren, CPA, Cyndi Maestas-Henry, CPA, and Rob Butler, CPA Retired, as chairman, performed the annual assessment of the District's finances as required by the District's bylaws. The purpose of the assessment is to review available information to determine whether the District has adequately reported its financial results for the year and to make recommendations for improvements in controls or reporting. The assessment is not an "audit" or "review" as defined by the applicable professional standards of the AICPA. The committee developed a written program to direct its review to ensure that the stated goals of the assessment were met and to ensure consistency of the committee members' efforts.

Primary Source Documents:

- 1) The financial statements and budgets for the year;
- 2) The District's QuickBooks file for the year as maintained by the District's bookkeeper, Debbie LeMon;
- 3) Copies of bank statements and bank reconciliations for all bank accounts for the year;
- 4) Minutes of all meetings of the District's Finance Committee for the year;
- 5) The prior year's Annual Financial Assessment Report to the District.

SUMMARY OF FINANCIAL RESULTS:

ROTARY DISTRICT 5520 FISCAL YEAR ENDED JUNE 30, 2019

	<u>Actual</u>	<u>Budgeted</u>	Better (Worse) Than <u>Budget</u>
Total Revenues	385,687	413,962	(28,275)
Total Expenses	416,160	435,380	19,220
Net	(30,473)	(21,418)	(9,055)

	<u>Actual</u>	<u>Budgeted</u>	Better (Worse) Than <u>Budget</u>
Specific Programs:			
<u>PETS:</u>			
Revenue	12,925	16,500	(3,575)
Expenses	25,797	26,000	203
Net	(12,872)	(9,500)	(3,372)
<u>District Conference:</u>			
Revenue	58,411	59,000	(589)
Expenses	50,483	45,000	(5,483)
Net	7,928	14,000	(6,072)
<u>District Grants:</u>			
Revenue	63,631	68,275	(4,644)
Expenses	64,080	68,275	4,195
Net	(449)	0	(449)
<u>RYLA</u>			
Revenue	107,140	114,000	(6,860)
Expenses	128,764	114,000	(14,764)
Net	(21,624)	0	(21,624)
<u>Youth Exchange:</u>			
Revenue	39,395	39,600	(205)
Expenses	35,671	39,600	3,929
Net	3,724	0	3,724
<u>Other Programs and Administration:</u>			
Membership Dues	70,530	73,500	(2,970)
RI President's Visit	14,350	0	14,350
Rotary Leadership Institute	700	5,000	(4,300)
Other	32,954	38,087	(5,133)
Total Other Program Revenues	118,534	116,587	1,947
RI President's visit	14,350	0	(14,350)
Administration and Other Expenses	111,364	142,505	31,140
Total Administrative and Other Expenses	125,714	142,505	16,790
Net Other Programs and Administration	(7,180)	(25,918)	18,738

In addition to the above, the balance sheet at the end of year reported total cash in checking and savings accounts of \$187,882. However, of this amount \$79,588 is committed to the payment of RYLA payables. This leaves only \$108,294 as available free cash. This compares to free cash at June 30, 2018 of \$138,098. The balance sheet also reported total unrestricted net equity of \$118,584 at the end of the year.

COMMITTEE FINDINGS:

The committee's review did not disclose any major accounting or reporting errors in the District's financial records and, therefore, recommend that the financial statements for the fiscal year ended June 30, 2019 be accepted by the District and the District Finance Committee. The committee also wants to commend Debbie LeMon, District Bookkeeper, for a job well done and thank her for her cooperation. There was definite improvement in the bookkeeping and reporting.

COMMITTEE RECOMMENDATIONS:

Although the committee believes that the financial statements as presented (copy attached) are acceptable, there are several items that were of concern or procedures that could be improved in the future. These are:

1. The Youth Exchange Program had at least two "savings" accounts that were not recorded in the District books until their discovery at the end of the prior year and further details were revealed in the current year. The reconciled balance was entered in the District books in February 2019 and has been properly accounted for since. The recording of the reconciled balance in February resulted in a credit to unrestricted net equity of \$9,583. This, however, presents an obvious issue about control over these funds and on the accuracy of the financial statements. The keeping or hiding of program "slush" funds should not be tolerated.
2. The Youth Exchange Program maintains its own set of books on QuickBooks and provides a copy of the monthly financial statements and bank statements to the District Bookkeeper. The District Bookkeeper then posts a monthly journal entry in the District's books to account for changes in the accounts for the month. No detail is provided to the District Bookkeeper. The committee recommends that the Youth Exchange Program provide a monthly backup copy of the program's QuickBooks to the District Bookkeeper, along with the bank statements and bank reconciliations. This will allow the District Bookkeeper to better monitor the financial activities of the Youth Exchange Program and better fulfill her responsibilities as the District Bookkeeper. The committee reviewed the Youth Exchange Program's QuickBooks file, bank statements and reconciliations and did not note anything unusual.
3. As was noted in last year's report and was repeated this year, the District budgeted for a loss during the year (\$21,418 budgeted loss with an actual loss of \$30,473). The District cannot survive by budgeting for losses and make matters worse by then not meeting that budget. The District needs to be realistic in its budgets and respond to budget deficits by either increasing revenues (dues, registration fees, etc.) or reducing spending.
4. Though there was great improvement in the District's bookkeeping in the current year there are two things that still need to improve.
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Respectfully submitted,

District 5520 Audit Committee

A handwritten signature in blue ink, appearing to read "Robert Butler".

Robert Butler, CPA Retired

Committee Chairman

Submitted September 27, 2019