

The Rotary Foundation of Rotary International

Financial Statements
as of and for the Years Ended
30 June 2021 and 2020, and
Independent Auditors' Report

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

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INDEPENDENT AUDITORS' REPORT

To the Trustees of the Rotary Foundation of Rotary International:

We have audited the accompanying financial statements of the Rotary Foundation of Rotary International, which comprise the statements of financial position as of 30 June 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Rotary Foundation of Rotary International's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rotary Foundation of Rotary International's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rotary Foundation of Rotary International as of 30 June 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

12 October 2021

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2021 AND 2020 (In thousands of U.S. dollars)

	2021	2020
ASSETS		
ASSETS:		
Cash and cash equivalents <i>(includes restricted cash of \$11,406 and \$5,605)</i>	\$ 48,471	\$ 41,819
Pledges receivable—net	17,841	17,927
Prepaid expenses and other assets	3,609	4,574
Investments	1,301,519	1,148,795
Split-interest agreements	<u>65,800</u>	<u>51,056</u>
TOTAL ASSETS	<u>\$ 1,437,240</u>	<u>\$ 1,264,171</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued program awards	\$ 99,704	\$ 98,061
Accounts payable, accrued expenses, and deferred revenues	2,442	1,460
Split-interest agreements payable	40,693	34,954
Due to Rotary International	<u>4,090</u>	<u>3,114</u>
 Total liabilities	<u>146,929</u>	<u>137,589</u>
 NET ASSETS:		
Without donor restriction	672,130	655,946
With donor restriction	<u>618,181</u>	<u>470,636</u>
 Total net assets	<u>1,290,311</u>	<u>1,126,582</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,437,240</u>	<u>\$ 1,264,171</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2021 (In thousands of U.S. dollars)

	Without Donor Restriction	With Donor Restriction	Total
REVENUES:			
Contributions	\$ 152,980	\$ 200,705	\$ 353,685
Split-interest agreements - contributions	-	1,065	1,065
Net investment return	50,158	132,146	182,304
Split-interest agreements and other activities—net	140	8,091	8,231
Net assets released from restrictions	<u>193,703</u>	<u>(193,703)</u>	<u>-</u>
Total revenues	<u>396,981</u>	<u>148,304</u>	<u>545,285</u>
EXPENSES:			
Program awards and expenses:			
PolioPlus program	154,358	-	154,358
Rotary grants	185,147	-	185,147
Other programs	<u>12,830</u>	<u>-</u>	<u>12,830</u>
Total program awards and expenses	352,335	-	352,335
Development expenses	18,050	-	18,050
General administration	<u>13,254</u>	<u>-</u>	<u>13,254</u>
Total expenses	<u>383,639</u>	<u>-</u>	<u>383,639</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	13,342	148,304	161,646
FOREIGN CURRENCY EXCHANGE GAINS (LOSSES)	3,347	(5)	3,342
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(505)</u>	<u>(754)</u>	<u>(1,259)</u>
CHANGE IN NET ASSETS	16,184	147,545	163,729
NET ASSETS—Beginning of year	<u>655,946</u>	<u>470,636</u>	<u>1,126,582</u>
NET ASSETS—End of year	<u>\$ 672,130</u>	<u>\$ 618,181</u>	<u>\$ 1,290,311</u>

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)

	Without Donor Restriction	With Donor Restriction	Total
REVENUES:			
Contributions	\$ 128,511	\$ 208,682	\$ 337,193
Split-interest agreements - contributions	-	1,558	1,558
Net investment return	11,423	(6,965)	4,458
Split-interest agreements 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>
EXPENSES:			
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 FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2021 (In thousands of U.S. dollars)

	Program Awards and Expenses				Supporting Services		Total Expenses
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$ 152,852	\$ 167,110	\$ 12,830	\$ 332,792	\$ -	\$ -	\$ 332,792
Salaries, benefits, and payroll taxes	845	12,730	-	13,575	10,904	8,478	32,957
External services	562	1,239	-	1,801	1,033	1,669	4,503
Travel	3	19	-	22	36	13	71
Conferences, conventions, and meetings	-	1	-	1	213	6	220
Media and public relations	2	45	-	47	75	17	139
Information technology and communications	61	2,600	-	2,661	1,755	1,767	6,183
Publications and printing	-	4	-	4	216	13	233
Postage, shipping, and freight	2	61	-	63	878	77	1,018
Donor recognition	-	-	-	-	902	6	908
Cost of sales	-	-	-	-	1	-	1
Occupancy	26	1,107	-	1,133	679	718	2,530
Insurance, finance fees, and taxes	1	62	-	63	1,247	264	1,574
General office and miscellaneous	4	169	-	173	111	226	510
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$ 154,358</u>	<u>\$ 185,147</u>	<u>\$ 12,830</u>	<u>\$ 352,335</u>	<u>\$ 18,050</u>	<u>\$ 13,254</u>	<u>\$ 383,639</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			Total Program Awards and Expenses	Supporting Services		Total Expenses
	PolioPlus Program	Rotary Grants	Other Programs		Development Expenses	General Administration	
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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2021 AND 2020 (In thousands of U.S. dollars)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 163,729	\$ (23,693)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:		
Endowment Fund contributions	(28,542)	(36,839)
Contributed securities	(21)	17
Foreign currency translation (gains) losses	(3,352)	2,617
Realized and unrealized (gains) losses on investments—net	(169,324)	10,195
Change in fair value of foreign currency contracts and obligations	-	(42)
Changes in operating assets and liabilities:		
Pledges receivable—net	(2,120)	888
Prepaid expenses and other assets	965	(413)
Split-interest agreements	(14,744)	(3,545)
Accrued program awards	1,643	4,178
Accounts payable, accrued expenses, and deferred revenues	982	(1,664)
Split-interest agreements payable	5,739	3,144
Due to Rotary International	976	(3,285)
Net cash used in operating activities	<u>(44,069)</u>	<u>(48,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(375,757)	(1,121,706)
Proceeds from sale of investments	408,725	1,132,883
Change in short-term investments	<u>(16,347)</u>	<u>2,618</u>
Net cash provided by investing activities	<u>16,621</u>	<u>13,795</u>
CASH FLOWS FROM FINANCING ACTIVITIES—Proceeds from contributions restricted for investment in Endowment Fund	<u>30,748</u>	<u>35,030</u>
Net cash provided by financing activities	<u>30,748</u>	<u>35,030</u>
EFFECT OF EXCHANGE RATES ON CASH	<u>3,352</u>	<u>(2,617)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,652	(2,234)
CASH AND CASH EQUIVALENTS—Including restricted—beginning of year	<u>41,819</u>	<u>44,053</u>
CASH AND CASH EQUIVALENTS—Including restricted—end of year	<u>\$ 48,471</u>	<u>\$ 41,819</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 2021 AND 2020

(In thousands of U.S. dollars)

1. NATURE OF OPERATIONS

The Rotary Foundation of Rotary International (the “Foundation”) is a corporation organized under the Illinois Not-for-Profit Corporation Act. The Foundation is funded solely by voluntary contributions, which support its mission to advance world understanding, goodwill, and peace. Using Foundation grants, Rotary International’s approximately 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, strengthen local economies and support the environment. In addition, the Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan, Korea 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 had domestic balances exceeding the Federal Deposit Insurance Corporation’s insured limitations at 30 June 2021 and 2020. The Foundation believes it is not exposed to significant credit risk on cash and cash equivalents. The Foundation maintains foreign and domestic cash accounts, including cash and cash equivalents subject to certain repatriation restrictions imposed by local governments. These amounts are presented as restricted cash on the statement of financial position.

Contributions 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 between 0.6% and 10%, 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—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. The Foundation records the full amount of program awards upon specific designation of award recipients in the year for which they are 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 2021 and 2020, the Foundation's net assets with donor restrictions 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 contribution revenues and receivables are recognized at fair value at the date the promise is received. Associated contributions receivable for revenue from contributions are recorded after being discounted to the anticipated net present value of the future cash flows.

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.

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; however, the last three taxable years remain open to federal and state audit.

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

Risks and Uncertainties—The Foundation has invested cash and 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”.

Upcoming Accounting Pronouncement not yet adopted—In September 2020, the FASB issued Accounting Standards Update (“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. Management is still evaluating the impact that this adoption will have on the financial statements.

Subsequent Events—Management considered subsequent events through 12 October 2021, 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:

	2021	2020
Cash and cash equivalents	\$ 48,471	\$ 41,819
Accounts receivable	293	1,343
Pledges receivable expected within one year (Note 4)	11,464	11,826
Pooled cash and cash equivalents (Note 5)	3,736	-
Nonpooled cash and cash equivalents (Note 5)	<u>76,607</u>	<u>78,214</u>
Total	<u>\$ 140,571</u>	<u>\$ 133,202</u>

Accounts receivable amount is presented within prepaid expenses and other assets on the Statement of Financial Position. Additionally, the assets above include \$2,982 and \$2,569 in donor-advised funds as of 30 June 2021 and 2020, respectively. The Foundation generally uses these assets for grantmaking based on donor recommendations.

The Foundation's Endowment Fund consists of donor-restricted endowments of \$569,559 and \$427,509 and a Trustee-designated endowment of \$71,539 and \$57,019 as of 30 June 2021 and 2020, 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 \$27,326 and \$21,125 from the Endowment Fund will be available within the next 12 months as of 30 June 2021 and 2020, 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 \$77,444 and \$71,362 as of 30 June 2021 and 2020, respectively.

4. PLEDGES RECEIVABLE—NET

Pledges receivables, net at 30 June 2021 and 2020, are summarized as follows:

	2021	2020
Total pledges receivable	\$ 21,025	\$ 21,309
Less adjustments to present value of future cash flows for pledges receivable	(398)	(556)
Less allowance for uncollectible pledges receivables	<u>(2,786)</u>	<u>(2,826)</u>
Pledges receivable—net	<u>\$ 17,841</u>	<u>\$ 17,927</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 0.26% to 2.40%.

Payments on pledges receivable at 30 June 2021, are expected to be received as follows:

30 June

2022	\$ 11,464
2023	4,984
2024	3,205
2025	<u>1,372</u>
	<u>\$ 21,025</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, donor-advised funds, and assets associated with split-interest agreements. Investments are separated into distinct portfolios, each with a specific objective and investment policy, and are invested in pooled investment funds and individual securities. 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: Valuations derived from valuation techniques in which one or more significant inputs are not observable.

Investments Measured at Net Asset Value ("NAV"): Investments that establish fair value using the NAV per share or its equivalent as a practical expedient.

The categorization of a financial instrument or asset 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.

Invested cash and cash equivalents includes money market mutual funds and other short term investments and are stated at fair value based on quoted market prices. Invested cash and short term investments are generally categorized as Level 1 in the hierarchy table.

Equity securities traded on a national securities exchange are stated at the last reported sale price on the date of valuation, and therefore categorized as level 1 in the hierarchy table. 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 and other fixed income instruments are generally valued by third-party pricing services using prices for comparable securities and are categorized as Level 2.

Investments in pooled investments include, but are not limited to, registered investment companies and private investment funds. Registered investment companies holding equity securities or bonds and fixed income instruments are valued based on the NAV reported as of the last business day of the fiscal year and classified as Level 1. Pooled investment funds other than registered investment companies are generally recorded at the estimated fair value based on the NAV. Investments in private investment funds, 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.

The investments valued at NAV or its equivalent, such as member units or an ownership interest in partners' capital, are a practical expedient to estimate the fair values of private equity, natural resource, real estate, hedge and balanced funds, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

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. At 30 June 2021, there are no financial instruments or assets classified as Level 3.

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 2021:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Cash and cash equivalents	\$ -	\$ 3,736	\$ -	\$ -	\$ 3,736
Equity investments/securities	241,478	3,353	-	-	244,831
Fixed income investments/securities	161,908	16,703	-	-	178,611
Private equity funds*	65,974	-	-	-	65,974
Natural resources	7,806	-	-	-	7,806
Real estate	78,227	-	-	-	78,227
Hedge funds	157,910	-	-	-	157,910
Balanced funds	17,304	-	-	-	17,304
	<u>730,607</u>	<u>23,792</u>	<u>-</u>	<u>-</u>	<u>754,399</u>
Total pooled investments					
Nonpooled investments:					
Cash and cash equivalents	-	76,607	-	-	76,607
Equity investments/securities	-	111,178	-	-	111,178
Fixed income investments/securities	-	55,680	303,655	-	359,335
	<u>-</u>	<u>243,465</u>	<u>303,655</u>	<u>-</u>	<u>547,120</u>
Total nonpooled investments					
Total investments at fair value	<u>\$ 730,607</u>	<u>\$ 267,257</u>	<u>\$ 303,655</u>	<u>\$ -</u>	<u>\$ 1,301,519</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 1,082	\$ -	\$ -	\$ 1,082
Equity investments/securities	-	48,304	-	-	48,304
Fixed income investments/securities	-	16,414	-	-	16,414
	<u>-</u>	<u>65,800</u>	<u>-</u>	<u>-</u>	<u>65,800</u>
Total split-interest agreements at fair value					
	<u>\$ -</u>	<u>\$ 65,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,800</u>

*Note: 'Private equity funds' were previously reported as 'Buyout funds'

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:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Equity investments/securities	\$ 183,366	\$ 2,751	\$ -	\$ -	\$ 186,117
Fixed income investments/securities	132,799	73,952	-	-	206,751
Private Equity 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	15,610	-	-	-	15,610
Total pooled investments	550,721	76,703	-	-	627,424
Nonpooled investments:					
Cash and cash equivalents	-	61,363	16,851	-	78,214
Equity investments/securities	-	83,142	147	-	83,289
Fixed income investments/securities	-	54,155	305,713	-	359,868
Total nonpooled investments	-	198,660	322,711	-	521,371
Total investments at fair value	\$ 550,721	\$ 275,363	\$ 322,711	\$ -	\$ 1,148,795
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	-	-	-	100	100
Total split-interest agreements at fair value	\$ -	\$ 50,956	\$ -	\$100	\$ 51,056

*Note: 'Private Equity funds' previously reported as 'Buyout Funds'

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2021, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Open-end funds	\$ 527,525	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	203,082	90,644	N/A	N/A
Total	\$ 730,607	\$ 90,644		

* 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 2020, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
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

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 capital from investors as capital is needed to fund investments. As of 30 June 2021 and 2020, 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 2021 and 2020, are as follows:

	2021	2020
Interest and dividends	\$ 17,292	\$ 18,537
Realized gains—net	19,874	20,306
Unrealized gains (losses)—net	149,450	(30,501)
Investment and banking fees	<u>(4,312)</u>	<u>(3,884)</u>
Total	<u>\$ 182,304</u>	<u>\$ 4,458</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 2021 and 2020, 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 2021, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—beginning of year	\$ 57,019	\$ 427,509	\$ 484,528
Contributions	3,037	28,542	31,579
Investment return	13,644	132,499	146,143
Transfers to trustee-designated endowment funds	776	-	776
Conversion of split-interest agreements to endowment	-	154	154
Modification to endowment agreements	(450)	-	(450)
Reserve against pledges receivable	-	(507)	(507)
Appropriation of endowment assets for expenditure	<u>(2,487)</u>	<u>(18,638)</u>	<u>(21,125)</u>
Endowment net assets—end of year	<u>\$ 71,539</u>	<u>\$ 569,559</u>	<u>\$ 641,098</u>

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

	Without Donor Restriction	With Donor Restriction	Total
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>

Endowment composition by net asset class as of 30 June 2021, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 569,559	\$ 569,559
Trustee-designated endowment funds	<u>71,539</u>	<u>-</u>	<u>71,539</u>
Endowment net assets—end of year	<u>\$ 71,539</u>	<u>\$ 569,559</u>	<u>\$ 641,098</u>

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

	Without Donor Restriction	With Donor Restriction	Total
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>

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 2021 there are no deficiencies. As of 30 June 2020 there were \$965 of deficiencies.

7. RELATED-PARTY TRANSACTIONS

The Foundation received contributions of \$7,695 and \$2,434 for the years ended 30 June 2021 and 2020, 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 01 July 2020. 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:

	2021	2020
Salaries, benefits, and payroll taxes	\$ 32,957	\$ 34,142
External services	4,503	5,775
Travel	71	2,231
Conferences, conventions, and meetings	220	127
Media and public relations	139	353
Information technology and communications	6,183	4,458
Publications and printing	233	330
Postage, shipping, and freight	1,018	922
Donor recognition	908	1,094
Cost of sales	1	39
Occupancy	2,530	2,139
Insurance, finance fees, and taxes	1,574	1,942
General office and miscellaneous	<u>510</u>	<u>892</u>
Total	<u>\$ 50,847</u>	<u>\$ 54,444</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:

	2021	2020
PolioPlus program	\$ 1,506	\$ 1,780
Rotary grants	18,037	18,802
Development expenses	18,050	19,265
General administration	<u>13,254</u>	<u>14,597</u>
Total	<u>\$ 50,847</u>	<u>\$ 54,444</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 2021 and 2020, are as follows:

	2021	2020
Without donor restriction:		
Undesignated	\$ 457,158	\$ 457,181
Trustee-designated:		
PolioPlus program	65,989	70,357
Operating reserve fund	77,444	71,362
Endowment Fund	71,539	57,019
Rotary grants	<u>-</u>	<u>27</u>
Total net assets without donor restriction	<u>672,130</u>	<u>655,946</u>
With donor restriction:		
For Purpose and/or Passage of time:		
Endowment Fund earnings	181,251	67,389
Rotary grants	23,612	27,118
Endowment held in Perpetuity:		
Annual fund	239,637	219,506
Rotary grants	146,509	138,077
PolioPlus program	1,257	1,258
Split-interest agreements	25,010	16,009
Other	<u>905</u>	<u>1,279</u>
Total net assets with donor restriction	<u>618,181</u>	<u>470,636</u>
Total net assets	<u>\$ 1,290,311</u>	<u>\$ 1,126,582</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 2021 and 2020, are as follows:

	2021	2020
PolioPlus program	\$ 133,266	\$ 132,894
Endowment Fund earnings appropriated for use	12,469	10,955
Rotary grants/other programs	46,201	37,875
Released due to passage of time	<u>1,767</u>	<u>2,199</u>
Total	<u>\$ 193,703</u>	<u>\$ 183,923</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 contribution revenue when all conditions 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 contribution revenue in fiscal year 2021 and 2020 upon meeting the matching condition.

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