

# The Rotary Foundation of Rotary International

Financial Statements as of and for the  
Years Ended 30 June 2020 and 2019, and  
Independent Auditors' Report

# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 30 JUNE 2020 AND 2019:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-24

## INDEPENDENT AUDITORS' REPORT

To the Trustees of The Rotary Foundation of Rotary International:

We have audited the accompanying consolidated financial statements of The Rotary Foundation of Rotary International, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Rotary Foundation of Rotary International as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

27 October 2020

# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

## STATEMENTS OF FINANCIAL POSITION

AS OF 30 JUNE 2020 AND 2019

(In thousands of U.S. dollars)

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	2020	2019
<b>ASSETS</b>		
ASSETS:		
Cash and cash equivalents—unrestricted and restricted	\$ 41,819	\$ 44,053
Pledges receivable—net	17,927	17,006
Prepaid expenses and other assets	4,574	4,161
Investments	1,148,795	1,172,802
Split-interest agreements	<u>51,056</u>	<u>47,511</u>
<b>TOTAL ASSETS</b>	<b><u>\$1,264,171</u></b>	<b><u>\$1,285,533</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accrued program awards	\$ 98,061	\$ 93,883
Accounts payable, accrued expenses, and deferred revenues	1,460	3,124
Split-interest agreements payable	34,954	31,810
Foreign currency obligations	-	42
Due to Rotary International	<u>3,114</u>	<u>6,399</u>
Total liabilities	<u>137,589</u>	<u>135,258</u>
 NET ASSETS:		
Without donor restriction	655,946	696,178
With donor restriction	<u>470,636</u>	<u>454,097</u>
Total net assets	<u>1,126,582</u>	<u>1,150,275</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$1,264,171</u></b>	<b><u>\$1,285,533</u></b>

See accompanying notes to the financial statements.

# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2020 (In thousands of U.S. dollars)

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
<b>REVENUES:</b>			
Contributions	\$128,511	\$ 208,682	\$ 337,193
Split-interest agreements	-	1,558	1,558
Net investment return	11,423	(6,965)	4,458
Grants and other activities—net	92	(435)	(343)
Net assets released from restrictions	<u>183,923</u>	<u>(183,923)</u>	<u>-</u>
Total revenues	<u>323,949</u>	<u>18,917</u>	<u>342,866</u>
<b>EXPENSES:</b>			
Program awards and expenses:			
PolioPlus program	153,535	-	153,535
Rotary grants	152,710	-	152,710
Other programs	<u>21,426</u>	<u>-</u>	<u>21,426</u>
Total program awards and expenses	327,671	-	327,671
Development expenses	19,265	-	19,265
General administration	<u>14,597</u>	<u>-</u>	<u>14,597</u>
Total expenses	<u>361,533</u>	<u>-</u>	<u>361,533</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	(37,584)	18,917	(18,667)
FOREIGN CURRENCY EXCHANGE (LOSSES)	(2,648)	(3)	(2,651)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>-</u>	<u>(2,375)</u>	<u>(2,375)</u>
CHANGE IN NET ASSETS	(40,232)	16,539	(23,693)
NET ASSETS—Beginning of year	<u>696,178</u>	<u>454,097</u>	<u>1,150,275</u>
NET ASSETS—End of year	<u>\$655,946</u>	<u>\$ 470,636</u>	<u>\$1,126,582</u>

See accompanying notes to the financial statements.

# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

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

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

See accompanying notes to the financial statements.

# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2020 (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	\$151,755	\$133,908	\$21,426	\$307,089	\$ -	\$ -	\$307,089
Salaries, benefits, and payroll taxes	855	13,140	-	13,995	11,142	9,005	34,142
External services	598	1,731	-	2,329	1,505	1,941	5,775
Travel	217	451	-	668	816	747	2,231
Conferences, conventions, and meetings	10	5	-	15	100	12	127
Media and public relations	15	194	-	209	116	28	353
Information technology and communications	46	1,875	-	1,921	1,263	1,274	4,458
Publications and printing	-	-	-	-	327	3	330
Postage, shipping, and freight	5	63	-	68	778	76	922
Donor recognition	-	-	-	-	1,090	4	1,094
Cost of sales	-	8	-	8	31	-	39
Occupancy	22	928	-	950	577	612	2,139
Insurance, finance fees, and taxes	1	53	-	54	1,251	637	1,942
General office and miscellaneous	11	354	-	365	269	258	892
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$153,535</u>	<u>\$152,710</u>	<u>\$21,426</u>	<u>\$327,671</u>	<u>\$19,265</u>	<u>\$14,597</u>	<u>\$361,533</u>

See accompanying notes to the financial statements.



# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

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

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

See accompanying notes to the financial statements.

# THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2020 AND 2019 (In thousands of U.S. dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (23,693)	\$ 22,977
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Endowment Fund contributions	(36,839)	(22,876)
Contributed securities	17	(47)
Foreign currency translation losses	2,617	709
Realized and unrealized gains on investments—net	10,195	(24,412)
Change in fair value of foreign currency contracts and obligations	(42)	75
Changes in operating assets and liabilities:		
Pledges receivable—net	888	7,178
Prepaid expenses and other assets	(413)	(987)
Split-interest agreements	(3,545)	(2,479)
Accrued program awards	4,178	4,753
Accounts payable, accrued expenses, and deferred revenues	(1,664)	1,308
Split-interest agreements payable	3,144	2,005
Due to Rotary International	<u>(3,285)</u>	<u>(244)</u>
Net cash used in operating activities	<u>(48,442)</u>	<u>(12,040)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,121,706)	(2,110,353)
Proceeds from sale of investments	1,132,883	2,086,973
Change in short-term investments	<u>2,618</u>	<u>15,786</u>
Net cash provided by (used in) investing activities	<u>13,795</u>	<u>(7,594)</u>
CASH FLOWS FROM FINANCING ACTIVITIES—Proceeds from contributions restricted for investment in Endowment Fund	<u>35,030</u>	<u>22,875</u>
Net cash provided by financing activities	<u>35,030</u>	<u>22,875</u>
EFFECT OF EXCHANGE RATES ON CASH	<u>(2,617)</u>	<u>(709)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,234)	2,532
CASH AND CASH EQUIVALENTS—including restricted—beginning of year	<u>44,053</u>	<u>41,521</u>
CASH AND CASH EQUIVALENTS—including restricted—end of year	<u>\$ 41,819</u>	<u>\$ 44,053</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 2020 AND 2019

(In thousands of U.S. dollars)

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### 1. NATURE OF OPERATIONS

The Rotary Foundation of Rotary International (the "Foundation") is a corporation organized under the Illinois Not-for-Profit Corporation Act. The Foundation is funded solely by voluntary contributions, which support its mission to advance world understanding, goodwill, and peace. Using Foundation grants, Rotary International's approximately 36,000 clubs across the globe develop and carry out sustainable humanitarian projects and provide scholarships and professional training opportunities that promote peace, fight disease, provide clean water, sustain mothers and children, improve education, and strengthen local economies. In addition, the Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan, and the United Kingdom. The associate foundations provide local Rotarians and/or other donors with tax benefits for charitable contributions under the applicable laws in each country. The financial activities conducted by the associate foundations are included in the statements of financial position and the related statements of activities, functional expenses, and cash flows. Operating revenue of the Foundation is derived primarily from contributions and investment income.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

	<b>2020</b>	<b>2019</b>
Cash—unrestricted	\$36,214	\$32,360
Cash—restricted	<u>5,605</u>	<u>11,693</u>
Total	<u>\$41,819</u>	<u>\$44,053</u>

The Foundation had domestic balances exceeding the Federal Deposit Insurance Corporation's insured limitations at 30 June 2020 and 2019. The Foundation believes it is not exposed to significant credit risk on cash and cash equivalents.

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

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

Investment return consists of realized gains and losses, unrealized gains and losses, dividends and interest and is recorded when earned, and is shown net of investment management fees. Realized gains and losses are determined on the basis of the carrying value of the specific investments sold, and investment transactions are recorded on a trade-date basis. Unrealized gains and losses are determined based on changes in the fair value of investments.

**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.

**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. Program awards are nonexchange transactions with no conditions imposed by the Foundation (right of return, barriers) which allows the Foundation to recognize expense on the date awarded. Awards approved, but not yet paid, are included in accrued program awards in the accompanying statements of financial position.

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

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

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

In addition to undesignated contributions, the Board of Trustees (the "Trustees") have designated certain net assets without donor restriction for specific programs or uses. These designations include PolioPlus program, Operating reserve fund, Endowment Fund (see Note 6) and Rotary grants. The Operating reserve fund supports the Foundation's operating expenses in the event that current-year investment earnings are inadequate.

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

As of 30 June 2020 and 2019, the Foundation's net assets with donor restriction for purpose and/or passage of time include Endowment fund earnings and Rotary grants. 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 Trustees. Noncurrent pledges and the unspent portion of the Endowment Fund's net investment return are classified as net assets with donor restriction.

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

**Revenue Recognition**—Unconditional contributions and unconditional pledges receivable, are recognized at fair value at the date the promise is received. Associated accounts receivable for revenue from contributions as of 30 June 2020 and 2019 were \$21,309 and \$19,269, respectively, and allowance for uncollectible pledge was \$3,382 and \$2,263, respectively.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

The Foundation has entered into cost-reimbursement contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in compliance with specific contract provisions.

**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 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 US that are translated into the Foundation’s reporting currency. Translation and transaction gains or losses are reflected as a separate line item adjusting the change in net assets, as reported in the statements of activities.

**Risks and Uncertainties**—The Foundation has invested cash and short-term investments, debt and equity securities, and alternative investments that are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements.

**Allocation Methodology**—The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas. A portion of General and Administrative costs that benefit multiple functional areas (indirect costs) have been allocated across Program Expenses and Supporting Services based on headcount or a calculated distribution rate, as described further in Note 7 “Related Party Transactions”.

**Adopted Accounting Pronouncements**—The Foundation adopted the following FASB issued ASUs.

The Foundation adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) issued by the FASB in May 2014. 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. The Foundation adopted this standard on 1 July 2019, which did not have an impact on the Foundation’s financial statements as none of the revenue streams were deemed to be contracts with customers.

The Foundation adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”) issued by the FASB in June 2018. 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. The Foundation adopted this standard on 1 July 2019, which did not have a material impact on the Foundation’s financial statements.

**Upcoming Accounting Pronouncement not yet adopted**—In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)* (“ASU 2020-07”). The guidance requires more prominent presentation of contributed nonfinancial assets and enhanced disclosures about their valuation and use, including any donor-imposed restrictions on such use. ASU 2020-07 will be effective for the fiscal year ending 30 June 2023, and early adoption is permitted.

**Subsequent Events**—The recent global outbreak of the coronavirus (“COVID-19”) has caused significant volatility within the economic markets, for which the duration and spread of the outbreak and the resultant economic impact is uncertain and cannot be predicted.

Management considered subsequent events through 27 October 2020, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents (Note 2)	\$ 41,819	\$ 44,053
Accounts receivable	1,343	677
Pledges receivable expected within one year (Note 4)	11,826	11,515
Nonpooled cash and cash equivalents (Note 5)	<u>78,214</u>	<u>101,230</u>
Total	<u>\$133,202</u>	<u>\$157,475</u>

Accounts receivable amount is presented within prepaid expenses and other assets on the Statement of Financial Position. Additionally, the assets above include \$2,569 and \$5,636 in donor-advised funds as of 30 June 2020 and 2019, respectively. The Foundation generally uses these assets for grantmaking based on donor recommendations.

The Foundation's Endowment Fund consists of donor-restricted endowments of \$427,509 and \$413,648 and a Trustee-designated endowment of \$57,019 and \$58,210 as of 30 June 2020 and 2019, respectively, as detailed further in Note 6—Endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, may not be available for general expenditure. The endowment has a tiered spending rate structure, with rates between 2% and 5%. Appropriations of \$21,125 and \$17,600 from the Endowment Fund will be available within the next 12 months as of 30 June 2020 and 2019, respectively. Although the Foundation does not intend to spend from its Trustee-designated endowment (other than amounts appropriated per the Trustee's annual spending rate approval), these amounts could be made available if necessary. However, both the Trustee-designated endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note 5 for disclosures on Investments and Fair Value Measurements).

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

Annually, if an operating surplus exists, the Trustees will designate a portion of the surplus to its operating reserve which was \$71,362 and \$77,738 as of 30 June 2020 and 2019, respectively.

#### 4. PLEDGES RECEIVABLE—NET

Pledges receivables, net at 30 June 2020 and 2019, are summarized as follows:

	<b>2020</b>	<b>2019</b>
Total pledges receivable	\$ 21,309	\$ 19,269
Less adjustments to present value of future cash flows for pledges receivable	(556)	(562)
Less allowance for uncollectible pledges receivables	<u>(2,826)</u>	<u>(1,701)</u>
Pledges receivable—net	<u>\$ 17,927</u>	<u>\$ 17,006</u>

The discount rates used to determine the present value of pledges receivable represent the risk-free interest rates applicable to the years in which the promises are received and range from 0.68% to 2.40%.

Payments on pledges receivable at 30 June 2020, are expected to be received as follows:

##### **June 30**

2021	\$ 11,826
2022	4,651
2023	3,102
2024	<u>1,730</u>
	<u>\$ 21,309</u>

#### 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

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



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

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

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

Investments in commingled funds other than mutual funds are generally recorded at the estimated fair value based on the NAV. Investments in limited partnerships and other similar types of funds are recorded at the estimated fair value based on the percentage ownership of the fund's NAV as of the measurement date provided by the fund manager or third-party administrator. In determining fair value, management utilizes valuations provided by the fund manager. The estimated fair values of certain investments in the fund, which may include private placements and other securities for which prices are not readily available, are determined by the fund manager of the respective fund and may not reflect amounts that could be realized upon immediate sale nor the amount that may ultimately be realized. Accordingly, the estimated fair values may differ from the values that would have been used had a readily available market existed for these investments. In cases where the practical expedient threshold is not met, such as an investment not in compliance with U.S 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 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. DAF invested assets are included in non-pooled investments and reported as Level 1 in the accompanying table.

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 2020:

	<b>Measured at NAV or Equivalent</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled investments:					
Equity investments/securities	\$183,366	\$ 2,751	\$ -	\$ -	\$ 186,117
Fixed income investments/securities	132,799	73,952	-	-	206,751
Buyout funds	41,706	-	-	-	41,706
Natural resources	9,898	-	-	-	9,898
Real estate	72,700	-	-	-	72,700
Hedge funds	94,642	-	-	-	94,642
Balanced funds	<u>15,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,610</u>
Total pooled investments	<u>550,721</u>	<u>76,703</u>	<u>-</u>	<u>-</u>	<u>627,424</u>
Nonpooled investments:					
Cash and cash equivalents	-	61,363	16,851	-	78,214
Equity investments/securities	-	83,142	147	-	83,289
Fixed income investments/securities	<u>-</u>	<u>54,155</u>	<u>305,713</u>	<u>-</u>	<u>359,868</u>
Total nonpooled investments	<u>-</u>	<u>198,660</u>	<u>322,711</u>	<u>-</u>	<u>521,371</u>
Total investments at fair value	<u>\$550,721</u>	<u>\$275,363</u>	<u>\$322,711</u>	<u>\$ -</u>	<u>\$1,148,795</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 1,482	\$ -	\$ -	\$ 1,482
Equity investments/securities	-	36,653	-	-	36,653
Fixed income investments/securities	-	12,821	-	-	12,821
Real estate	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 50,956</u>	<u>\$ -</u>	<u>\$100</u>	<u>\$ 51,056</u>

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

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

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2020, are as follows:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency*</b>	<b>Redemption Notice Period</b>
Open-end funds	\$412,639	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	<u>138,082</u>	<u>94,322</u>	N/A	N/A
Total	<u>\$550,721</u>	<u>\$ 94,322</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 2019, are as follows:

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

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

Open-end funds are those commingled funds that can issue and redeem shares at any time or on a pre-determined schedule. Closed-end funds are those commingled funds that raise capital in a private offering and call for investment, as investor capital is needed to fund investments. As of 30 June 2020 and 2019, 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 2020 and 2019, are as follows:

	<b>2020</b>	<b>2019</b>
Interest and dividends	\$18,537	\$ 17,784
Realized gains—net	20,306	21,671
Unrealized gains (losses)—net	(30,501)	2,741
Investment and banking fees	<u>(3,884)</u>	<u>(4,221)</u>
Total	<u>\$ 4,458</u>	<u>\$ 37,975</u>

## 6. ENDOWMENTS

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

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

A portion of the Endowment Fund's investment earnings is used to fund the programs of the Foundation, based on the terms of the gift and the Foundation's spending policy. The Endowment Fund may make an annual distribution to the Foundation's program awards and operations and operating expenses as approved by the Trustees. In fiscal years 2020 and 2019, the Trustees approved spending from those donor-restricted and trustee-designated endowed gifts where the fair value is at least 90% of the accumulated gift value. Spending is based on a tiered spending rate structure, with rates between 2% and 5%, depending on the level of accumulated earnings.

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

Changes in endowment net assets for the year ended 30 June 2020, are as follows:

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Endowment net assets—beginning of year	\$58,210	\$413,648	\$471,858
Contributions	947	36,839	37,786
Investment return	(877)	(6,965)	(7,842)
Transfers to trustee-designated endowment funds	847	-	847
Conversion of split-interest agreements to endowment	-	728	728
Reserve against pledges receivable	-	(1,252)	(1,252)
Appropriation of endowment assets for expenditure	<u>(2,108)</u>	<u>(15,489)</u>	<u>(17,597)</u>
Endowment net assets—end of year	<u>\$57,019</u>	<u>\$427,509</u>	<u>\$484,528</u>

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

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

Endowment composition by net asset class as of 30 June 2020, is as follows:

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$427,509	\$427,509
Trustee-designated endowment funds	<u>57,019</u>	<u>-</u>	<u>57,019</u>
Endowment net assets—end of year	<u>\$ 57,019</u>	<u>\$427,509</u>	<u>\$484,528</u>

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

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

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

As of 30 June 2020 there are \$965 of deficiencies. As of 30 June 2019 no deficiencies of this nature exist.

## **7. RELATED-PARTY TRANSACTIONS**

The Foundation received contributions of \$2,434 and \$266 for the years ended 30 June 2020 and 2019, 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:

	<b>2020</b>	<b>2019</b>
Salaries, benefits, and payroll taxes	\$34,142	\$32,642
External services	5,775	5,549
Travel	2,231	3,825
Conferences, conventions, and meetings	127	672
Media and public relations	353	272
Information technology and communications	4,458	4,298
Publications and printing	330	521
Postage, shipping, and freight	922	1,144
Donor recognition	1,094	925
Cost of sales	39	66
Occupancy	2,139	2,106
Insurance, finance fees, and taxes	1,942	1,146
General office and miscellaneous	<u>892</u>	<u>948</u>
Total	<u><u>\$54,444</u></u>	<u><u>\$54,114</u></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:

	<b>2020</b>	<b>2019</b>
PolioPlus program	\$ 1,780	\$ 1,756
Rotary grants	18,802	18,501
Other programs	-	18
Development expenses	19,265	19,049
General administration	<u>14,597</u>	<u>14,790</u>
Total	<u><u>\$54,444</u></u>	<u><u>\$54,114</u></u>

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



## 8. NET ASSETS

The components of the Foundation's net assets as of 30 June 2020 and 2019, are as follows:

	<b>2020</b>	<b>2019</b>
Without donor restriction:		
Undesignated	\$ 457,181	\$ 487,153
Trustee-designated:		
PolioPlus program	70,357	72,949
Operating reserve fund	71,362	77,738
Endowment Fund	57,019	58,210
Rotary grants	<u>27</u>	<u>128</u>
Total net assets without donor restriction	<u>655,946</u>	<u>696,178</u>
With donor restriction:		
For Purpose and/or Passage of time:		
Endowment Fund earnings	67,389	89,844
Rotary grants	27,118	24,833
Endowment invested in Perpetuity:		
Annual fund	219,506	198,363
Rotary grants	138,077	122,587
PolioPlus program	1,258	1,037
Split-interest agreements	16,009	15,616
Other	<u>1,279</u>	<u>1,817</u>
Total net assets with donor restriction	<u>470,636</u>	<u>454,097</u>
Total net assets	<u><u>\$1,126,582</u></u>	<u><u>\$1,150,275</u></u>

Net assets released from restrictions by incurring expenses which satisfied donor restrictions, passage of time, or through modifications to endowment agreements for the years ended 30 June 2020 and 2019, are as follows:

	<b>2020</b>	<b>2019</b>
PolioPlus program	\$132,894	\$128,636
Endowment Fund earnings appropriated for use	10,955	10,875
Rotary grants/other programs	37,875	27,208
Endowment modifications	-	239
Released due to passage of time	<u>2,199</u>	<u>2,644</u>
Total	<u><u>\$183,923</u></u>	<u><u>\$169,602</u></u>

## **9. THE BILL & MELINDA GATES FOUNDATION GRANT**

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

Pursuant to the agreements, BMGF provides a 2 to 1 match for new spending from non-BMGF funds, with a match of up to \$100,000 per calendar year, in calendar years 2018–2023. The Foundation recorded a \$100,000 award as revenue in fiscal year 2020 and a \$92,700 award as revenue in fiscal year 2019.

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