



**Financial Statements and Report of Independent  
Certified Public Accountants**

**The Rotary Foundation of Rotary International**

**30 June 2016 and 2015**

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities	6
Statements of functional expenses	8
Statements of cash flows	10
Notes to financial statements	11



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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### Trustees

#### 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 2016 and 2015, 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.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 The Rotary Foundation of Rotary International as of 30 June 2016 and 2015, 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.

*Grant Thornton LLP*

Chicago, Illinois  
21 September 2016

**The Rotary Foundation of Rotary International**  
**STATEMENTS OF FINANCIAL POSITION**  
**30 June 2016 and 2015**  
(In thousands of U.S. dollars)

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 42,596	\$ 58,058
Pledges receivable, net	7,654	8,237
Prepaid expenses and other assets	3,249	2,754
Investments	922,387	968,384
Foreign currency contracts	24	-
Split-interest agreements	35,529	36,157
	<u>1,011,439</u>	<u>1,073,590</u>
<b>TOTAL ASSETS</b>	<b>\$ 1,011,439</b>	<b>\$ 1,073,590</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accrued program awards	\$ 52,962	\$ 97,323
Accounts payable, accrued expenses and deferred revenues	2,653	1,759
Split-interest agreements payable	20,879	21,003
Foreign currency obligations	234	-
Pension obligation	-	3,614
Due to Rotary International	4,577	3,870
	<u>81,305</u>	<u>127,569</u>
Total liabilities	81,305	127,569
<b>NET ASSETS</b>		
Unrestricted	576,720	592,641
Temporarily restricted	59,944	73,081
Permanently restricted	293,470	280,299
	<u>930,134</u>	<u>946,021</u>
Total net assets	930,134	946,021
	<u>1,011,439</u>	<u>1,073,590</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,011,439</b>	<b>\$ 1,073,590</b>

The accompanying notes are an integral part of these statements.

**The Rotary Foundation of Rotary International**  
**STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2016**  
**(In thousands of U.S. dollars)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues</b>				
Contributions	\$ 134,275	\$ 114,626	\$ 16,043	\$ 264,944
Split-interest agreements	-	-	672	672
Net investment return	(3,623)	(3,030)	-	(6,653)
Grants and other activities, net	220	-	(1,007)	(787)
Net assets released from restrictions	127,434	(124,897)	(2,537)	-
<b>Total revenues</b>	<b>258,306</b>	<b>(13,301)</b>	<b>13,171</b>	<b>258,176</b>
<b>Expenses</b>				
<b>Program awards and expenses</b>				
PolioPlus program	117,693	-	-	117,693
Rotary grants	121,498	-	-	121,498
Other programs	7,179	-	-	7,179
<b>Total program awards and expenses</b>	<b>246,370</b>	<b>-</b>	<b>-</b>	<b>246,370</b>
Development expenses	19,421	-	-	19,421
General administration	5,247	-	-	5,247
<b>Total expenses</b>	<b>271,038</b>	<b>-</b>	<b>-</b>	<b>271,038</b>
<b>Change in net assets before non- operating activities</b>	<b>(12,732)</b>	<b>(13,301)</b>	<b>13,171</b>	<b>(12,862)</b>
Change in fair value of foreign currency contracts and obligations	(210)	-	-	(210)
Foreign currency exchange (losses) gains	(6,373)	164	-	(6,209)
Pension-related changes other than net periodic benefit cost	3,394	-	-	3,394
<b>Change in net assets</b>	<b>(15,921)</b>	<b>(13,137)</b>	<b>13,171</b>	<b>(15,887)</b>
<b>Net assets</b>				
Beginning of year	592,641	73,081	280,299	946,021
End of year	\$ 576,720	\$ 59,944	\$ 293,470	\$ 930,134

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2015**  
**(In thousands of U.S. dollars)**

	Unrestricted	Temporarily restricted	Permanently Restricted	Total
<b>Revenues</b>				
Contributions	\$ 131,595	\$ 117,329	\$ 18,418	\$ 267,342
Split-interest agreements	-	-	1,561	1,561
Net investment return	1,907	1,380	-	3,287
Grants and other activities, net	148	(281)	(656)	(789)
Net assets released from restrictions	127,401	(127,015)	(386)	-
<b>Total revenues</b>	<b>261,051</b>	<b>(8,587)</b>	<b>18,937</b>	<b>271,401</b>
<b>Expenses</b>				
<b>Program awards and expenses</b>				
PolioPlus program	125,899	-	-	125,899
Rotary grants	111,234	-	-	111,234
Other programs	8,075	-	-	8,075
<b>Total program awards and expenses</b>	<b>245,208</b>	<b>-</b>	<b>-</b>	<b>245,208</b>
Development expenses	15,804	-	-	15,804
General administration	4,854	-	-	4,854
<b>Total expenses</b>	<b>265,866</b>	<b>-</b>	<b>-</b>	<b>265,866</b>
<b>Change in net assets before non- operating activities</b>	<b>(4,815)</b>	<b>(8,587)</b>	<b>18,937</b>	<b>5,535</b>
Foreign currency exchange losses	(8,085)	-	-	(8,085)
Pension-related changes other than net periodic benefit cost	(3,394)	-	-	(3,394)
<b>Change in net assets</b>	<b>(16,294)</b>	<b>(8,587)</b>	<b>18,937</b>	<b>(5,944)</b>
<b>Net assets</b>				
Beginning of year	608,935	81,668	261,362	951,965
End of year	\$ 592,641	\$ 73,081	\$ 280,299	\$ 946,021

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended 30 June 2016**  
**(In thousands of U.S. dollars)**

	Program awards and expenses				Supporting services		
	PolioPlus program	Rotary grants	Other programs	Total program awards and expenses	Development expenses	General administration	Total expenses
Expenses by natural classification							
Program awards	\$ 114,700	\$ 99,276	\$ 7,171	\$ 221,147	\$ -	\$ -	\$ 221,147
Salaries, benefits and payroll taxes	2,049	15,213	-	17,262	10,579	2,940	30,781
External services	236	1,752	-	1,988	1,429	393	3,810
Travel	155	1,149	-	1,304	1,000	917	3,221
Conferences, conventions and meetings	6	45	-	51	489	26	566
Media and public relations	27	201	-	228	98	20	346
Information technology and communications	237	1,762	-	1,999	754	443	3,196
Publications and printing	3	25	-	28	585	4	617
Postage, shipping and freight	22	163	2	187	884	35	1,106
Donor recognition	-	-	-	-	1,102	3	1,105
Cost of sales	4	28	-	32	18	7	57
Occupancy	195	1,445	-	1,640	612	351	2,603
Insurance, finance fees and taxes	14	106	6	126	1,658	26	1,810
General office and miscellaneous	45	333	-	378	213	82	673
<b>Total expenses by natural classification</b>	<b>\$ 117,693</b>	<b>\$ 121,498</b>	<b>\$ 7,179</b>	<b>\$ 246,370</b>	<b>\$ 19,421</b>	<b>\$ 5,247</b>	<b>\$ 271,038</b>

The accompanying notes are an integral part of this statement.



**The Rotary Foundation of Rotary International**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended 30 June 2015**  
**(In thousands of U.S. dollars)**

	Program awards and expenses				Supporting services		
	PolioPlus program	Rotary grants	Other programs	Total program awards and expenses	Development expenses	General administration	Total expenses
Expenses by natural classification							
Program awards	\$ 123,423	\$ 92,846	\$ 8,053	\$ 224,322	\$ -	\$ -	\$ 224,322
Salaries, benefits and payroll taxes	1,660	12,327	-	13,987	8,912	2,439	25,338
External services	194	1,442	-	1,636	1,163	318	3,117
Travel	127	943	-	1,070	1,056	1,115	3,241
Conferences, conventions and meetings	8	60	-	68	509	26	603
Media and public relations	1	7	-	8	36	1	45
Information technology and communications	226	1,680	-	1,906	699	452	3,057
Publications and printing	8	56	13	77	369	12	458
Postage, shipping and freight	21	159	2	182	801	44	1,027
Donor recognition	-	-	-	-	790	-	790
Cost of sales	4	31	-	35	13	8	56
Occupancy	167	1,239	-	1,406	512	326	2,244
Insurance, finance fees and taxes	15	111	7	133	700	29	862
General office and miscellaneous	45	333	-	378	244	84	706
<b>Total expenses by natural classification</b>	<b>\$ 125,899</b>	<b>\$ 111,234</b>	<b>\$ 8,075</b>	<b>\$ 245,208</b>	<b>\$ 15,804</b>	<b>\$ 4,854</b>	<b>\$ 265,866</b>

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**STATEMENTS OF CASH FLOWS**  
**Years ended 30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (15,887)	\$ (5,944)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Endowment Fund contributions	(16,043)	(18,419)
Contributed securities	(21)	(17)
Foreign currency translation losses, net	6,442	8,198
Realized and unrealized gains/losses on sale of investments, net	16,036	6,637
Change in fair value of foreign currency contracts and obligations	210	-
Changes in assets and liabilities		
Pledges receivable, net	486	10,062
Prepaid expenses and other assets	(495)	1,274
Split-interest agreements	628	(2,360)
Accrued program awards	(44,361)	33,082
Accounts payable, accrued expenses and deferred revenues	894	875
Split-interest agreements payable	(124)	1,796
Pension obligation	(3,614)	3,439
Due to Rotary International	707	2,267
Net cash (used in) provided by operating activities	(55,142)	40,890
Cash flows from investing activities		
Purchase of investments	(1,512,889)	(1,621,816)
Proceeds from sale of investments	1,510,878	1,649,562
Change in short-term investments	31,993	(90,830)
Net cash provided by (used in) investing activities	29,982	(63,084)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in Endowment Fund	16,140	17,777
Net cash provided by financing activities	16,140	17,777
Effect of exchange rates on cash	(6,442)	(8,198)
Decrease in cash and cash equivalents	(15,462)	(12,615)
Cash and cash equivalents, beginning of year	58,058	70,673
Cash and cash equivalents, end of year	\$ 42,596	\$ 58,058

The accompanying notes are an integral part of these statements.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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**NOTE A - 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 from members and friends of Rotary who support its mission to advance world understanding, goodwill and peace. Using Rotary Foundation grants, Rotary's 34,000 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.

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**NOTE B - 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. Cash equivalents consist of \$4,410 and \$7,380 as of 30 June 2016 and 2015, respectively. The Foundation maintains foreign and domestic cash accounts, including cash and cash equivalents of \$12,955 and \$13,566 as of 30 June 2016 and 2015, respectively, subject to certain repatriation restrictions imposed by local governments. The Foundation had domestic balances exceeding the Federal Deposit Insurance Corporation's insured limitations at 30 June 2016 and 2015. 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 10 years. Management makes judgements 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 adjusted rate. As of 30 June 2016 and 2015, the present value discount is \$154 and \$157, respectively, and the allowance for uncollectible pledges is \$595 and \$229, respectively.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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***Investments***

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date.

Level 3 - Financial instruments that have little to no pricing observability as of the report date.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable information requires significant judgment by Foundation management. The Foundation considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Financial instruments with values that are based on quoted market prices in active markets and are, therefore, classified within Level 1, include equities listed on an active exchange, publicly traded mutual funds with published prices per share and certain money market securities. The Foundation does not adjust the quoted price for such instruments.

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 Internal Revenue Service (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.

The Foundation maintains foreign and domestic investment accounts, including investments of \$4,717 as of 30 June 2015, subject to certain repatriation restrictions imposed by local governments. There were no such accounts as of 30 June 2016.

***Split-interest Agreements***

The Foundation is the trustee or custodian, beneficiary and charitable remainderman of trusts and charitable annuities held for the benefit of others and the Foundation for various specified terms. These funds are held in charitable remainder unitrusts, a charitable gift annuity account and a pooled income fund. Assets received

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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under these agreements are recorded at fair value and the contribution portion of these agreements is recognized as revenue when received. Liabilities incurred as a result of these agreements are measured based on the present value of the expected future payments to be made to the named beneficiaries using various discount rates and actuarial assumptions reflecting the terms of the agreements and the estimated time of receipt. The Foundation's policy is to perform a valuation of the split-interest agreement liabilities annually. The valuation adjustment for these liabilities as of 30 June 2016 and 2015 resulted in an expense of \$613 and \$894, respectively.

***Endowments***

The Foundation's endowment (known as the Endowment Fund) is composed of donor-restricted and trustee-designated endowment funds. The primary objective of the Endowment Fund is to support the programs of the Foundation in perpetuity. Endowment funds are recorded in accordance with the Illinois-approved Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation interprets UPMIFA as requiring that the historic value of the original donor-restricted endowment gift be preserved as of the gift date unless there are explicit donor stipulations to the contrary. The portion of the endowment that must be maintained permanently, not expended or otherwise exhausted, is classified as permanently restricted net assets. A portion of the fund's earnings are classified as temporarily restricted net assets until they have been appropriated for expenditure by the Foundation and have met any purpose restrictions. The amount of the fund that is trustee-designated is classified as unrestricted net assets. A portion of the Endowment Fund's investment earnings are used to finance 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 expenses as approved by the Foundation's Trustees.

The Foundation's Trustees have responsibility for formulating the Endowment Fund's investment policy. Funds are included in a consolidated endowment pool and invested in accordance with the investment policy approved by the Trustees and monitored by the Investment Committee. Assets of the Endowment Fund are invested to ensure that capital is preserved and enhanced over time. The investment policy for the Endowment Fund is to invest in a diversified asset portfolio that is expected to produce an average annual total return that at least equals inflation, plus endowment spending, without assuming undue risk.

***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 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 designated 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.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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***Net Assets***

The Foundation classifies resources into three classes of net assets as follows:

Unrestricted - Net assets not subject to donor-imposed stipulations, including all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. These include contributions from Rotarians, Rotary districts and clubs, and others.

Unrestricted net assets that are Trustee-designated represent amounts that have been designated for specific programs or uses including polio eradication, the Endowment Fund, and areas of focus and term gifts. These unrestricted net assets also include the operating reserves that support the Foundation's operating and program expenses in the event that current-year investment earnings are inadequate.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met by fulfillment of the stipulated purpose and/or the passage of time. These include contributions that are restricted for polio eradication, areas of focus and term 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 or at the time of gift acceptance and in accordance with the spending policy approved by the Foundation Trustees. Non-current pledges and the unspent portion of the Endowment Fund's net investment return are classified as temporarily restricted.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be invested to provide a permanent source of income. Such stipulations can neither be removed by fulfillment of a stipulated purpose nor expire with the passage of time. These include contributions that are restricted for endowment funds and split-interest agreements.

***Revenue Recognition***

Contributions and unconditional pledges are recognized as revenue in the period received and recorded at estimated fair value.

***Tax Status***

The Foundation has received a favorable determination letter from the 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.

The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain tax positions to be 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 and there is no interest or penalties recognized in the statements of activities or statements of financial position. The fiscal years ended 2013, 2014, 2015 and 2016 are still open to audit for federal and Illinois purposes.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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***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 unrestricted net assets, as reported in the statements of activities.

***Risks and Uncertainties***

The Foundation has investments in 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.

***Reclassifications***

Certain reclassifications have been made to prior-year balances to conform to the current-year presentation.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

**NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The fair values of the Foundation's financial assets that are measured on a recurring basis are as follows as of 30 June 2016:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Balance as of 30 June 2016
<b>Investments at fair value</b>				
Invested cash and short-term investments (a)	\$ 141,250	\$ -	\$ -	\$ 141,250
Equity (b)	80,775	-	-	80,775
Fixed income (c)	35,420	227	-	35,647
Exchange traded funds (d)	20,882	-	-	20,882
Mutual funds (e)	284,293	-	-	284,293
Mutual funds, measured at NAV (e)	-	-	41,036	41,036
Commingled funds (f)	-	-	37,678	37,678
Limited liability companies (g)	-	-	97,164	97,164
Private equity funds (h)	-	-	40,104	40,104
Real estate funds (i)	-	-	57,743	57,743
Hedge funds (j)	-	-	82,219	82,219
<b>Total investments at fair value</b>	<b>\$ 562,620</b>	<b>\$ 227</b>	<b>\$ 355,944</b>	<b>918,791</b>
<b>Investments not at fair value (k)</b>				<b>3,596</b>
<b>Total investments</b>				<b>\$ 922,387</b>
<b>Foreign currency contracts</b>		<b>\$ 24</b>		<b>\$ 24</b>
<b>Split-interest agreements</b>				
Invested cash and short-term investments	\$ 724	\$ -	\$ -	\$ 724
Fixed income	-	1,080	-	1,080
Exchange traded funds	33,257	-	-	33,257
Mutual funds	68	-	-	68
Real estate	-	400	-	400
<b>Total split-interest agreements at fair value</b>	<b>\$ 34,049</b>	<b>\$ 1,480</b>	<b>\$ -</b>	<b>\$ 35,529</b>
<b>Foreign currency obligations</b>		<b>\$ (234)</b>		<b>\$ (234)</b>



**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

The fair values of the Foundation's financial assets that are measured on a recurring basis are as follows as of 30 June 2015:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Balance as of 30 June 2015
<b>Investments at fair value</b>				
Invested cash and short-term investments (a)	\$ 145,156	\$ -	\$ -	\$ 145,156
Equity (b)	31,212	-	-	31,212
Fixed income (c)	126,030	1,029	-	127,059
Exchange traded funds (d)	19,185	-	-	19,185
Mutual funds (e)	297,872	-	-	297,872
Mutual funds, measured at NAV (e)	-	-	39,468	39,468
Commingled funds (f)	-	-	33,702	33,702
Limited liability companies (g)	-	-	93,883	93,883
Private equity funds (h)	-	-	33,037	33,037
Real estate funds (i)	-	-	62,225	62,225
Hedge funds (j)	-	-	77,892	77,892
<b>Total investments at fair value</b>	<b>\$ 619,455</b>	<b>\$ 1,029</b>	<b>\$ 340,207</b>	<b>960,691</b>
<b>Investments not at fair value (k)</b>				<b>7,693</b>
<b>Total investments</b>				<b>\$ 968,384</b>
<b>Split-interest agreements</b>				
Invested cash and short-term investments	\$ 841	\$ -	\$ -	\$ 841
Fixed income	-	1,022	-	1,022
Exchange traded funds	34,219	-	-	34,219
Mutual funds	75	-	-	75
<b>Total split-interest agreements at fair value</b>	<b>\$ 35,135</b>	<b>\$ 1,022</b>	<b>\$ -</b>	<b>\$ 36,157</b>

Investments categorized as Level 1 include: money market, U.S. government fixed income instruments, U.S. and non-U.S. equity securities, certain mutual funds, and exchange traded funds.

Financial instruments categorized as Level 2 include: certain fixed income instruments, primarily corporate bonds, mortgage backed securities and collateralized mortgage obligations valued primarily using matrix and/or market corroborated pricing. Foreign currency contracts and obligations are valued using a third party as of the measurement date.

(a) Invested cash and short-term investments are invested in money market funds whose portfolio is composed of highly rated short-term issuance managed with the primary goal of preserving principal while providing minimal yield. It is possible for the value of these funds to be valued below one U.S. dollar.

(b) Equity securities are stated at fair value determined primarily by closing prices quoted on recognized U.S. and international security exchanges.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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(c) Fixed income securities are stated at fair value determined primarily from quoted prices in the market in which they are principally traded. Certain securities evaluated as Level 2 are stated at fair value determined primarily by matrix pricing.

(d) Exchange traded funds are baskets of securities designed to replicate various indices and whose value is determined through daily market action in the shares of the exchange traded fund. Fair market value is determined by obtaining prices from quoted market sources.

(e) Mutual funds are pools of assets commingled together to benefit from professional management and through economies of scale. Mutual funds are stated at fair value determined primarily from quoted prices in the market in which they are principally traded. Mutual funds are registered with the U.S. Securities and Exchange Commission.

(f) Commingled funds are pools of assets commingled together to benefit from professional management and through economies of scale. Investors own shares of the fund and are provided a net asset value (NAV) on a regular basis. Commingled funds are regulated by the U.S. Office of the Comptroller of the Currency or by the state banking authority.

(g) The limited liability companies are investing vehicles whose interest is in a membership of the limited liability company. The membership has the same benefits of professional management and economies of scale as mutual and commingled funds, and is provided with regular NAV reporting.

(h) Private equity funds include several funds that invest globally. Capital is committed to these investments and is called as investments are made. Distributions are made only when the underlying investments of the funds undergo a significant market event, such as acquisition by another company or an initial public offering. The time horizon of a typical private equity fund is approximately 10 to 15 years. The fair values of the investments in this category have been estimated based on the Foundation's ownership interest in partners' capital, which is deemed to be a NAV equivalent.

(i) Real estate funds include open-ended and closed-ended real estate funds that invest in U.S. real estate. The holdings in the real estate funds comprise a mix of apartments, offices, industrial, retail and hotel properties. The fair values of the investments in this category have been estimated using the NAV per share of the investments, based on an annual valuation by an independent third-party appraiser. Redemption requests in the open-ended fund are subject to approval by the fund's Board of Trustees on a quarterly basis. Redemptions of the closed-ended fund were suspended until the fund's outstanding credit facility was repaid. This fund manager has resumed distributions on a pro-rata basis as assets are sold.

(j) Hedge funds include various hedge funds that pursue multiple global strategies to diversify risks and reduce volatility. The fair values of the investments in this category have been estimated using the NAV per share of the investments. A full redemption was requested from one of the fund managers in fiscal year 2009 and final proceeds were distributed in fiscal year 2016. Another fund that was previously in bankruptcy is in liquidation proceedings, with all assets in cash pending distribution to creditors and investors. In fiscal year 2006, Rotary recorded a valuation reserve against the reported fair value of this fund of \$16,000. During fiscal years 2016 and 2015, a portion of the \$16,000 originally written off was recovered in the amounts of \$4,138 and \$1,717, respectively, and recorded as realized gains. Further distributions may be made in the future that will result in additional gains.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

(k) Investments not at fair value include certain invested cash, savings and other money market funds, and a certificate of deposit.

Foundation investments reported at NAV or its equivalent as of 30 June 2016 include: certain mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Mutual funds	\$ 41,036	\$ -	Daily	Daily
Commingled funds	37,678	-	Daily	2 days
Limited liability companies	97,164	-	Daily/twice monthly/monthly	8th or 22nd of current month/15 days
Private equity funds	40,104	30,982	-	-
Real estate funds	57,743	-	Quarterly	60-90 days
Hedge funds	82,219	-	Monthly/quarterly	14-65 days/not <5 days before end of month
Total	<u>\$ 355,944</u>	<u>\$ 30,982</u>		

Foundation investments reported at NAV or its equivalent as of 30 June 2015 include: certain mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Mutual funds	\$ 39,468	\$ -	Daily	Daily
Commingled funds	33,702	-	Monthly	22nd day of preceding month
Limited liability companies	93,883	-	Daily/twice monthly/monthly	8th or 22nd of current month/15 days
Private equity funds	33,037	27,709	-	-
Real estate funds	62,225	-	Quarterly	60-90 days
Hedge funds	77,892	-	Monthly/quarterly	30-65 days/not <5 days before end of month
Total	<u>\$ 340,207</u>	<u>\$ 27,709</u>		

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

The components of investment return, net for the years ended 30 June 2016 and 2015 are as follows:

	2016	2015
Interest and dividends	\$ 11,908	\$ 13,339
Realized gains, net	12,341	43,244
Unrealized losses, net	(28,377)	(49,881)
Investment and banking fees	(2,525)	(3,415)
<b>Total</b>	<b>\$ (6,653)</b>	<b>\$ 3,287</b>

**NOTE D - ENDOWMENTS**

Based on the spending policy approved by the Trustees, annual spending occurs each year from those endowed gifts where the market value is at least 90% of the accumulated gift value based on a tiered spending rate structure. In accordance with UPMIFA, the Foundation considers the following factors in making a determination for the spending rate for endowment funds: the duration and preservation of the fund, the mission of the Foundation and the purposes of the donor-restricted endowment funds, the investment policy, general economic conditions, possible effects of inflation and deflation, and the expected total return from income and appreciation of investments. The Trustees approved tiered spending rates between 2.0% and 5.0% for fiscal years 2016 and 2015.

Split-interest agreements and related activities are part of permanently restricted net assets, 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 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 18,424	\$ 62,770	\$ 265,234	\$ 346,428
Investment return				
Interest, dividends and investment fees, net	166	3,147	-	3,313
Realized and unrealized losses, net	(530)	(6,013)	-	(6,543)
Total investment return	(364)	(2,866)	-	(3,230)
Contributions	-	-	16,043	16,043
Transfer of funds	496	-	-	496
Conversion of split-interest agreements to endowment	-	-	170	170
Modifications to endowment agreements and pledge write offs	-	1,508	(2,537)	(1,029)
Appropriation of endowment assets for expenditure	-	(13,302)	-	(13,302)
Endowment net assets, end of year	<b>\$ 18,556</b>	<b>\$ 48,110</b>	<b>\$ 278,910</b>	<b>\$ 345,576</b>

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

Changes in endowment net assets for the year ended 30 June 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 17,622	\$ 73,762	\$ 246,861	\$ 338,245
Investment return				
Interest, dividends and investment fees, net	183	2,855	-	3,038
Realized and unrealized losses, net	(122)	(1,756)	-	(1,878)
Total investment return	61	1,099	-	1,160
Contributions	-	-	18,419	18,419
Transfer of funds	741	-	-	741
Conversion of split-interest agreements to endowment	-	-	340	340
Modifications to endowment agreements and pledge write offs	-	(130)	(386)	(516)
Appropriation of endowment assets for expenditure	-	(11,961)	-	(11,961)
Endowment net assets, end of year	<u>\$ 18,424</u>	<u>\$ 62,770</u>	<u>\$ 265,234</u>	<u>\$ 346,428</u>

Endowment composition by net asset class as of 30 June 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (208)	\$ 48,110	\$ 278,910	\$ 326,812
Trustee-designated endowment funds	18,764	-	-	18,764
Endowment net assets, end of year	<u>\$ 18,556</u>	<u>\$ 48,110</u>	<u>\$ 278,910</u>	<u>\$ 345,576</u>

Endowment composition by net asset class as of 30 June 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (27)	\$ 62,770	\$ 265,234	\$ 327,977
Trustee-designated endowment funds	18,451	-	-	18,451
Endowment net assets, end of year	<u>\$ 18,424</u>	<u>\$ 62,770</u>	<u>\$ 265,234</u>	<u>\$ 346,428</u>

***Funds with Deficiencies***

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. The Foundation is required to transfer funds from unrestricted net assets to temporarily restricted net assets when deficiencies result from unfavorable market fluctuations. The required transfer is the amount by which the fair

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

value of the assets at fiscal year-end is less than the level required by donor stipulations in order to retain as a fund of perpetual duration. Deficiencies totaled \$208 and \$27 as of 30 June 2016 and 2015, respectively.

**NOTE E - RELATED-PARTY TRANSACTIONS**

The Foundation received contributions of \$290 and \$319 for the years ended 30 June 2016 and 2015, 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 7 May 2015. 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:

	<u>2016</u>	<u>2015</u>
Salaries, benefits and payroll taxes	\$ 30,781	\$ 25,338
External services	3,810	3,117
Travel	3,221	3,241
Conferences, conventions and meetings	566	603
Media and public relations	346	45
Information technology and communications	3,196	3,057
Publications and printing	617	458
Postage, shipping and freight	1,106	1,027
Donor recognition	1,105	790
Cost of sales	57	56
Occupancy	2,603	2,244
Insurance, finance fees and taxes	1,810	862
General office and miscellaneous	673	706
	<u>\$ 49,891</u>	<u>\$ 41,544</u>
Total		

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:

	<u>2016</u>	<u>2015</u>
PolioPlus program	\$ 2,993	\$ 2,476
Rotary grants	22,222	18,388
Other programs	8	22
Development expenses	19,421	15,804
General administration	5,247	4,854
	<u>\$ 49,891</u>	<u>\$ 41,544</u>
Total		

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

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

**NOTE F - NET ASSETS**

The components of the Foundation's net assets as of 30 June 2016 and 2015 are as follows:

	2016	2015
Unrestricted		
Undesignated	\$ 441,148	\$ 432,974
Trustee-designated		
PolioPlus	71,885	80,324
Operating reserve fund	44,796	60,765
Endowment Fund	18,764	18,451
Areas of focus/term gifts	127	127
Total unrestricted net assets	576,720	592,641
Temporarily restricted		
Endowment Fund earnings awaiting appropriation	48,110	62,770
Areas of focus/term gifts	11,834	10,311
Total temporarily restricted net assets	59,944	73,081
Permanently restricted		
Annual fund	187,907	179,039
Rotary grants	89,222	84,262
PolioPlus program	200	200
Split-interest agreements	14,560	15,065
Other	1,581	1,733
Total permanently restricted net assets	293,470	280,299
Total net assets	\$ 930,134	\$ 946,021

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2016 and 2015**  
**(In thousands of U.S. dollars)**

Net assets released from temporary restrictions by incurring expenses, which satisfied donor restrictions for the years ended 30 June 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
PolioPlus	\$ 97,390	\$ 98,025
Endowment Fund earnings appropriated for use	10,087	9,099
Areas of focus/term gifts	17,925	19,147
Endowment modifications	(1,508)	183
Prior year pledges due	<u>1,003</u>	<u>561</u>
Total	<u>\$ 124,897</u>	<u>\$ 127,015</u>

Net assets released from permanent restrictions through modifications to endowment agreements and pledge write offs and allowance for the years ended 30 June 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Endowment modifications	\$ 1,757	\$ 300
Pledge write offs and allowance	<u>780</u>	<u>86</u>
Total	<u>\$ 2,537</u>	<u>\$ 386</u>

**NOTE G - THE BILL & MELINDA GATES FOUNDATION GRANT**

Beginning in fiscal year 2008, the Foundation entered into grant agreements with the Bill & Melinda Gates Foundation (BMGF) to support the global polio eradication initiative. The intent of the grant agreements is to strengthen the Foundation's leadership in working with other organizations, such as the United Nations Children's Fund, the Centers for Disease Control and the World Health Organization, in pursuit of the eradication of polio throughout the world. In accordance with the grant agreements and all future addendums, the Foundation recognizes revenue when all contingencies to the grant are substantially met.

In June 2013, the Foundation and BMGF signed an addendum for a grant award from BMGF of up to \$350,000 subject to revised contingencies. The addendum provides a 2:1 match for new spending from non-BMGF funds, with a match of up to \$70,000 per calendar year for five years. The Foundation recorded a \$70,000 award as revenue in fiscal years 2015 and 2016.

**NOTE H - SUBSEQUENT EVENTS**

Management considered subsequent events through 21 September 2016, 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.