

The Rotary Foundation of Rotary International

Financial Statements as of and for the
Years Ended 30 June 2019 and 2018, and
Independent Auditors' Report

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

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INDEPENDENT AUDITORS' REPORT

To the Trustees of
The Rotary Foundation of Rotary International:

We have audited the accompanying financial statements of The Rotary Foundation of Rotary International, which comprise the statements of financial position as of 30 June 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' 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 Rotary Foundation of Rotary International'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 Rotary Foundation of Rotary International'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 The Rotary Foundation of Rotary International as of 30 June 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Rotary Foundation of Rotary International has adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not for Profit Entities*. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

25 October 2019

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION

AS OF 30 JUNE 2019 AND 2018

(In thousands of U.S. dollars)

	2019	2018
ASSETS		
ASSETS:		
Cash and cash equivalents—unrestricted and restricted	\$ 44,053	\$ 41,521
Pledges receivable—net	17,006	24,183
Prepaid expenses and other assets	4,161	3,174
Investments	1,172,802	1,140,749
Foreign currency contracts		33
Split-interest agreements	<u>47,511</u>	<u>45,032</u>
TOTAL ASSETS	<u>\$1,285,533</u>	<u>\$1,254,692</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued program awards	\$ 93,883	\$ 89,130
Accounts payable, accrued expenses, and deferred revenues	3,124	1,816
Split-interest agreements payable	31,810	29,805
Foreign currency obligations	42	
Due to Rotary International	<u>6,399</u>	<u>6,643</u>
Total liabilities	<u>135,258</u>	<u>127,394</u>
NET ASSETS:		
Without donor restriction	696,178	700,460
With donor restriction	<u>454,097</u>	<u>426,838</u>
Total net assets	<u>1,150,275</u>	<u>1,127,298</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,285,533</u>	<u>\$1,254,692</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2019 (In thousands of U.S. dollars)

	Without Donor Restriction	With Donor Restriction	Total
REVENUES:			
Contributions	\$142,081	\$ 177,977	\$ 320,058
Split-interest agreements		1,843	1,843
Net investment return	19,705	18,270	37,975
Grants and other activities—net	277	363	640
Net assets released from restrictions	<u>169,602</u>	<u>(169,602)</u>	<u> </u>
Total revenues	<u>331,665</u>	<u>28,851</u>	<u>360,516</u>
EXPENSES:			
Program awards and expenses:			
PolioPlus program	152,979		152,979
Rotary grants	136,788		136,788
Other programs	<u>11,599</u>		<u>11,599</u>
Total program awards and expenses	301,366	-	301,366
Development expenses	19,049		19,049
General administration	<u>14,790</u>		<u>14,790</u>
Total expenses	<u>335,205</u>	<u>-</u>	<u>335,205</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	(3,540)	28,851	25,311
FOREIGN CURRENCY EXCHANGE (LOSSES)	(676)	15	(661)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(66)</u>	<u>(1,607)</u>	<u>(1,673)</u>
CHANGE IN NET ASSETS	(4,282)	27,259	22,977
NET ASSETS—Beginning of year	<u>700,460</u>	<u>426,838</u>	<u>1,127,298</u>
NET ASSETS—End of year	<u>\$696,178</u>	<u>\$ 454,097</u>	<u>\$1,150,275</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2018 (In thousands of U.S. dollars)

	Without Donor Restriction	With Donor Restriction	Total
REVENUES:			
Contributions	\$145,967	\$ 194,150	\$ 340,117
Split-interest agreements		1,018	1,018
Net investment return	26,809	28,513	55,322
Grants and other activities—net	112	1,639	1,751
Net assets released from restrictions	<u>175,790</u>	<u>(175,790)</u>	
Total revenues	<u>348,678</u>	<u>49,530</u>	<u>398,208</u>
EXPENSES:			
Program awards and expenses:			
PolioPlus program	158,969		158,969
Rotary grants	130,973		130,973
Other programs	<u>12,175</u>		<u>12,175</u>
Total program awards and expenses	302,117	-	302,117
Development expenses	20,117		20,117
General administration	<u>5,304</u>		<u>5,304</u>
Total expenses	<u>327,538</u>	<u>-</u>	<u>327,538</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	21,140	49,530	70,670
FOREIGN CURRENCY EXCHANGE (LOSSES) GAINS	(1,633)	25	(1,608)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(60)</u>	<u>(380)</u>	<u>(440)</u>
CHANGE IN NET ASSETS	19,447	49,175	68,622
NET ASSETS—Beginning of year	<u>681,013</u>	<u>377,663</u>	<u>1,058,676</u>
NET ASSETS—End of year	<u>\$700,460</u>	<u>\$ 426,838</u>	<u>\$1,127,298</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2019 (In thousands of U.S. dollars)

	Program Awards and Expenses			Supporting Services			Total Expenses
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$ 151,223	\$ 118,287	\$ 11,581	\$ 281,091	\$ -	\$ -	\$ 281,091
Salaries, benefits, and payroll taxes	823	12,701		13,524	10,486	8,632	32,642
External services	595	1,540		2,135	1,167	2,247	5,549
Travel	249	919		1,168	1,316	1,341	3,825
Conferences, conventions, and meetings	10	18		28	605	39	672
Media and public relations	3	98		101	129	42	272
Information technology and communications	46	1,817		1,863	1,158	1,277	4,298
Publications and printing	2	19		21	486	14	521
Postage, shipping, and freight	6	84		90	942	112	1,144
Donor recognition					925		925
Cost of sales		13		13	53		66
Occupancy	9	928		937	549	620	2,106
Insurance, finance fees, and taxes	1	38	18	57	922	167	1,146
General office and miscellaneous	12	326		338	311	299	948
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$ 152,979</u>	<u>\$ 136,788</u>	<u>\$ 11,599</u>	<u>\$ 301,366</u>	<u>\$ 19,049</u>	<u>\$ 14,790</u>	<u>\$ 335,205</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2018 (In thousands of U.S. dollars)

	Program Awards and Expenses				Supporting Services		Total Expenses
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$ 156,455	\$ 108,641	\$ 12,129	\$ 277,225	\$ -	\$ -	\$ 277,225
Salaries, benefits, and payroll taxes	1,613	14,347		15,960	11,101	2,687	29,748
External services	234	2,073		2,307	1,863	477	4,647
Travel	159	1,410		1,569	1,164	991	3,724
Conferences, conventions, and meetings	15	138		153	572	44	769
Media and public relations	36	320		356	448	70	874
Information technology and communications	207	1,830		2,037	842	472	3,351
Publications and printing	2	19	18	39	519		558
Postage, shipping, and freight	15	136	10	161	1,036	34	1,231
Donor recognition					850	2	852
Cost of sales	2	20		22	9	5	36
Occupancy	131	1,155		1,286	491	295	2,072
Insurance, finance fees, and taxes	14	127	18	159	870	32	1,061
General office and miscellaneous	86	757		843	352	195	1,390
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$ 158,969</u>	<u>\$ 130,973</u>	<u>\$ 12,175</u>	<u>\$ 302,117</u>	<u>\$ 20,117</u>	<u>\$ 5,304</u>	<u>\$ 327,538</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2019 AND 2018 (In thousands of U.S. dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 22,977	\$ 68,622
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Endowment Fund contributions	(22,876)	(25,911)
Contributed securities	(47)	(20)
Foreign currency translation losses	709	1,557
Realized and unrealized gains on investments—net	(24,412)	(42,467)
Change in fair value of foreign currency contracts and obligations	75	(33)
Changes in operating assets and liabilities:		
Pledges receivable—net	7,178	(6,387)
Prepaid expenses and other assets	(987)	(190)
Split-interest agreements	(2,479)	(2,351)
Accrued program awards	4,753	9,597
Accounts payable, accrued expenses, and deferred revenues	1,308	250
Split-interest agreements payable	2,005	646
Due to Rotary International	<u>(244)</u>	<u>253</u>
Net cash (used in) provided by operating activities	<u>(12,040)</u>	<u>3,566</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,110,353)	(3,089,982)
Proceeds from sale of investments	2,086,973	3,001,563
Change in short-term investments	<u>15,786</u>	<u>60,112</u>
Net cash used in investing activities	<u>(7,594)</u>	<u>(28,307)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in Endowment Fund	<u>22,875</u>	<u>22,869</u>
Net cash provided by financing activities	<u>22,875</u>	<u>22,869</u>
EFFECT OF EXCHANGE RATES ON CASH	<u>(709)</u>	<u>(1,557)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,532	(3,429)
CASH AND CASH EQUIVALENTS—Unrestricted and restricted—beginning of year	<u>41,521</u>	<u>44,950</u>
CASH AND CASH EQUIVALENTS—Unrestricted and restricted—end of year	<u>\$ 44,053</u>	<u>\$ 41,521</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED 30 JUNE 2019 AND 2018

(In thousands of U.S. dollars)

1. NATURE OF OPERATIONS

The Rotary Foundation of Rotary International (the "Foundation") is a corporation organized under the Illinois Not-for-Profit Corporation Act. The Foundation is funded solely by voluntary contributions, which support its mission to advance world understanding, goodwill, and peace. Using Foundation grants, Rotary International's approximately 35,000 clubs across the globe develop and carry out sustainable humanitarian projects and provide scholarships and professional training opportunities that promote peace, fight disease, provide clean water, sustain mothers and children, improve education, and strengthen local economies. In addition, the Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan, and the United Kingdom. The associate foundations provide local Rotarians and/or other donors with tax benefits for charitable contributions under the applicable laws in each country. The financial activities conducted by the associate foundations are included in the statements of financial position and the related statements of activities, functional expenses, and cash flows. Operating revenue of the Foundation is derived primarily from contributions and investment income.

Rotary International is the sole corporate member of the Foundation; therefore, the Foundation is included in Rotary International's consolidated financial statements issued under separate cover.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents—Cash and cash equivalents include operating cash and liquid investments with an initial maturity of three months or less. These include interest-bearing accounts, money market mutual funds, and fixed-term deposits, and are stated at cost, which approximates fair value. The Foundation maintains foreign and domestic cash accounts, including cash and cash equivalents subject to certain repatriation restrictions imposed by local governments. These amounts have been presented as restricted in the table below.

	2019	2018
Cash—unrestricted	\$ 32,360	\$ 32,179
Cash—restricted	<u>11,693</u>	<u>9,342</u>
Total	<u>\$44,053</u>	<u>\$41,521</u>

The Foundation had domestic balances exceeding the Federal Deposit Insurance Corporation's insured limitations at 30 June 2019 and 2018. The Foundation believes it is not exposed to significant credit risk on cash and cash equivalents.

Pledges Receivable—The Foundation receives unconditional multi-year pledges ranging from one to ten years. Management makes judgments regarding the outstanding pledges and ultimate collectability of these receivables. Pledges receivable are recorded net of discounting for the present value of the expected future cash flows using a risk-free rate.

Investments—Investment holdings of securities and financial instruments are recorded at fair value or estimated fair value. The Foundation values its investments using the hierarchy of valuation inputs established by the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 820. The categorization of a financial instrument or investment is based upon its pricing transparency and liquidity and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Investment income is recorded on an accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis.

Split-Interest Agreements—Split-interest agreements with donors consist of charitable remainder unitrusts for which the Foundation serves as trustee, gift annuity contracts, and pooled income funds. Assets held under these agreements are recorded at estimated fair value and the contribution portion of these agreements is recognized as revenue when received. A liability for the obligation to pay beneficiaries income for their remaining life expectancy is recorded when the agreement is established at the estimated net present value of future cash flows using a discount rate commensurate with the duration of the estimated payments and actuarial assumptions reflecting the terms of the agreements and the estimated time of receipt.

Derivative Financial Instruments—Foreign currency contracts and obligations are used to manage exposure to changes in the value of currency, other than the U.S. dollar, held as part of operations. The agreements are not designated as hedges for accounting purposes and are recorded at estimated fair value.

Accrued Program Awards—The Foundation records the full amount of program awards upon specific designation of award recipients in the year for which they are approved. Awards approved, but not yet paid, are included in accrued program awards in the accompanying statements of financial position.

Due to Rotary International—Rotary International and the Foundation handle certain fiscal matters on behalf of each other, including transfers of funds within countries, payment of general and administrative expenses, and payment of employee salaries and benefits. The balances resulting from these transactions are settled in cash on a periodic basis.

Net Assets—The Foundation classifies resources into two classes of net assets as follows:

Net Assets Without Donor Restriction—Net assets not subject to donor-imposed stipulations, including all revenues, expenses, gains and losses that are not changes in net assets with donor restrictions. These include contributions from Rotarians, Rotary districts and clubs, and others.

In addition to undesignated contributions, the Board of Trustees (the "Trustees") have designated certain net assets without donor restriction for specific programs or uses. These designations include polio eradication, the Endowment Fund (see Note 6), Rotary grants, and areas of focus. These net assets without donor restriction also include the operating reserves that support the Foundation's operating expenses in the event that current-year investment earnings are inadequate.

Net Assets With Donor Restriction—Net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, that may or will be met by fulfillment of the stipulated purpose and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, and are invested to provide a permanent source of income to support Foundation programs.

As of 30 June 2019 and 2018, the Foundation's net assets with donor restrictions include contributions that are restricted for Rotary grants, areas of focus, and directed gifts. Foundation policy stipulates that a portion of the Endowment Fund's net investment return be used to support the programs of the Foundation, including reasonable administrative costs in accordance with the conditions agreed on at the time of gift acceptance and in accordance with the spending policy approved by the Foundation Trustees. Noncurrent pledges and the unspent portion of the Endowment Fund's net investment return are classified as net assets with donor restriction.

Furthermore, the endowment invested in perpetuity includes donated funds with donor-imposed stipulations, that can neither be removed by fulfillment of a stipulated purpose nor expire with the passage of time. These endowed funds are restricted in perpetuity for annual fund, Rotary grants, PolioPlus program, split-interest agreements, and other designations.

Revenue Recognition—Contributions and unconditional pledges, net of discount, are recognized as revenue in the period received and recorded at net realizable value.

Tax Status—The Foundation has received a favorable determination letter from the Internal Revenue Service (IRS) stating that the Foundation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, except for income taxes pertaining to unrelated business income.

Tax effects from uncertain tax positions are recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. Additionally, no provision for income taxes is reflected in the financial statements and there is no interest or penalties recognized in the statements of activities or statements of financial position.

Translation of Currency other than the U.S. Dollar—The U.S. dollar is the reporting currency for the Foundation. The Foundation has operations in countries other than the U.S. that are translated into the Foundation's reporting currency. Translation and transaction gains or losses are reflected as a separate line item adjusting the change in net assets, as reported in the statements of activities.

Risks and Uncertainties—The Foundation has invested cash and short-term investments, debt and equity securities, and alternative investments that are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain

investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements.

Allocation Methodology—The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas. A portion of General and Administrative costs that benefit multiple functional areas (indirect costs) have been allocated across Program Expenses and Supporting Services based on headcount or a calculated distribution rate, as described further in Note 7 “Related Party Transactions”. The statement of functional expenses for 2019 includes the application of the improved and expanded guidance within Accounting Standards Update (“ASU”) No. 2016-14 for expense allocation. The provisions of ASU No. 2016-14 were not applied to the statement of functional expenses for 2018, in accordance with the standard.

Adopted Accounting Pronouncements—The Foundation adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* issued by the FASB in August 2016. This standard simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows.

The Foundation adopted this standard on 1 July 2018. The adoption of this standard changed the net asset classifications on the statement of financial position and statement of activities and expanded certain footnote disclosures. Additionally, the standard changed the presentation of investment income and expense, allowing for net presentation. The financial statements and footnote disclosure as of and for the year ended 30 June 2018 have been restated to reflect the implementation of the new guidance retrospectively. See Note 3 for the required disclosure on availability of financial assets and liquidity and Note 8 for the required disclosure on net assets with donor restrictions and release purpose for further detail.

Upcoming Accounting Pronouncements Not Yet Adopted—The Foundation is currently evaluating the impact of the following FASB issued ASUs.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. ASU 2014-09 will become effective for the fiscal year ending 30 June 2020.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. ASU 2016-18 will become effective for the fiscal year ending 30 June 2020.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”). This standard clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be

accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and 2) determining whether a contribution is conditional. ASU 2018-08 will become effective for the fiscal year ending 30 June 2020.

Subsequent Events—Management considered subsequent events through 25 October 2019, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation’s 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 the following:

	2019
Cash and cash equivalents (Note 2)	\$ 44,053
Accounts receivable	677
Pledges receivable expected within one year (Note 4)	11,515
Non-pooled cash and cash equivalents (Note 5)	<u>101,230</u>
 Total	 <u>\$ 157,475</u>

Accounts receivable amount is presented within prepaid expenses and other assets on the Statement of Financial Position. Additionally, the assets above include \$5,636 in donor-advised funds as of 30 June 2019. The Foundation generally uses these assets for grantmaking based on donor recommendations.

The Foundation’s Endowment Fund consists of donor-restricted endowments of \$413,648 and a Trustee-designated endowment of \$58,210 as of 30 June 2019, as detailed further in Note 6 – Endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, may not be available for general expenditure. The endowment has a tiered spending rate structure, with rates between 2% and 5%. Appropriations of \$17,600 from the Endowment Fund will be available within the next 12 months. Although the Foundation does not intend to spend from its Trustee-designated Endowment Fund (other than amounts appropriated per the Trustee’s annual spending rate approval), these amounts could be made available if necessary. However, both the Trustee-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note 5 for disclosures on Investments and Fair Value Measurements).

The Foundation has a liquidity management policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation’s cash flows have seasonal variations attributable to contribution peaks that coincide with the end of local tax years and the Foundation’s fiscal year-ends. To manage liquidity, the Foundation holds cash in numerous bank accounts around the world, with discretion to invest the excess of daily requirements in short-term investment vehicles such as money market funds and fixed-term deposits.

Annually, if an operating surplus exists, the Trustees will designate a portion of the surplus to its operating reserve which is \$77,738 as of 30 June 2019.

4. PLEDGES RECEIVABLE—NET

Pledges receivable—net at 30 June 2019 and 2018, are summarized as follows:

	2019	2018
Total pledges receivable	\$19,269	\$26,267
Less adjustments to present value of future cash flows for pledges receivable	(562)	(457)
Less allowance for uncollectible pledges receivable	<u>(1,701)</u>	<u>(1,627)</u>
Pledges receivable—net	<u>\$17,006</u>	<u>\$24,183</u>

The discount rates used to determine the present value of pledges receivable represent risk-free interest rates applicable to the years in which the promises are received and range from 0.68% to 8%.

Payments on pledges receivable at 30 June 2019, are expected to be received as follows:

Year Ending June 30	
2020	\$11,515
2021	4,337
2022	2,183
2023	1,201
2024	<u>33</u>
	<u>\$19,269</u>

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation's investment policy is established by the Trustees, on the advice of and under the oversight of an Investment Committee and implemented by the office of investment. The Foundation's investable assets consist of temporarily invested expendable funds, endowed funds, assets associated with split-interest agreements, and donor-advised funds. Investments are separated into distinct portfolios, each with a specific objective and investment policy, and are invested by external investment firms on behalf of the Foundation, except for certain securities which are managed internally. All invested assets are held in the custody of third-party financial institutions.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities as of the measurement date. Price data is obtained from independent sources.

Level 2: Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices in markets that are not as active, or other inputs that are observable or can be corroborated by observable market data for substantially all of the same term of the assets or liabilities. Inputs are generally obtained from various sources, including market participants, dealers, and brokers.

Level 3 and Investments Measured at Net Asset Value ("NAV"): Unobservable inputs that are supported by little or no market activity, including an investment manager's own assumptions about the inputs market participants would use to price an instrument, and are significant to the fair value of the assets or liabilities.

As a practical expedient permitted under U.S. GAAP, the reported NAV of investments in certain commingled funds is used to estimate fair value. Investments that use NAV as a practical expedient for valuation purposes are shown separately from the level hierarchy.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input significant to the fair value measurement. If changes in the inputs used to measure the fair value of an asset or liability result in a transfer of the fair value measurement to a different categorization, such transfers are recognized at the end of the reporting period.

Equity securities traded on a national securities exchange are stated at the last reported sale price on the date of valuation. Mutual funds are valued based on the NAV reported by the fund companies as of the last business day of the fiscal year and are classified as Level 1. To the extent that quoted market prices are not readily available for a security, fair value may be estimated based on broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency and categorized as Level 2. Government and corporate bonds are generally obtained from third-party pricing services for comparable securities and are categorized as Level 2 except for bond exchange-traded funds that are categorized as Level 1.

Investments in commingled funds other than mutual funds are generally recorded at the estimated fair value based on the NAV. Investments in limited partnerships and other similar types of funds are recorded at the estimated fair value based on the percentage ownership of the fund's NAV as of the measurement date provided by the fund manager or third-party administrator. In determining fair value, management utilizes valuations provided by the fund manager. The estimated fair values of certain investments in the fund, which may include private placements and other securities for which prices are not readily available, are determined by the fund manager of the respective fund and may not reflect amounts that could be realized upon immediate sale nor the amount that may ultimately be realized. Accordingly, the estimated fair values may differ from the values that would have been used had a readily available market existed for these investments. In cases where the practical expedient threshold is not met, such as an investment not in compliance with GAAP, or where a statement of partners' capital is not provided, the investment is reported as Level 3.

The estimated fair value of securities that do not have readily determined fair values, and of other investments, that are generally less liquid, are based on valuation information received on the relevant entity and may include last sale information or an independent appraisal of value. In addition, standard valuation techniques, including discounted cash flow models or valuation multiples based on comparable investment may be used. The estimated fair values for these securities are classified as Level 3 reflecting significant unobservable inputs supported by little or no market activity.

Interests in commingled funds other than mutual funds are generally recorded at the NAV reported by the fund administrator or fund manager, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from the NAV.

The valuations of investments measured at NAV and those categorized as Level 3 necessarily involve assumptions and methods that are reviewed by management. Management exercises diligence to assess the policies, procedures, and controls of external investment managers, obtains and reviews a fund's audited financial statements, valuation procedures and transparency of those processes, periodic attendance at investor meetings, and discussions with investment managers. Management has determined that the valuations of these investments are reasonable estimates of fair value. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in assumptions or market conditions in the near term would materially affect the amounts reported in the financial statements. Funds whose estimated fair values are recorded using the NAV as a practical expedient are reported separately from the fair value levels.

The fair value of the foreign currency contracts and obligations is obtained from a third party as of the measurement date and are classified within Level 2.

Investments include assets of the Donor-Advised Fund (DAF), which accepts irrevocable contributions and offers individuals and Rotary-affiliated groups the flexibility to recommend grants to either the Foundation or other unaffiliated IRS-approved charities. Grants are subject to approval by the Foundation Trustees. The Foundation recognizes revenue when assets are contributed to the DAF. Grants made to other organizations from the DAF are recorded as program awards.

In the following tables, equity investments/securities include individual equity securities, mutual funds that invest in equity securities, and exchange-traded funds that hold or replicate a basket of equity securities in an index. Fixed income investments/securities include bond mutual funds and exchange-traded funds that are categorized as Level 1 and individual government and corporate bonds that are categorized as Level 2.

The estimated fair values of the Foundation's investments and financial assets that are measured on a recurring basis are as follows as of 30 June 2019:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Equity investments/securities	\$ 187,422	\$ 2,479	\$ -	\$ -	\$ 189,901
Fixed income investments/securities	81,838	115,895			197,733
Buyout funds	40,491				40,491
Natural resources	15,334				15,334
Real estate	75,726				75,726
Hedge funds	43,285	438			43,723
Balanced funds	<u>15,242</u>				<u>15,242</u>
Total pooled investments	<u>459,338</u>	<u>118,812</u>	<u>-</u>	<u>-</u>	<u>578,150</u>
Non-pooled investments:					
Cash and cash equivalents		42,377	58,853		101,230
Equity investments/securities		107,864			107,864
Fixed income investments/securities		<u>201,336</u>	<u>184,222</u>		<u>385,558</u>
Total non-pooled investments	<u>-</u>	<u>351,577</u>	<u>243,075</u>	<u>-</u>	<u>594,652</u>
Total investments at fair value	<u>\$459,338</u>	<u>\$470,389</u>	<u>\$243,075</u>	<u>\$ -</u>	<u>\$1,172,802</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 1,105	\$ -	\$ -	\$ 1,105
Equity investments/securities		32,878			32,878
Fixed income investments/securities		13,428			13,428
Real estate				<u>100</u>	<u>100</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 47,411</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 47,511</u>

The estimated fair values of the Foundation's investments and financial assets that are measured on a recurring basis are as follows as of 30 June 2018:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Equity investments/securities	\$ 128,889	\$ 43,204	\$ -	\$ -	\$ 172,093
Fixed income investments/securities	29,189	81,952			111,141
Buyout funds	40,038				40,038
Natural resources	12,833				12,833
Real estate	61,539				61,539
Hedge funds	50,748				50,748
Balanced funds	<u>15,620</u>	<u>2,461</u>			<u>18,081</u>
Total pooled investments	<u>338,856</u>	<u>127,617</u>	<u>-</u>	<u>-</u>	<u>466,473</u>
Non-pooled investments:					
Cash and cash equivalents		69,535			69,535
Equity investments/securities		175,249			175,249
Fixed income investments/securities		<u>207,830</u>	<u>221,662</u>		<u>429,492</u>
Total non-pooled investments	<u>-</u>	<u>452,614</u>	<u>221,662</u>	<u>-</u>	<u>674,276</u>
Total investments at fair value	<u>\$ 338,856</u>	<u>\$ 580,231</u>	<u>\$ 221,662</u>	<u>\$ -</u>	<u>\$ 1,140,749</u>
Foreign currency hedge contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 33</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 589	\$ -	\$ -	\$ 589
Equity investments/securities		32,138			32,138
Fixed income investments/securities		11,376			11,376
Real estate				929	929
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 44,103</u>	<u>\$ -</u>	<u>\$ 929</u>	<u>\$ 45,032</u>

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2019, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Open-end funds	\$ 359,708	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	<u>100,067</u>	<u>106,299</u>	N/A	N/A
Total	<u>\$ 459,775</u>	<u>\$ 106,299</u>		

* D—daily, M—monthly, Q—quarterly, A—annually

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2018, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency *	Redemption Notice Period
Open-end funds	\$ 284,111	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	<u>54,745</u>	<u>29,847</u>	N/A	N/A
Total	<u>\$ 338,856</u>	<u>\$ 29,847</u>		

* D—daily, M—monthly, Q—quarterly, A—annually

Open-end funds are those commingled funds that can issue and redeem shares at any time or on a pre-determined schedule. Closed-end funds are those commingled funds that raise capital in a private offering and call for investment, as investor capital is needed to fund investments. As of 30 June 2019 and 2018, the Foundation had no plans to sell any investments at amounts different from the NAV.

The components of investment return—net for the years ended 30 June 2019 and 2018, are as follows:

	2019	2018
Interest and dividends	\$17,784	\$ 17,058
Realized gains—net	21,671	53,980
Unrealized gains (losses)—net	2,741	(11,513)
Investment and banking fees	<u>(4,221)</u>	<u>(4,203)</u>
Total	<u>\$37,975</u>	<u>\$ 55,322</u>

6. ENDOWMENTS

The Foundation's Endowment Fund consists of funds restricted by donors, and funds designated by the Trustees to function as an endowed fund. The primary objective of the Endowment Fund is to support the Foundation in perpetuity. Endowed assets are included in a consolidated pool and invested in accordance with the investment policy approved by the Trustees. Assets of the Endowment Fund are invested for long-term growth and capital appreciation and to provide a stable and sustainable source of funding to support the Foundation.

The net assets associated with endowed funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation and was adopted by the State of Illinois. Management considers the factors prescribed by UPMIFA when deciding how much to distribute each year from a donor-restricted endowed fund and generally applies the same policy to trustee-designated funds.

A portion of the Endowment Fund's investment earnings is used to fund the programs of the Foundation, based on the terms of the gift and the Foundation's spending policy. The Endowment Fund may make an annual distribution to the Foundation's program awards and operations and operating expenses as approved by the Foundation's Trustees. In fiscal years 2019 and 2018, the Trustees approved spending from those donor-restricted and trustee-designated endowed gifts where the fair value is at least 90% of the accumulated gift value. Spending is based on a tiered spending rate structure, with rates between 2% and 5%, depending on the level of accumulated earnings.

Split-interest agreements and related activities are part of net assets with donor restriction, but are managed separately from endowments; therefore, split-interest agreements are not included in the spending calculations for the Endowment Fund or in the endowment net assets reported.

Changes in endowment net assets for the year ended 30 June 2019, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—beginning of year	\$64,339	\$386,986	\$451,325
Contributions	1,611	22,876	24,487
Investment return	2,654	18,284	20,938
Transfers to trustee-designated endowment funds	928		928
Conversion of split-interest agreements to endowment		1,738	1,738
Modification to endowment agreements	(9,066)	(238)	(9,304)
Reserve against pledges receivable		(607)	(607)
Appropriation of endowment assets for expenditure	<u>(2,256)</u>	<u>(15,391)</u>	<u>(17,647)</u>
Endowment net assets—end of year	<u>\$58,210</u>	<u>\$413,648</u>	<u>\$471,858</u>

Changes in endowment net assets for the year ended 30 June 2018 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—beginning of year	\$59,545	\$344,999	\$404,544
Contributions		25,911	25,911
Investment return	4,876	28,525	33,401
Transfers to trustee-designated endowment funds	2,219		2,219
Conversion of split-interest agreements to endowment		955	955
Reserve against pledges receivable		(128)	(128)
Appropriation of endowment assets for expenditure	<u>(2,301)</u>	<u>(13,276)</u>	<u>(15,577)</u>
Endowment net assets—end of year	<u>\$64,339</u>	<u>\$386,986</u>	<u>\$451,325</u>

Endowment composition by net asset class as of 30 June 2019, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$413,648	\$413,648
Trustee-designated endowment funds	<u>58,210</u>	<u> </u>	<u>58,210</u>
Endowment net assets—end of year	<u>\$58,210</u>	<u>\$413,648</u>	<u>\$471,858</u>

Endowment composition by net asset class as of 30 June 2018, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ (11)	\$386,986	\$386,975
Trustee-designated endowment funds	<u>64,350</u>	<u> </u>	<u>64,350</u>
Endowment net assets—end of year	<u>\$64,339</u>	<u>\$386,986</u>	<u>\$451,325</u>

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor-restricted endowed funds may fall below the level that the donor or the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Foundation to retain as a fund of perpetual donation.

As of 30 June 2019 no deficiencies of this nature exist. As of 30 June 2018 there were \$11 of deficiencies.

7. RELATED-PARTY TRANSACTIONS

The Foundation received contributions of \$266 and \$273 for the years ended 30 June 2019 and 2018, respectively, from Rotary International.

In addition, Rotary International charges the Foundation for expenses incurred on the Foundation’s behalf in accordance with an administrative services agreement dated 17 May 2017. Boards of each entity meet annually to adjust the agreement as needed.

These expense allocations flow through intercompany accounts of the two entities and are as follows for the years ended 30 June:

	2019	2018
Salaries, benefits and payroll taxes	\$32,642	\$29,748
External services	5,549	4,647
Travel	3,825	3,724
Conferences, conventions and meetings	672	769
Media and public relations	272	874
Information technology and communications	4,298	3,351
Publications and printing	521	558
Postage, shipping and freight	1,144	1,231
Donor recognition	925	852
Cost of sales	66	36
Occupancy	2,106	2,072
Insurance, finance fees and taxes	1,146	1,061
General office and miscellaneous	<u>948</u>	<u>1,390</u>
Total	<u>\$54,114</u>	<u>\$50,313</u>

The Foundation allocates these costs based on staff resources required to support each functional area. These amounts are allocated as follows for the years ended 30 June:

	2019	2018
PolioPlus program	\$ 1,756	\$ 2,514
Rotary grants	18,501	22,332
Other programs	18	46
Development expenses	19,049	20,117
General administration	<u>14,790</u>	<u>5,304</u>
Total	<u>\$54,114</u>	<u>\$50,313</u>

All employees are employed by Rotary International and the compensation and benefit expenses are allocated to the Foundation.

8. NET ASSETS

The components of the Foundation's net assets as of 30 June 2019 and 2018, are as follows:

	2019	2018
Without donor restriction:		
Undesignated	\$ 487,153	\$ 477,937
Trustee-designated:		
PolioPlus program	72,949	81,131
Operating reserve fund	77,738	76,915
Endowment Fund	58,210	64,350
Rotary grants	<u>128</u>	<u>127</u>
Total net assets without donor restriction	<u>696,178</u>	<u>700,460</u>
With donor restriction:		
For Purpose and/or Passage of time:		
Endowment Fund earnings	89,844	86,975
Rotary grants	24,833	24,705
Endowment invested in Perpetuity:		
Annual fund	198,363	184,255
Rotary grants	122,587	113,768
PolioPlus program	1,037	889
Split-interest agreements	15,616	15,147
Other	<u>1,817</u>	<u>1,099</u>
Total net assets with donor restriction	<u>454,097</u>	<u>426,838</u>
Total net assets	<u>\$ 1,150,275</u>	<u>\$ 1,127,298</u>

Net assets released from restrictions by incurring expenses which satisfied donor restrictions, passage of time, or through modifications to endowment agreements for the years ended 30 June 2019 and 2018, are as follows:

	2019	2018
PolioPlus program	\$ 128,636	\$ 143,669
Endowment Fund earnings appropriated for use	10,875	9,531
Rotary grants/other programs	27,208	20,338
Endowment modifications	239	
Prior year pledges due	<u>2,644</u>	<u>2,252</u>
Total	<u>\$ 169,602</u>	<u>\$ 175,790</u>

9. THE BILL & MELINDA GATES FOUNDATION GRANT

The Foundation has entered into grant agreements with the Bill & Melinda Gates Foundation (BMGF) to support the global polio eradication initiative. In accordance with the grant agreements and all future addendums, the Foundation recognizes revenue when all contingencies to the grant are substantially met.

Pursuant to the agreements, BMGF provides a 2 to 1 match for new spending from non-BMGF funds, with a match of up to \$100,000 per calendar year, in calendar years 2018–2023. The Foundation recorded a \$92,700 award as revenue in fiscal year 2019 and a \$107,300 award as revenue in fiscal year 2018.

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