

The Rotary Foundation of Rotary International

Financial Statements as of and for the
Years Ended 30 June 2023 and 2022, and
Independent Auditor's Report

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1–2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 30 JUNE 2023 AND 2022:	
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	9–21

INDEPENDENT AUDITOR'S REPORT

To the Trustees of the Rotary Foundation of Rotary International:

Opinion

We have audited the financial statements of Rotary Foundation of Rotary International, which comprise the statements of financial position as of 30 June 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Rotary Foundation of Rotary International as of 30 June 2023 and 2022, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rotary Foundation of Rotary International and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rotary Foundation of Rotary International's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rotary Foundation of Rotary International's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rotary Foundation of Rotary International's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

07 November 2023

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2023 AND 2022 (In thousands of U.S. dollars)

	2023	2022
ASSETS		
ASSETS:		
Cash and cash equivalents (includes restricted cash of \$18,738 and \$18,303)	\$ 59,434	\$ 54,714
Contributions receivable—net	34,762	20,934
Prepaid expenses and other assets	3,517	4,163
Investments	1,289,856	1,233,263
Split-interest agreements	<u>62,811</u>	<u>55,224</u>
TOTAL ASSETS	<u>\$ 1,450,380</u>	<u>\$ 1,368,298</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued program awards	\$ 64,977	\$ 70,801
Accounts payable, accrued expenses, and deferred revenues	1,442	1,163
Split-interest agreements payable	39,555	36,583
Due to Rotary International	<u>10,873</u>	<u>4,181</u>
Total liabilities	<u>116,847</u>	<u>112,728</u>
NET ASSETS:		
Without donor restriction	660,591	643,176
With donor restriction	<u>672,942</u>	<u>612,394</u>
Total net assets	<u>1,333,533</u>	<u>1,255,570</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,450,380</u>	<u>\$ 1,368,298</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2023 (In thousands of U.S. dollars)

	Without Donor Restriction	With Donor Restriction	Total
REVENUES:			
Contributions	\$ 144,361	\$ 219,481	\$ 363,842
Split-interest agreements—contributions	-	2,661	2,661
Net investment return	16,058	42,020	58,078
Split-interest agreements and other activities—net	270	2,227	2,497
Change in donor restriction	(6,174)	6,174	-
Net assets released from restrictions	210,497	(210,497)	-
Total revenues	<u>365,012</u>	<u>62,066</u>	<u>427,078</u>
EXPENSES:			
Program awards and expenses:			
PolioPlus program	158,425	-	158,425
Rotary grants	109,723	-	109,723
Other programs	32,555	-	32,555
Total program awards and expenses	300,703	-	300,703
Development expenses	25,489	-	25,489
General administration	17,355	-	17,355
Total expenses	<u>343,547</u>	<u>-</u>	<u>343,547</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	21,465	62,066	83,531
FOREIGN CURRENCY EXCHANGE LOSSES	(4,025)	-	(4,025)
RESERVE AGAINST CONTRIBUTIONS RECEIVABLE	(25)	(1,518)	(1,543)
CHANGE IN NET ASSETS	17,415	60,548	77,963
NET ASSETS—Beginning of year	<u>643,176</u>	<u>612,394</u>	<u>1,255,570</u>
NET ASSETS—End of year	<u>\$ 660,591</u>	<u>\$ 672,942</u>	<u>\$ 1,333,533</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2022 (In thousands of U.S. dollars)

	Without Donor Restriction	With Donor Restriction	Total
REVENUES:			
Contributions	\$ 147,696	\$ 224,496	\$ 372,192
Split-interest agreements—contributions	-	822	822
Net investment return	(7,553)	(55,945)	(63,498)
Split-interest agreements and other activities—net	272	(5,842)	(5,570)
Change in donor restriction	(3,218)	3,218	-
Net assets released from restrictions	<u>171,436</u>	<u>(171,436)</u>	<u>-</u>
Total revenues	<u>308,633</u>	<u>(4,687)</u>	<u>303,946</u>
EXPENSES:			
Program awards and expenses:			
PolioPlus program	152,199	-	152,199
Rotary grants	126,209	-	126,209
Other programs	<u>15,686</u>	<u>-</u>	<u>15,686</u>
Total program awards and expenses	294,094	-	294,094
Development expenses	21,264	-	21,264
General administration	<u>15,076</u>	<u>-</u>	<u>15,076</u>
Total expenses	<u>330,434</u>	<u>-</u>	<u>330,434</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	(21,801)	(4,687)	(26,488)
FOREIGN CURRENCY EXCHANGE LOSSES	(6,667)	-	(6,667)
RESERVE AGAINST CONTRIBUTIONS RECEIVABLE	<u>(486)</u>	<u>(1,100)</u>	<u>(1,586)</u>
CHANGE IN NET ASSETS	(28,954)	(5,787)	(34,741)
NET ASSETS—Beginning of year	<u>672,130</u>	<u>618,181</u>	<u>1,290,311</u>
NET ASSETS—End of year	<u>\$ 643,176</u>	<u>\$ 612,394</u>	<u>\$ 1,255,570</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2023 (In thousands of U.S. dollars)

	Program Awards and Expenses				Supporting Services		
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	Total Expenses
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$156,530	\$ 89,699	\$32,555	\$278,784	\$ -	\$ -	\$278,784
Staffing resources	913	12,170	-	13,083	14,046	9,965	37,094
Professional fees	681	2,206	-	2,887	1,639	2,134	6,660
Travel	160	686	-	846	942	1,234	3,022
Marketing, communications & publications	7	11	-	18	311	-	329
Event expense	20	78	-	98	662	140	900
Information technology	67	3,059	-	3,126	2,015	2,002	7,143
Postage & shipping	4	67	-	71	1,760	42	1,873
Recognition expenses	3	20	-	23	1,150	2	1,175
Occupancy	30	1,316	-	1,346	826	718	2,890
Insurance and taxes	2	92	-	94	55	283	432
Office equipment and supplies	7	297	-	304	209	193	706
Other expenses	1	22	-	23	1,874	642	2,539
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$158,425</u>	<u>\$109,723</u>	<u>\$32,555</u>	<u>\$300,703</u>	<u>\$25,489</u>	<u>\$17,355</u>	<u>\$343,547</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2022 (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	\$150,461	\$107,313	\$15,686	\$273,460	\$ -	\$ -	\$273,460
Staffing resources	844	11,840	-	12,684	12,630	8,821	34,135
Professional fees	697	1,595	-	2,292	1,158	1,843	5,293
Travel	63	432	-	495	366	625	1,486
Marketing, communications & publications	3	167	-	170	380	119	669
Event expense	26	81	-	107	900	69	1,076
Information technology	69	3,185	-	3,254	2,172	2,159	7,585
Postage & shipping	1	69	-	70	585	67	722
Recognition expenses	2	17	-	19	969	-	988
Occupancy	26	1,175	-	1,201	850	678	2,729
Insurance and taxes	2	71	-	73	40	278	391
Office equipment and supplies	5	231	-	236	197	157	590
Other expenses	-	33	-	33	1,017	260	1,310
TOTAL EXPENSES BY NATURAL CLASSIFICATION	<u>\$152,199</u>	<u>\$126,209</u>	<u>\$15,686</u>	<u>\$294,094</u>	<u>\$21,264</u>	<u>\$15,076</u>	<u>\$330,434</u>

See accompanying notes to the financial statements.

THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2023 AND 2022 (In thousands of U.S. dollars)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 77,963	\$ (34,741)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:		
Endowment Fund contributions	(31,234)	(43,503)
Foreign currency translation unrealized losses	3,964	5,583
Realized and unrealized (gains) losses on investments—net	(37,975)	75,011
Changes in operating assets and liabilities:		
Contributions receivable—net	(12,057)	(3,867)
Prepaid expenses and other assets	646	(554)
Split-interest agreements	(7,587)	10,576
Accrued program awards	(5,824)	(28,903)
Accounts payable, accrued expenses, and deferred revenues	279	(1,279)
Split-interest agreements payable	2,972	(4,110)
Due to Rotary International	<u>6,692</u>	<u>91</u>
Net cash used in operating activities	<u>(2,161)</u>	<u>(25,696)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(735,864)	(823,984)
Proceeds from sale of investments	682,018	864,975
Change in short-term investments	<u>35,228</u>	<u>(47,746)</u>
Net cash used in investing activities	<u>(18,618)</u>	<u>(6,755)</u>
CASH FLOWS FROM FINANCING ACTIVITIES—Proceeds from contributions restricted for investment in Endowment Fund	<u>29,463</u>	<u>44,277</u>
Net cash provided by financing activities	<u>29,463</u>	<u>44,277</u>
EFFECT OF EXCHANGE RATES ON CASH	<u>(3,964)</u>	<u>(5,583)</u>
INCREASE IN CASH AND CASH EQUIVALENTS—Including restricted	4,720	6,243
CASH AND CASH EQUIVALENTS—Including restricted—beginning of year	<u>54,714</u>	<u>48,471</u>
CASH AND CASH EQUIVALENTS—Including restricted—end of year	<u>\$ 59,434</u>	<u>\$ 54,714</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 2023 AND 2022

(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 2023 and 2022. 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 contributions ranging from one to ten years. Management makes judgments regarding the outstanding contributions and ultimate collectability of these receivables. Contributions 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, and Endowment Fund (see Note 6). The Operating reserve fund supports the Foundation’s operating expenses in the event that current year investment earnings and other funding sources 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 2023 and 2022, 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".

Subsequent Events—Management considered subsequent events through 7 November 2023, 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

For purposes of determining the financial resources available to fund general expenditures within one year of the statement of financial position date, the Foundation considers all expenditures related to its programs and fund development and general administration expenses that support those program-related activities to be general expenditures. The Foundation regularly monitors the liquidity required to meet its operating needs and manages its financial assets to provide the liquidity necessary for operations. The Foundation receives contributions restricted and/or designated by donors and considers contributions restricted for programs that are ongoing and central to its annual operations to be available to meet cash needs for general expenditures.

The Foundation's financial assets include cash and cash equivalents, receivables, and investments. Investments are comprised of:

- (1) an endowment fund that consists of donor-restricted endowed funds and board-designated, quasi-endowed funds invested for long-term growth,
- (2) split-interest agreements that are not available to support current operations,
- (3) donor-advised funds that are generally disbursed according to the recommendation of the donor, and
- (4) operating assets that are held and invested for a certain amount of time commensurate with the investment objective.

The following table reflects the Foundation's financial assets as of 30 June 2023 and 30 June 2022 reduced for amounts that are not available to meet general expenditures within one year of the statement of financial position date.

	2023	2022
Cash and cash equivalents—including restricted	\$ 59,434	\$ 54,714
Accounts receivable	459	236
Contributions receivable expected within one year (Note 4)	27,257	13,555
Appropriation from endowed funds available within next year	24,656	25,837
Investments	<u>1,289,856</u>	<u>1,233,263</u>
 Total financial assets	 1,401,662	 1,327,605
 Donor-restricted endowments—net of appropriation	 (583,827)	 (534,619)
Internal designations:		
Designated assets	(226,753)	(220,132)
Board-designated endowments—net of appropriation	(71,645)	(64,337)
Donor-advised funds	(36,657)	(37,835)
Operating investments with liquidity restrictions greater than one year	<u>(166,054)</u>	<u>(114,341)</u>
 Total	 <u>\$ 316,726</u>	 <u>\$ 356,341</u>

Board-designated, quasi-endowed, and donor-advised funds are unrestricted net assets, but the Foundation does not intend to spend from these funds unless it is necessary. The availability of these funds is subject to the liquidity restrictions in the portfolio.

4. CONTRIBUTIONS RECEIVABLE—NET

Contributions receivables, net at 30 June 2023 and 2022, are summarized as follows:

	2023	2022
Total contributions receivable	\$ 40,006	\$ 24,707
Less adjustments to present value of future cash flows for contributions receivable	(1,117)	(480)
Less allowance for uncollectible contributions receivables	<u>(4,127)</u>	<u>(3,293)</u>
 Contributions receivable—net	 <u>\$ 34,762</u>	 <u>\$ 20,934</u>

The discount rates used to determine the present value of contributions receivable represent the risk-free interest rates applicable to the years in which the promises are received and range from 0.26% to 4.11%.

Payments on contributions receivable at 30 June 2023, are expected to be received as follows:

30 June

2024	\$ 27,257
2025	7,365
2026	3,693
2027	<u>1,691</u>
	<u>\$ 40,006</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 2023 and 2022, 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 2023:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Equity investments/securities	\$273,820	\$ 3,646	\$ -	\$ -	\$ 277,466
Fixed income investments/securities	132,755	11,326	-	-	144,081
Private equity funds	79,586	-	-	-	79,586
Natural resources	5,440	-	-	-	5,440
Real estate	110,876	-	-	-	110,876
Hedge funds	217,226	-	-	-	217,226
Balanced funds	<u>20,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,892</u>
Total pooled investments	840,595	14,972	-	-	855,567
Nonpooled investments:					
Cash and cash equivalents	-	127,924	-	-	127,924
Equity investments/securities	-	53,741	-	-	53,741
Fixed income investments/securities	<u>-</u>	<u>41,895</u>	<u>210,729</u>	<u>-</u>	<u>252,624</u>
Total nonpooled investments	<u>-</u>	<u>223,560</u>	<u>210,729</u>	<u>-</u>	<u>434,289</u>
Total investments at fair value	<u>\$840,595</u>	<u>\$238,532</u>	<u>\$210,729</u>	<u>\$ -</u>	<u>\$ 1,289,856</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 1,621	\$ -	\$ -	\$ 1,621
Equity investments/securities	-	41,515	-	-	41,515
Fixed income investments/securities	-	19,071	-	-	19,071
Real estate	<u>-</u>	<u>604</u>	<u>-</u>	<u>-</u>	<u>604</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 62,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,811</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 2022:

	Measured at NAV or Equivalent	Level 1	Level 2	Level 3	Total
Pooled investments:					
Equity investments/securities	\$229,157	\$ 2,846	\$ -	\$ -	\$ 232,003
Fixed income investments/securities	125,669	10,696	-	-	136,365
Private equity funds	73,926	-	-	-	73,926
Natural resources	6,154	-	-	-	6,154
Real estate	97,528	-	-	-	97,528
Hedge funds	162,165	-	-	-	162,165
Balanced funds	<u>16,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,940</u>
Total pooled investments	711,539	13,542	-	-	725,081
Nonpooled investments:					
Cash and cash equivalents	-	169,939	-	-	169,939
Equity investments/securities	-	77,377	-	-	77,377
Fixed income investments/securities	<u>-</u>	<u>47,721</u>	<u>213,145</u>	<u>-</u>	<u>260,866</u>
Total nonpooled investments	<u>-</u>	<u>295,037</u>	<u>213,145</u>	<u>-</u>	<u>508,182</u>
Total investments at fair value	<u>\$711,539</u>	<u>\$308,579</u>	<u>\$213,145</u>	<u>\$ -</u>	<u>\$1,233,263</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 1,027	\$ -	\$ -	\$ 1,027
Equity investments/securities	-	37,662	-	-	37,662
Fixed income investments/securities	<u>-</u>	<u>16,535</u>	<u>-</u>	<u>-</u>	<u>16,535</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 55,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,224</u>

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2023, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Open-end funds	\$ 537,942	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	<u>302,653</u>	<u>142,285</u>	N/A	N/A
Total	<u>\$ 840,595</u>	<u>\$ 142,285</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 2022, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Open-end funds	\$ 448,037	\$ -	D/M/Q/A	Up to 90 days
Closed-end funds	<u>263,502</u>	<u>135,330</u>	N/A	N/A
Total	<u>\$ 711,539</u>	<u>\$ 135,330</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 2023 and 2022, 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 2023 and 2022, are as follows:

	2023	2022
Interest and dividends	\$ 24,003	\$ 16,173
Realized gains—net	7,169	49,211
Unrealized gains (losses)—net	30,806	(124,222)
Investment and banking fees	<u>(3,900)</u>	<u>(4,660)</u>
Total	<u>\$ 58,078</u>	<u>\$ (63,498)</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 2023 and 2022, 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 2023, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—beginning of year	\$64,337	\$534,619	\$598,956
Contributions	3,611	27,960	31,571
Investment return	5,192	42,021	47,213
Transfers to trustee-designated endowment funds	784	2,273	3,057
Conversion of split-interest agreements to endowment	-	714	714
Reserve against contributions receivable	635	(779)	(144)
Appropriation of endowment assets for expenditure	<u>(2,914)</u>	<u>(22,981)</u>	<u>(25,895)</u>
Endowment net assets—end of year	<u>\$71,645</u>	<u>\$583,827</u>	<u>\$655,472</u>

Changes in endowment net assets for the year ended 30 June 2022, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—beginning of year	\$71,539	\$569,559	\$641,098
Contributions	4,077	50,043	54,120
Investment return	(7,097)	(55,945)	(63,042)
Transfers to trustee-designated endowment funds	304	1,589	1,893
Conversion of split-interest agreements to endowment	-	1,476	1,476
Reserve against contributions receivable	(1,329)	(7,934)	(9,263)
Appropriation of endowment assets for expenditure	<u>(3,157)</u>	<u>(24,169)</u>	<u>(27,326)</u>
Endowment net assets—end of year	<u>\$64,337</u>	<u>\$534,619</u>	<u>\$598,956</u>

Endowment composition by net asset class as of 30 June 2023, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 583,827	\$ 583,827
Trustee-designated endowment funds	<u>71,645</u>	<u>-</u>	<u>71,645</u>
Endowment net assets—end of year	<u>\$ 71,645</u>	<u>\$ 583,827</u>	<u>\$ 655,472</u>

Endowment composition by net asset class as of 30 June 2022, is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 534,619	\$ 534,619
Trustee-designated endowment funds	<u>64,337</u>	<u>-</u>	<u>64,337</u>
Endowment net assets—end of year	<u>\$ 64,337</u>	<u>\$ 534,619</u>	<u>\$ 598,956</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 2023 and 2022, there are \$1,671 and \$3,877, respectively, of deficiencies.

7. RELATED-PARTY TRANSACTIONS

The Foundation received contributions of \$80 and \$185 for the years ended 30 June 2023 and 2022, 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:

	2023	2022
Staffing resources	\$ 37,094	\$ 34,135
Professional fees	6,660	5,293
Travel	3,022	1,486
Marketing, communications & publications	329	669
Event expenses	900	1,076
Information technology expenses	7,143	7,585
Postage & shipping	1,873	722
Recognition expenses	1,175	988
Occupancy	2,890	2,729
Insurance and taxes	432	391
Office equipment and supplies	706	590
Other expenses	<u>2,539</u>	<u>1,310</u>
Total	<u>\$ 64,763</u>	<u>\$ 56,974</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:

	2023	2022
PolioPlus program	\$ 1,895	\$ 1,738
Rotary grants	20,024	18,896
Development expenses	25,489	21,264
General administration	<u>17,355</u>	<u>15,076</u>
Total	<u>\$ 64,763</u>	<u>\$ 56,974</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 2023 and 2022, are as follows:

	2023	2022
Without donor restriction:		
Undesignated	\$ 462,348	\$ 458,396
Trustee-designated:		
PolioPlus program	40,726	38,371
Operating reserve fund	85,872	82,072
Endowment fund	<u>71,645</u>	<u>64,337</u>
Total net assets without donor restriction	<u>660,591</u>	<u>643,176</u>
With donor restriction:		
For Purpose and/or passage of time:		
PolioPlus program	26,262	25,331
Endowment fund earnings	119,857	101,208
Rotary grants	39,771	33,928
Endowment held in perpetuity:		
Annual fund	303,227	282,114
Rotary grants	157,150	149,124
PolioPlus program	1,385	1,382
Split-interest agreements	23,083	18,516
Other	<u>2,207</u>	<u>791</u>
Total net assets with donor restriction	<u>672,942</u>	<u>612,394</u>
Total net assets	<u>\$ 1,333,533</u>	<u>\$ 1,255,570</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 2023 and 2022, are as follows:

	2023	2022
PolioPlus program	\$ 147,201	\$ 107,142
Endowment Fund earnings appropriated for use	17,302	18,759
Rotary grants/other programs	42,337	43,687
Released due to passage of time	<u>3,657</u>	<u>1,848</u>
Total	<u>\$ 210,497</u>	<u>\$ 171,436</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 2018–2026. The Foundation recorded \$110,000 and 100,000 awards as contribution revenue in fiscal year 2023 and 2022, respectively, upon meeting the matching condition.

* * * * *