

The Rotary Foundation of Rotary International

Financial Statements as of and for the
Years Ended 30 June 2018 and 2017, 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 statement of financial position as of 30 June 2018, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to The 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 on 2018 Financial Statements

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 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2017 Financial Statements

The financial statements of The Rotary Foundation of Rotary International as of and for the year ended 30 June 2017, were audited by other auditors whose report, dated 31 October 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

31 October 2018

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION

AS OF 30 JUNE 2018 AND 2017

(In thousands of U.S. dollars)

	2018	2017
ASSETS		
ASSETS:		
Cash and cash equivalents—unrestricted and restricted	\$ 41,521	\$ 44,950
Pledges receivable—net	24,183	14,754
Prepaid expenses and other assets	3,174	2,984
Investments	1,140,749	1,069,955
Foreign currency contracts	33	
Split-interest agreements	<u>45,032</u>	<u>42,681</u>
TOTAL ASSETS	<u>\$ 1,254,692</u>	<u>\$ 1,175,324</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued program awards	\$ 89,130	\$ 79,533
Accounts payable, accrued expenses, and deferred revenues	1,816	1,566
Split-interest agreements payable	29,805	29,159
Due to Rotary International	<u>6,643</u>	<u>6,390</u>
Total liabilities	<u>127,394</u>	<u>116,648</u>
NET ASSETS:		
Unrestricted	700,460	681,013
Temporarily restricted	111,680	90,958
Permanently restricted	<u>315,158</u>	<u>286,705</u>
Total net assets	<u>1,127,298</u>	<u>1,058,676</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,254,692</u>	<u>\$ 1,175,324</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)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Contributions	\$ 145,967	\$ 168,239	\$ 25,911	\$ 340,117
Split-interest agreements			1,018	1,018
Net investment return	27,743	28,513		56,256
Grants and other activities—net	112	(13)	1,652	1,751
Net assets released from restrictions	<u>175,790</u>	<u>(175,790)</u>		-
Total revenues	<u>349,612</u>	<u>20,949</u>	<u>28,581</u>	<u>399,142</u>
EXPENSES:				
Program awards and expenses:				
PolioPlus program	159,025			159,025
Rotary grants	131,487			131,487
Other programs	<u>12,175</u>			<u>12,175</u>
Total program awards and expenses	302,687	-	-	302,687
Development expenses	20,350			20,350
General administration	<u>5,435</u>			<u>5,435</u>
Total expenses	<u>328,472</u>	<u>-</u>	<u>-</u>	<u>328,472</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	21,140	20,949	28,581	70,670
FOREIGN CURRENCY EXCHANGE (LOSSES) GAINS	(1,633)	25		(1,608)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(60)</u>	<u>(252)</u>	<u>(128)</u>	<u>(440)</u>
CHANGE IN NET ASSETS	19,447	20,722	28,453	68,622
NET ASSETS—Beginning of year	<u>681,013</u>	<u>90,958</u>	<u>286,705</u>	<u>1,058,676</u>
NET ASSETS—End of year	<u>\$ 700,460</u>	<u>\$ 111,680</u>	<u>\$ 315,158</u>	<u>\$ 1,127,298</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2017 (In thousands of U.S. dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Contributions	\$ 146,226	\$ 130,383	\$ 25,936	\$ 302,545
Split-interest agreements			1,830	1,830
Net investment return	58,941	39,111		98,052
Grants and other activities—net	228		(2,757)	(2,529)
Net assets released from restrictions	<u>135,215</u>	<u>(134,965)</u>	<u>(250)</u>	<u>-</u>
Total revenues	<u>340,610</u>	<u>34,529</u>	<u>24,759</u>	<u>399,898</u>
EXPENSES:				
Program awards and expenses:				
PolioPlus program	110,965			110,965
Rotary grants	125,729			125,729
Other programs	<u>7,716</u>			<u>7,716</u>
Total program awards and expenses	244,410	-	-	244,410
Development expenses	19,888			19,888
General administration	<u>4,753</u>			<u>4,753</u>
Total expenses	<u>269,051</u>	<u>-</u>	<u>-</u>	<u>269,051</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	71,559	34,529	24,759	130,847
FOREIGN CURRENCY EXCHANGE LOSSES	(410)	(85)		(495)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(456)</u>	<u>(360)</u>	<u>(994)</u>	<u>(1,810)</u>
CHANGE IN NET ASSETS	70,693	34,084	23,765	128,542
NET ASSETS—Beginning of year	<u>610,320</u>	<u>56,874</u>	<u>262,940</u>	<u>930,134</u>
NET ASSETS—End of year	<u>\$ 681,013</u>	<u>\$ 90,958</u>	<u>\$ 286,705</u>	<u>\$ 1,058,676</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		
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	Total Expenses
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$ 156,455	\$ 108,641	\$ 12,129	\$ 277,225	\$ -	\$ -	\$ 277,225
Salaries, benefits, and payroll taxes	1,657	14,752		16,409	11,288	2,790	30,487
External services	236	2,088		2,324	1,870	481	4,675
Travel	161	1,440		1,601	1,178	998	3,777
Conferences, conventions, and meetings	15	138		153	572	44	769
Media and public relations	36	319		355	448	70	873
Information technology and communications	215	1,892		2,107	866	489	3,462
Publications and printing	2	20	18	40	519		559
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	759		845	353	195	1,393
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$ 159,025</u>	<u>\$ 131,487</u>	<u>\$ 12,175</u>	<u>\$ 302,687</u>	<u>\$ 20,350</u>	<u>\$ 5,435</u>	<u>\$ 328,472</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2017 (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	\$ 108,302	\$ 105,189	\$ 7,713	\$ 221,204	\$ -	\$ -	\$ 221,204
Salaries, benefits, and payroll taxes	1,681	12,966		14,647	10,521	2,381	27,549
External services	276	2,127		2,403	1,914	442	4,759
Travel	151	1,169		1,320	1,115	876	3,311
Conferences, conventions, and meetings	7	53		60	709	46	815
Media and public relations	77	591		668	610	120	1,398
Information technology and communications	223	1,721		1,944	906	428	3,278
Publications and printing	2	12	1	15	428	(1)	442
Postage, shipping, and freight	17	141		158	1,099	32	1,289
Donor recognition				-	810	(1)	809
Cost of sales	4	29		33	57	7	97
Occupancy	145	1,115		1,260	571	274	2,105
Insurance, finance fees, and taxes	13	100	2	115	780	25	920
General office and miscellaneous	67	516		583	368	124	1,075
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$ 110,965</u>	<u>\$ 125,729</u>	<u>\$ 7,716</u>	<u>\$ 244,410</u>	<u>\$ 19,888</u>	<u>\$ 4,753</u>	<u>\$ 269,051</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2018 AND 2017 (In thousands of U.S. dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 68,622	\$ 128,542
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Endowment Fund contributions	(25,911)	(25,936)
Contributed securities	(20)	(5)
Foreign currency translation losses	1,557	340
Realized and unrealized gains on investments—net	(42,467)	(91,420)
Change in fair value of foreign currency contracts and obligations	(33)	(210)
Changes in operating assets and liabilities:		
Pledges receivable—net	(6,387)	(4,834)
Prepaid expenses and other assets	(190)	265
Split-interest agreements	(2,351)	(7,152)
Accrued program awards	9,597	26,571
Accounts payable, accrued expenses, and deferred revenues	250	(1,087)
Split-interest agreements payable	646	8,280
Due to Rotary International	253	1,813
Net cash provided by operating activities	<u>3,566</u>	<u>35,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,089,982)	(1,400,264)
Proceeds from sale of investments	3,001,563	1,341,439
Change in short-term investments	<u>60,112</u>	<u>2,682</u>
Net cash used in investing activities	<u>(28,307)</u>	<u>(56,143)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in Endowment Fund	<u>22,869</u>	<u>23,670</u>
Net cash provided by financing activities	<u>22,869</u>	<u>23,670</u>
EFFECT OF EXCHANGE RATES ON CASH	<u>(1,557)</u>	<u>(340)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,429)	2,354
CASH AND CASH EQUIVALENTS—Unrestricted and restricted—beginning of year	<u>44,950</u>	<u>42,596</u>
CASH AND CASH EQUIVALENTS—Unrestricted and restricted—end of year	<u>\$ 41,521</u>	<u>\$ 44,950</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 2018 AND 2017

(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 Rotary 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 of \$9,342 and \$16,833 as of 30 June 2018 and 2017, 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 2018 and 2017. 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 1 to 10 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 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 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.

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 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 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.

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

Upcoming Accounting Pronouncements Not Yet Adopted—In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 No. 2014-09 will become effective for the fiscal year ending 30 June 2020. The Foundation is currently evaluating the impact of adopting this standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. 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 provisions of this standard are effective for the fiscal year ending 30 June 2019, and early adoption is permitted. The Foundation is currently evaluating the impact of adopting this standard.

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*. 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 No. 2018-08 will become effective for the fiscal year ending 30 June 2020. The Foundation is currently evaluating the impact of adopting this standard.

Subsequent Events—Management considered subsequent events through 31 October 2018, 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. PLEDGES RECEIVABLE—NET

Pledges receivable—net at 30 June 2018 and 2017, are summarized as follows:

	2018	2017
Total pledges receivable	\$26,267	\$16,906
Less adjustments to present value of future cash flows for pledges receivable	(457)	(293)
Less allowance for uncollectible pledges receivable	<u>(1,627)</u>	<u>(1,859)</u>
Pledges receivable—net	<u>\$24,183</u>	<u>\$14,754</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 2018, are expected to be received as follows:

Year Ended 30 June

2019	\$ 19,075
2020	4,366
2021	1,885
2022	<u>941</u>
	<u>\$ 26,267</u>

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation's investment policy is established by the Board of Trustees of the Foundation, 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: 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 net asset value (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 there are 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 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				<u>929</u>	<u>929</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 44,103</u>	<u>\$ -</u>	<u>\$ 929</u>	<u>\$ 45,032</u>

The fair value presentation as of 30 June 2017 has been revised to conform to the format adopted as of 30 June 2018. The values in each level and NAV column have not changed. 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 2017:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Cash and cash equivalents	\$ -	\$ 2,908	\$ -	\$ -	\$ 2,908
Equity investments/securities	205,238	74,909			280,147
Fixed income investments/securities	42,405	23,525			65,930
Buyout funds	34,804				34,804
Natural resources	10,576				10,576
Real estate	57,918				57,918
Hedge funds	74,725	9,748			84,473
Other	<u>70,076</u>	<u>126,300</u>			<u>196,376</u>
Total pooled investments	<u>495,742</u>	<u>237,390</u>	<u>-</u>	<u>-</u>	<u>733,132</u>
Non-pooled investments:					
Cash and cash equivalents		167,564			167,564
Equity investments/securities		114,013			114,013
Fixed income investments/securities		<u>50,420</u>	<u>171</u>		<u>50,591</u>
Total non-pooled investments	<u>-</u>	<u>331,997</u>	<u>171</u>	<u>-</u>	<u>332,168</u>
Total investments at fair value	<u>\$ 495,742</u>	<u>\$ 569,387</u>	<u>\$ 171</u>	<u>\$ -</u>	1,065,300
Investments not at fair value					<u>4,655</u>
Total investments					<u>\$ 1,069,955</u>
Foreign currency hedge contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 401	\$ -	\$ -	\$ 401
Equity investments/securities		36,487			36,487
Fixed income investments/securities		4,864			4,864
Real estate			<u>929</u>		<u>929</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 41,752</u>	<u>\$ 929</u>	<u>\$ -</u>	<u>\$ 42,681</u>

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

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2017, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Open-end funds	\$ 450,090	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	45,380	26,329	N/A	N/A
In liquidation	<u>272</u>	<u> </u>	N/A	N/A
Total	<u>\$ 495,742</u>	<u>\$ 26,329</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. Closed-end funds are those commingled funds that raise a fixed amount of capital in a private offering. As of 30 June 2018 and 2017, 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 2018 and 2017, are as follows:

	2018	2017
Interest and dividends	\$ 17,058	\$10,752
Realized gains—net	53,980	16,740
Unrealized (losses) gains—net	(11,513)	74,680
Investment and banking fees	<u>(3,269)</u>	<u>(4,120)</u>
Total	<u>\$ 56,256</u>	<u>\$98,052</u>

5. ENDOWMENTS

The Foundation’s Endowment Fund consists of donor-restricted funds 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 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 operations and operating expenses as approved by the Foundation's trustees. In fiscal years 2018 and 2017, 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 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 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	<u>\$ 59,545</u>	<u>\$ 71,726</u>	<u>\$ 273,273</u>	<u>\$ 404,544</u>
Investment return:				
Interest, dividends, and investment fees—net	506	2,976		3,482
Realized and unrealized gains—net	<u>4,370</u>	<u>25,549</u>		<u>29,919</u>
Total investment return	<u>4,876</u>	<u>28,525</u>	-	<u>33,401</u>
Contributions			25,911	25,911
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>\$ 86,975</u>	<u>\$ 300,011</u>	<u>\$ 451,325</u>

Changes in endowment net assets for the year ended 30 June 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	<u>\$ 52,156</u>	<u>\$ 45,040</u>	<u>\$ 248,380</u>	<u>\$ 345,576</u>
Investment return:				
Interest, dividends, and investment fees—net	264	1,492		1,756
Realized and unrealized gains—net	<u>6,621</u>	<u>37,533</u>		<u>44,154</u>
Total investment return	<u>6,885</u>	<u>39,025</u>	-	<u>45,910</u>
Contributions	653		25,936	26,589
Transfer of funds	1,003			1,003
Conversion of split-interest agreements to endowment			201	201
Modifications to endowment agreements		(25)	(250)	(275)
Reserve against pledges receivable			(994)	(994)
Appropriation of endowment assets for expenditure	<u>(1,152)</u>	<u>(12,314)</u>		<u>(13,466)</u>
Endowment net assets—end of year	<u>\$ 59,545</u>	<u>\$ 71,726</u>	<u>\$ 273,273</u>	<u>\$ 404,544</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (11)	\$ 86,975	\$ 300,011	\$ 386,975
Trustee-designated endowment funds	<u>64,350</u>			<u>64,350</u>
Endowment net assets—end of year	<u>\$ 64,339</u>	<u>\$ 86,975</u>	<u>\$ 300,011</u>	<u>\$ 451,325</u>

Endowment composition by net asset class as of 30 June 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 71,726	\$ 273,273	\$ 344,999
Trustee-designated endowment funds	<u>59,545</u>			<u>59,545</u>
Endowment net assets—end of year	<u>\$ 59,545</u>	<u>\$ 71,726</u>	<u>\$ 273,273</u>	<u>\$ 404,544</u>

Funds with Deficiencies—From time to time, the fair value of assets associated with the donor-restricted endowed funds may fall below the original gift value. The Foundation is required to fund deficiencies from unrestricted net assets. There were no material deficiencies as of 30 June 2018 and 2017.

6. RELATED-PARTY TRANSACTIONS

The Foundation received contributions of \$273 and \$441 for the years ended 30 June 2018 and 2017, 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:

	2018	2017
Salaries, benefits and payroll taxes	\$30,487	\$27,549
External services	4,675	4,759
Travel	3,777	3,311
Conferences, conventions and meetings	769	815
Media and public relations	873	1,398
Information technology and communications	3,462	3,278
Publications and printing	559	442
Postage, shipping and freight	1,231	1,289
Donor recognition	852	809
Cost of sales	36	97
Occupancy	2,072	2,105
Insurance, finance fees and taxes	1,061	920
General office and miscellaneous	<u>1,393</u>	<u>1,075</u>
 Total	 <u>\$51,247</u>	 <u>\$47,847</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:

	2018	2017
PolioPlus program	\$ 2,570	\$ 2,663
Rotary grants	22,846	20,540
Other programs	46	3
Development expenses	20,350	19,888
General administration	<u>5,435</u>	<u>4,753</u>
 Total	 <u>\$51,247</u>	 <u>\$47,847</u>

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

7. NET ASSETS

The components of the Foundation's net assets as of 30 June 2018 and 2017, are as follows:

	2018	2017
Unrestricted:		
Undesignated	\$ 477,937	\$ 462,673
Trustee-designated:		
PolioPlus	81,131	81,754
Operating reserve fund	76,915	76,915
Endowment Fund	64,350	59,544
Areas of focus/term gifts	<u>127</u>	<u>127</u>
Total unrestricted net assets	<u>700,460</u>	<u>681,013</u>
Temporarily restricted:		
Endowment Fund earnings awaiting appropriation	86,975	71,727
Areas of focus/term gifts	<u>24,705</u>	<u>19,231</u>
Total temporarily restricted net assets	<u>111,680</u>	<u>90,958</u>
Permanently restricted:		
Annual fund	184,255	171,628
Rotary grants	113,768	100,581
PolioPlus program	889	405
Split-interest agreements	15,147	13,433
Other	<u>1,099</u>	<u>658</u>
Total permanently restricted net assets	<u>315,158</u>	<u>286,705</u>
Total net assets	<u>\$ 1,127,298</u>	<u>\$ 1,058,676</u>

Net assets released from temporary restrictions by incurring expenses, which satisfied donor restrictions for the years ended 30 June 2018 and 2017, are as follows:

	2018	2017
PolioPlus	\$ 143,669	\$ 108,100
Endowment Fund earnings appropriated for use	9,531	9,173
Areas of focus/term gifts	20,338	17,500
Endowment modifications		(250)
Prior year pledges due	<u>2,252</u>	<u>442</u>
Total	<u>\$ 175,790</u>	<u>\$ 134,965</u>

Net assets released from permanent restrictions through modifications to endowment agreements for the years ended 30 June 2018 and 2017, are as follows:

	2018	2017
Endowment modifications	<u>\$ -</u>	<u>\$250</u>
Total	<u><u>\$ -</u></u>	<u><u>\$250</u></u>

8. 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 \$70,000 in calendar year 2017 and a match of up to \$100,000 per calendar year in calendar years 2018–2020. The Foundation recorded a \$107,300 award as revenue in fiscal year 2018 and a \$70,000 award as revenue in fiscal year 2017.

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