

Rotary International District 5340
Audited Financial Statements
June 30, 2020





Sonnenberg & Company, CPAs

A Professional Corporation

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Leonard C. Sonnenberg, CPA

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INDEPENDENT AUDITOR'S REPORT

To the District Governor
Rotary International District 5340

We have audited the accompanying financial statements of Rotary International District 5340 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows 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 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.

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 financial position of Rotary International District 5340 as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Rotary International District 5340's June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



September 2, 2020

Sonnenberg & Company, CPAs

Rotary International District 5340
Statement of Financial Position
June 30, 2020
(With Comparative Totals For June 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 329,670	\$ 270,477
Accounts receivable	2,882	1,095
Prepaid expenses and deposits	10,956	10,106
Property and equipment, net	4,109	5,524
TOTAL ASSETS	<u>\$ 347,617</u>	<u>\$ 287,202</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 16,988	\$ 34,517
Deferred revenue	66,664	3,147
Total Liabilities	<u>83,652</u>	<u>37,664</u>
Net Assets		
Without donor restrictions		
Undesignated	225,407	191,188
Board Designated	38,558	58,350
Total Net Assets	<u>263,965</u>	<u>249,538</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 347,617</u>	<u>\$ 287,202</u>

The accompanying notes are an integral part of these financial statements

Rotary International District 5340
Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
UNRESTRICTED REVENUE & SUPPORT		
Rotary club dues	\$ 135,838	\$ 140,116
Youth service income	44,260	170,477
District events income	9,740	108,790
Grants - Community service	151,165	132,499
Grants - Disaster relief	25,000	-
Grants - Administrative expenses	4,280	-
Rotary International reimbursement	11,579	11,092
Other income	15,663	17,747
TOTAL UNRESTRICTED REVENUE & SUPPORT	<u>397,525</u>	<u>580,721</u>
EXPENSES		
Program Services:		
Club service	54,785	176,519
Community service	189,265	132,499
Youth service	69,121	188,613
International service	13,301	14,517
Governor training	13,989	24,416
Supporting Services:		
Management and general	42,637	43,329
	<u>42,637</u>	<u>43,329</u>
TOTAL EXPENSES	<u>383,098</u>	<u>579,893</u>
CHANGE IN NET ASSETS	14,427	828
NET ASSETS, BEGINNING OF YEAR	<u>249,538</u>	<u>248,710</u>
NET ASSETS, END OF YEAR	<u>\$ 263,965</u>	<u>\$ 249,538</u>

The accompanying notes are an integral part of these financial statements

Rotary International District 5340
Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals For The Year Ended June 30, 2019)

	Program Services						Supporting Services		
	Club Service	Community Service	Youth Service	International Service	Governor Training	Total Program Services	Management & General	2020 Total	2019 Total
Expenses:									
Auto & travel	\$ 4,464	\$	\$	\$	\$	\$ 4,464	\$	\$ 4,464	\$ 6,181
Awards & gifts	1,845					1,845		1,845	1,568
Background checks			506			506		506	779
Badges & Rotary merchandise	6,812					6,812		6,812	2,843
Bank & merchant fees						-	1,877	1,877	5,656
Depreciation						-	1,414	1,414	1,414
District grants - Club projects		151,165				151,165		151,165	132,499
District grants - Covid 19		38,100				38,100		38,100	-
Dues & subscriptions	1,790					1,790		1,790	1,950
Fellowship & social events	1,246					1,246		1,246	111,606
Four way speech contest			78			78		78	3,970
Insurance						-	550	550	550
Interact			4,407			4,407		4,407	4,554
International convention						-		-	13,915
LEAD			41,622			41,622		41,622	35,760
Model UN			93			93		93	39,594
Music camp				12,340		12,340		12,340	12,548
Music competition			5,000			5,000		5,000	6,500
Office supplies						-	4,588	4,588	3,384
Other club services	755					755		755	1,770
Other miscellaneous						-	407	407	1,201
Payroll						-		-	1,631
Professional fees						-	26,650	26,650	25,090
Public relations	9,486					9,486		9,486	6,390
Rotaract			4,253			4,253		4,253	4,800
RYLA			13,162			13,162		13,162	92,656
Telephone						-	7,151	7,151	6,034
Training events	22,815					22,815		22,815	37,400
Website	5,572					5,572		5,572	5,180
Youth exchange support				961		961		961	1,969
Zone institute					13,989	13,989		13,989	10,501
TOTAL	\$54,785	\$189,265	\$69,121	\$ 13,301	\$13,989	\$340,461	\$42,637	\$383,098	\$ 579,893

The accompanying notes are an integral part of these financial statements

Rotary International District 5340
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals For June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 14,427	\$ 828
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,414	1,414
(Increase) decrease in operating assets:		
Accounts receivable	(1,787)	2,033
Prepaid expenses and deposits	(850)	17,628
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(17,528)	27,991
Deferred revenue	<u>63,517</u>	<u>3,006</u>
Net cash provided by operating activities	<u>59,193</u>	<u>52,900</u>
 Net change in cash	 59,193	 52,900
Cash at beginning of year	<u>270,477</u>	<u>217,577</u>
Cash at end of year	<u><u>\$ 329,670</u></u>	<u><u>\$ 270,477</u></u>

The accompanying notes are an integral part of these financial statements

Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1. NATURE OF OPERATIONS

Rotary International District 5340 (the “District”) is a not-for-profit unincorporated association formed in 1941 and is an administrative district of Rotary International. As a volunteer organization, the District provides support to 63 member clubs and humanitarian services primarily in Southern California. Rotary International is a worldwide organization of business and professional leaders that promotes community service and high ethical standards in business and the professions. The District is supported primarily by dues allocated from member clubs, participation fees from Rotarian members, and grants and reimbursements from Rotary International and The Rotary Foundation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the preparation of the District’s financial statements:

Method of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and specific programs.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

**Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

The District reports contributions restricted by donors as increase in net assets without donor restrictions 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 increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2020, the District did not have any net assets with donor restrictions.

Change in Accounting Principle

During the year ended June 30, 2020, the District adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 605) and ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606). Analysis of various provisions of these updates resulted in no significant changes in the way the District recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Cash and Cash Equivalents

The District considers all cash on deposit with financial institutions and all highly liquid investments with an original maturity of three months or less at the date of deposit to be cash equivalents. There were no cash equivalents held by the District as of June 30, 2020.

Accounts Receivable and Related Parties

Accounts receivable consist of trade receivables related to the program services provided. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded as of June 30, 2020.

The District bills the member clubs for annual dues on July 1st for half of the total annual dues and on January 1st for the second half of each year. The dues for the current year have all been received as of June 30, 2020.

Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchases of furniture, fixtures, and equipment, or additions to website development costs, of more than \$1,000 are capitalized at cost and depreciated five to ten years using principally the straight-line method of depreciation. Expenditures for maintenance and repairs are charged to expense as incurred.

Recognition of Revenue

Member dues are recognized as revenue on a pro rata basis covered by the billing. Since the dues are billed on July 1st and January 1st of the fiscal year the pro rata amount is the same as the fiscal year. As such, all dues revenue is recognized in the fiscal year billed. Event and service revenue is recognized when earned.

Contributions are recognized when cash or other assets, an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Deferred Revenue

Event fees received in advance are deferred to the applicable period in which the related events are performed.

Income Taxes

The District is a nonprofit entity exempt from Federal and State income taxes under Section 501(c)(4) of the Internal Revenue Code (IRC) and Section 23701(f) of the California Revenue and Taxation Code (California Code) and is classified as a social welfare organization. Not-for-profit organizations are potentially subject to Federal and State income taxes on activities unrelated to their tax-exempt purpose. The District is not aware of any such activities that it may have engaged in during the year ended June 30, 2020. The District has not taken any uncertain tax positions that would require provision of a liability or disclosure in the financial statements. Accordingly, no provision for income taxes is made in the accompanying financial statements.

As a regional district of Rotary International, which is a 501(c)(4) exempt entity, the District derives its tax-exempt status as a component of Rotary International. The District generally does not receive contributions and, as a 501(c)(4) entity, any such contributions are generally not deductible by the donor.

Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Concentration of Credit Risk

The District maintains its cash and cash equivalents in commercial banks in the United States which are insured by the Federal Deposit Insurance Corporation (FDIC) which, at times, may reach or exceed Federally insured limits. The District has not experienced any losses in these accounts.

Contributed Services

Contributed services are recognized as contributions if services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the District.

Many volunteers have contributed significant amounts of their time to activities of the District. The value of the contributed services is not recognized in the financial statements, since it does not meet the criteria for recognition as a contribution.

Functional Expenses

The District allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records and estimates made by the District's management. During the year ended June 30, 2020, the District did not have any expenses attributable to more than one program or supporting function that require allocation.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, it should be read in conjunction with District's financial statements for the year ended June 30, 2019 from which the summarized information was derived.

Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Date of Management's Review

The District's management has evaluated subsequent events through September 2, 2020 the date the financial statements were available to be issued.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2020:

Furniture, fixtures and equipment	\$ 14,459
Less: accumulated depreciation	<u>(10,350)</u>
	<u><u>\$ 4,109</u></u>

Depreciation expense for the year ended June 30, 2020 was \$1,414.

NOTE 4. BOARD DESIGNATED NET ASSETS

Net assets without donor restrictions that are designated by the District Governor for specific purposes are as follows:

Model UN	\$ 4,941
RYLA	11,502
LEAD	7,141
Music camp	4,619
Flag court	<u>10,355</u>
TOTAL \$	<u><u>38,558</u></u>

Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 5. CONCENTRATIONS

The District's primary source of income consists of dues and payments from member clubs and attendance at District events for club members which represents over 48% of the District's revenue for the year ended June 30, 2020. Approximately 45% of the District's revenue is derived from The Rotary Foundation funding.

The District's market is concentrated in San Diego and Imperial Counties, California and in the City of Blythe, California.

NOTE 6. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Financial assets at year end:

Cash	\$ 329,670
Accounts receivable	<u>2,882</u>
Total financial assets	<u>332,552</u>

Less amounts not available to be used within one year:

Board designated - Flag court	<u>(10,355)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 322,197</u></u>

The District Governor has designated a portion of its unrestricted resources for Flag court repairs. Because of the District Governor's designation, those assets are not available for general expenditures within the next year; however, the District Governor could make them available, if necessary. In addition, the District Governor has designated \$28,849 of its unrestricted resources for various programs. However, these funds are available for general expenditures within one year of June 30, 2020, because the designations on the net assets are expected to be met by conducting the normal activities of the District's programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year.

As part of the District's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The District invests cash in excess of daily requirements in money market funds.

Rotary International District 5340
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 7. COVID-19 AND SUBSEQUENT EVENTS

The spread of COVID-19 in the first months of 2020 has caused a substantial impact on the U.S. economy. There is significant uncertainty around the effects and duration of business interruption related to COVID-19. The extent of the impact on the District's operations, members, vendors, and consumers, will depend on certain developments, which cannot be determined at this time.

As a result of COVID-19 outbreak, the District has cancelled several events, including District Conference, RYLA , Model UN, scheduled for March through June 2020. The District has collected \$66,664 in registration fees for RYLA and Model UN events which will be applied toward registration fees for the following year events. Therefore, \$66,664 is recorded as deferred revenue at June 30, 2020. During the year ended June 30, 2020, the District incurred \$13,255 of expenses for cancelled events.