



Financial Statements and Report of Independent
Certified Public Accountants

The Rotary Foundation of Rotary International

30 June 2015 and 2014

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Trustees

The Rotary Foundation of Rotary International

We have audited the accompanying financial statements of The Rotary Foundation of Rotary International, which comprise the statements of financial position as of 30 June 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rotary Foundation of Rotary International as of 30 June 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
22 October 2015

The Rotary Foundation of Rotary International
STATEMENTS OF FINANCIAL POSITION
30 June 2015 and 2014
(In thousands of U.S. dollars)

	ASSETS		2015	2014
ASSETS				
Cash and cash equivalents	\$	58,058	\$	70,673
Pledges receivable, net		8,237		17,657
Prepaid expenses and other assets		2,754		4,028
Investments		968,384		911,920
Split-interest agreements		36,157		33,797
TOTAL ASSETS	\$	1,073,590	\$	1,038,075
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accrued program awards	\$	97,323	\$	64,241
Accounts payable, accrued expenses and deferred revenues		1,759		884
Split-interest agreements payable		21,003		19,207
Pension obligation		3,614		175
Due to Rotary International		3,870		1,603
Total liabilities		127,569		86,110
NET ASSETS				
Unrestricted		592,641		608,935
Temporarily restricted		73,081		81,668
Permanently restricted		280,299		261,362
Total net assets		946,021		951,965
TOTAL LIABILITIES AND NET ASSETS	\$	1,073,590	\$	1,038,075

The accompanying notes are an integral part of these statements.

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	\$ 131,595	\$ 117,329	\$ 19,979	\$ 268,903
Investment return, net	(6,178)	1,380	-	(4,798)
Grants and other activities, net	148	(281)	(656)	(789)
Net assets released from restrictions	127,401	(127,015)	(386)	-
Total revenues	252,966	(8,587)	18,937	263,316
Expenses				
Program awards and expenses				
PolioPlus program	125,899	-	-	125,899
Rotary grants	111,234	-	-	111,234
Other programs	8,075	-	-	8,075
Total program awards and expenses	245,208	-	-	245,208
Development expenses	15,804	-	-	15,804
General administration	4,854	-	-	4,854
Total expenses	265,866	-	-	265,866
Change in net assets before pension-related changes other than net periodic benefit cost	(12,900)	(8,587)	18,937	(2,550)
Pension-related changes other than net periodic benefit cost	(3,394)	-	-	(3,394)
Change in net assets	(16,294)	(8,587)	18,937	(5,944)
Net assets				
Beginning of year	608,935	81,668	261,362	951,965
End of year	\$ 592,641	\$ 73,081	\$ 280,299	\$ 946,021

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International
STATEMENT OF ACTIVITIES
Year ended 30 June 2014
(In thousands of U.S. dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	\$ 122,744	\$ 113,128	\$ 23,723	\$ 259,595
Investment return, net	67,549	40,642	-	108,191
Grants and other activities, net	222	2	3,044	3,268
Net assets released from restrictions	143,937	(143,819)	(118)	-
Total revenues	334,452	9,953	26,649	371,054
Expenses				
Program awards and expenses				
PolioPlus program	131,284	-	-	131,284
Rotary grants	91,850	-	-	91,850
Other programs	8,406	-	-	8,406
Total program awards and expenses	231,540	-	-	231,540
Development expenses	15,988	-	-	15,988
General administration	5,089	-	-	5,089
Total expenses	252,617	-	-	252,617
Change in net assets before pension-related changes other than net periodic benefit cost	81,835	9,953	26,649	118,437
Pension-related changes other than net periodic benefit cost	1,973	-	-	1,973
Change in net assets	83,808	9,953	26,649	120,410
Net assets				
Beginning of year	525,127	71,715	234,713	831,555
End of year	\$ 608,935	\$ 81,668	\$ 261,362	\$ 951,965

The accompanying notes are an integral part of this statement.

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

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

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International
STATEMENT OF FUNCTIONAL EXPENSES
Year ended 30 June 2014
(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	\$ 128,902	\$ 74,153	\$ 8,366	\$ 211,421	\$ -	\$ -	\$ 211,421
Salaries, benefits and payroll taxes	1,611	11,970	-	13,581	8,850	2,681	25,112
External services	215	1,596	-	1,811	1,322	381	3,514
Travel	119	880	-	999	1,234	1,075	3,308
Conferences, conventions and meetings	13	99	-	112	412	17	541
Media and public relations	3	23	-	26	131	2	159
Information technology and communications	181	1,345	-	1,526	565	400	2,491
Publications and printing	6	45	13	64	478	13	555
Postage, shipping and freight	26	192	24	242	728	61	1,031
Donor recognition	-	-	-	-	750	3	753
Cost of sales	6	45	-	51	19	13	83
Occupancy	147	1,092	-	1,239	451	324	2,014
Insurance, finance fees and taxes	16	122	3	141	813	36	990
General office and miscellaneous	39	288	-	327	235	83	645
Total expenses by natural classification	<u>\$ 131,284</u>	<u>\$ 91,850</u>	<u>\$ 8,406</u>	<u>\$ 231,540</u>	<u>\$ 15,988</u>	<u>\$ 5,089</u>	<u>\$ 252,617</u>

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International
STATEMENTS OF CASH FLOWS
Years ended 30 June 2015 and 2014
(In thousands of U.S. dollars)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (5,944)	\$ 120,410
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Endowment Fund contributions	(18,419)	(22,748)
Contributed securities	(17)	(20)
Foreign currency translation losses (gains), net	8,198	(531)
Realized gains on sale of investments, net	(43,244)	(28,658)
Unrealized losses (gains) on investments, net	49,881	(70,987)
Changes in assets and liabilities		
Pledges receivable, net	10,062	22,890
Prepaid expenses and other assets	1,274	(367)
Split-interest agreements	(2,360)	(3,236)
Accrued program awards	33,082	(1,590)
Accounts payable, accrued expenses and deferred revenues	875	(3,933)
Split-interest agreements payable	1,796	1,875
Pension obligation	3,439	175
Due to Rotary International	2,267	(2,567)
Net cash provided by operating activities	40,890	10,713
Cash flows from investing activities		
Purchase of investments	(1,621,816)	(820,340)
Proceeds from sale of investments	1,649,562	853,171
Change in short-term investments	(90,830)	(36,623)
Net cash used in investing activities	(63,084)	(3,792)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in Endowment Fund	17,777	22,422
Net cash provided by financing activities	17,777	22,422
Effect of exchange rate changes on cash	(8,198)	531
(Decrease) increase in cash and cash equivalents	(12,615)	29,874
Cash and cash equivalents, beginning of year	70,673	40,799
Cash and cash equivalents, end of year	\$ 58,058	\$ 70,673

The accompanying notes are an integral part of these statements.

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS
30 June 2015 and 2014
(In thousands of U.S. dollars)

NOTE A - NATURE OF OPERATIONS

The Rotary Foundation of Rotary International (the Foundation) is a corporation organized under the Illinois Not-for-Profit Corporation Act. The Foundation is funded solely by voluntary contributions from members and friends of Rotary who support its mission to advance world understanding, goodwill and peace. Using Rotary Foundation grants, Rotary's 34,000 clubs across the globe develop and carry out sustainable humanitarian projects and provide scholarships and professional training opportunities that promote peace, fight disease, provide clean water, sustain mothers and children, improve education, and strengthen local economies. In addition, the Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan and the United Kingdom. The associate foundations provide local Rotarians and/or other donors with tax benefits for charitable contributions under the applicable laws in each country. The financial activities conducted by the associate foundations are included in the statements of financial position and the related statements of activities, functional expenses and cash flows. Operating revenue of the Foundation is derived primarily from contributions and investment income.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include operating cash and liquid investments with an initial maturity of three months or less. These include interest-bearing accounts, money market mutual funds and fixed-term deposits, and are stated at cost, which approximates fair value. Cash equivalents consist of \$7,380 and \$11,721 as of 30 June 2015 and 2014, respectively. The Foundation maintains foreign and domestic cash accounts, including cash and cash equivalents of \$13,566 and \$17,966 as of 30 June 2015 and 2014, respectively, subject to certain repatriation restrictions imposed by local governments. The Foundation had domestic balances exceeding the Federal Deposit Insurance Corporation's insured limitations at 30 June 2015 and 2014. The Foundation believes it is not exposed to significant credit risk on cash and cash equivalents.

Pledges Receivable

The Foundation receives unconditional multi-year pledges ranging from one to 10 years. Management makes assumptions regarding the outstanding pledges and ultimate collectability of these receivables. Pledges receivable are recorded net of discounting for the present value of the expected future cash flows using a risk adjusted rate. As of 30 June 2015 and 2014, the present value discount is \$157 and \$208, respectively, and the allowance for uncollectible pledges is \$229 and \$253, respectively.

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS - CONTINUED
30 June 2015 and 2014
(In thousands of U.S. dollars)

Investments

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

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

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

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

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

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

Investments include assets of the Donor Advised Fund (DAF), which accepts irrevocable contributions and offers individuals and Rotary-affiliated groups the flexibility to recommend grants to either the Foundation or other unaffiliated Internal Revenue Service (IRS)-approved charities. Grants are subject to approval by the Foundation Trustees. The Foundation recognizes revenue when assets are contributed to the DAF. Grants made to other organizations from the DAF are recorded as program awards.

The Foundation maintains foreign and domestic investment accounts, including investments of \$4,717 as of 30 June 2015, subject to certain repatriation restrictions imposed by local governments. There were no such investment accounts as of 30 June 2014.

Split-interest Agreements

The Foundation is the trustee or custodian, beneficiary and charitable remainderman of trusts and charitable annuities held for the benefit of others and the Foundation for various specified terms. These funds are held in charitable remainder unitrusts, a charitable gift annuity account and a pooled income fund. Assets received under these agreements are recorded at fair value and the contribution portion of these agreements is recognized as revenue when received. Liabilities incurred as a result of these agreements are measured based on the present value of the expected future payments to be made to the named beneficiaries using various

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS - CONTINUED
30 June 2015 and 2014
(In thousands of U.S. dollars)

discount rates and actuarial assumptions reflecting the terms of the agreements and the estimated time of receipt. The Foundation's policy is to perform a valuation of the split-interest agreement liabilities annually. The valuation adjustment for these liabilities as of 30 June 2015 and 2014 resulted in an expense of \$894 and \$1,563, respectively.

Endowments

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

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

Accrued Program Awards

The Foundation records the full amount of program awards upon specific designation of award recipients in the year for which they are approved. Awards designated but not yet paid are included in accrued program awards in the accompanying statements of financial position.

Due to Rotary International

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

Net Assets

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

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

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS - CONTINUED
30 June 2015 and 2014
(In thousands of U.S. dollars)

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

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

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

Revenue Recognition

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

Tax Status

The Foundation has received a favorable determination letter from the IRS, stating that the Foundation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, except for income taxes pertaining to unrelated business income.

The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain positions that require recognition in the financial statements. Additionally, no provision for income taxes is reflected and there is no interest or penalties recognized in the statements of activities or statements of financial position. The fiscal years ended 2012, 2013, 2014 and 2015 are still open to audit for federal and Illinois purposes.

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 in the change in net assets.

Risks and Uncertainties

The Foundation has investments in invested cash and short-term investments, debt and equity securities, and alternative investments that are exposed to various risks, such as interest rate, market and credit. Due to the

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS - CONTINUED
30 June 2015 and 2014
(In thousands of U.S. dollars)

level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements.

Reclassifications

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

Recent Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, “*Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*,” which exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, “*Fair Value Measurement*,” from categorization within the fair value hierarchy and related disclosures. This ASU requires presentation of the carrying amount of investments measured using the NAV practical expedient as a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements. The ASU is effective for the Foundation for fiscal year 2018. However, early adoption is permitted, and the Foundation adopted the ASU for fiscal year 2015, with retrospective application. The revised disclosures are included in note C to the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*,” which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The guidance is currently effective for the Foundation for fiscal year 2018 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The adoption of ASU 2014-09 is not expected to have material impact on the Foundation’s financial statements.

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS - CONTINUED
30 June 2015 and 2014
(In thousands of U.S. dollars)

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of 30 June 2015
Investments at fair value				
Invested cash and short-term investments (a)	\$ 145,156	\$ -	\$ -	\$ 145,156
Equity (b)	31,212	-	-	31,212
Fixed income (c)	126,030	1,029	-	127,059
Exchange traded funds (d)	19,185	-	-	19,185
Mutual funds (e)	297,872	-	-	297,872
Mutual funds, measured at NAV (e)	-	-	-	39,468
Commingled funds, measured at NAV (f)	-	-	-	33,702
Limited liability companies, measured at NAV (g)	-	-	-	93,883
Private equity funds, measured at NAV (h)	-	-	-	33,037
Real estate funds, measured at NAV (i)	-	-	-	62,225
Hedge funds, measured at NAV (j)	-	-	-	77,892
Total investments at fair value	<u>\$ 619,455</u>	<u>\$ 1,029</u>	<u>\$ -</u>	960,691
Investments not at fair value (k)				<u>7,693</u>
Total investments				<u>\$ 968,384</u>
Split-interest agreements				
Invested cash and short-term investments	\$ 841	\$ -	\$ -	\$ 841
Fixed income	-	1,022	-	1,022
Exchange traded funds	34,219	-	-	34,219
Mutual funds	75	-	-	75
Total split-interest agreements at fair value	<u>\$ 35,135</u>	<u>\$ 1,022</u>	<u>\$ -</u>	<u>36,157</u>

The Rotary Foundation of Rotary International
NOTES TO FINANCIAL STATEMENTS - CONTINUED
30 June 2015 and 2014
(In thousands of U.S. dollars)

The fair values of the Foundation's financial assets that are measured on a recurring basis are as follows as of 30 June 2014:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of 30 June 2014
Investments at fair value				
Invested cash and short-term investments (a)	\$ 59,050	\$ -	\$ -	\$ 59,050
Equity (b)	42,685	-	-	42,685
Fixed income (c)	95,964	1,413	-	97,377
Exchange traded funds (d)	17,559	-	-	17,559
Mutual funds (e)	294,795	-	-	294,795
Mutual funds, measured at NAV (e)	-	-	-	39,941
Commingled funds, measured at NAV (f)	-	-	-	46,409
Limited liability companies, measured at NAV (g)	-	-	-	164,778
Private equity funds, measured at NAV (h)	-	-	-	28,120
Real estate funds, measured at NAV (i)	-	-	-	62,242
Hedge funds, measured at NAV (j)	-	-	-	55,960
Total investments at fair value	<u>\$ 510,053</u>	<u>\$ 1,413</u>	<u>\$ -</u>	908,916
Investments not at fair value (k)				<u>3,004</u>
Total investments				<u>\$ 911,920</u>
Split-interest agreements				
Invested cash and short-term investments	\$ 746	\$ -	\$ -	\$ 746
Fixed income	-	989	-	989
Exchange traded funds	25,860	-	-	25,860
Mutual funds	6,202	-	-	6,202
Total split-interest agreements at fair value	<u>\$ 32,808</u>	<u>\$ 989</u>	<u>\$ -</u>	<u>33,797</u>

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

Investments categorized as Level 2 include: certain fixed income instruments, primarily corporate bonds, mortgage backed securities and collateralized mortgage obligations valued primarily using matrix and/or market corroborated pricing.

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

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

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

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

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

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

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

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

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

(j) Hedge funds include various hedge funds that pursue multiple global strategies to diversify risks and reduce volatility. The fair values of the investments in this category have been estimated using the NAV per share of the investments. A full redemption has been requested from one of the fund managers in fiscal year 2009, and proceeds continue to be distributed as available when the underlying managers have been able to provide

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liquidity. Another fund that was previously in bankruptcy is in liquidation proceedings, with all assets in cash pending distribution to creditors and investors. In fiscal year 2006, the Foundation recorded a valuation reserve of \$16,000 on a cost basis of \$25,640. During fiscal years 2015 and 2014, distributions of \$1,717 and \$13,060 were received and realized gain of \$1,717 and \$3,420, respectively, were recorded. Further distributions may be made in the future that will result in additional gains.

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

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

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

Foundation investments reported at NAV or its equivalent as of 30 June 2014 include: certain mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Mutual funds	\$ 39,941	\$ -	Daily	Daily
Commingled funds	46,409	-	Monthly	22nd day of preceding month
Limited liability companies	164,778	-	Daily/twice monthly/monthly	8th or 22nd of current month/15 days
Private equity funds	28,120	23,879	-	-
Real estate funds	62,242	-	Quarterly	60-90 days
Hedge funds	55,960	-	Monthly/quarterly	30-65 days/not <5 days before end of month
Total	<u>\$ 397,450</u>	<u>\$ 23,879</u>		

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At 30 June 2015 and 2014, the Foundation had investments in bonds in the amount of \$26,261 and \$48,866, respectively, denominated in currencies other than the U.S. dollar. Accrued interest and dividends are included in total investments.

The components of investment return, net for the years ended 30 June 2015 and 2014 are as follows:

	2015	2014
Interest and dividends	\$ 13,339	\$ 11,324
Realized gains, net	43,244	28,658
Unrealized (losses) gains, net	(49,881)	70,987
Investment and banking fees	(3,415)	(3,370)
Currency (losses) gains, net	(8,085)	592
Total	\$ <u>(4,798)</u>	\$ <u>108,191</u>

NOTE D - ENDOWMENTS

Effective July 2013, the Trustees modified the spending policy from endowed gifts. Based on the new spending policy approved by the Trustees, annual spending occurs each year from those endowed gifts where the market value is at least 90% of the accumulated gift value based on a tiered spending rate structure. In accordance with UPMIFA, the Foundation considers the following factors in making a determination for the spending rate for endowment funds: the duration and preservation of the fund, the mission of the Foundation and the purposes of the donor-restricted endowment funds, the investment policy, general economic conditions, possible effects of inflation and deflation, and the expected total return from income and appreciation of investments. The Trustees approved tiered spending rates between 2.0% and 5.0% for fiscal years 2015 and 2014.

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

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

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

Changes in endowment net assets for the year ended 30 June 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 6,539	\$ 43,138	\$ 221,484	\$ 271,161
Investment return				
Interest, dividends and investment fees, net	152	2,545	-	2,697
Realized and unrealized gains, net	2,416	38,064	-	40,480
Total investment return	2,568	40,609	-	43,177
Contributions	-	-	22,748	22,748
Transfer of funds	8,515	-	-	8,515
Conversion of split-interest agreements to endowment	-	-	2,747	2,747
Modifications to endowment agreements and pledge write offs	-	-	(118)	(118)
Appropriation of endowment assets for expenditure	-	(9,985)	-	(9,985)
Endowment net assets, end of year	\$ 17,622	\$ 73,762	\$ 246,861	\$ 338,245

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

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

Endowment composition by net asset class as of 30 June 2014 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ -	\$ 73,762	\$ 246,861	\$ 320,623
Trustee-designated endowment funds	17,622	-	-	17,622
Endowment net assets, end of year	<u>\$ 17,622</u>	<u>\$ 73,762</u>	<u>\$ 246,861</u>	<u>\$ 338,245</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. The Foundation is required to transfer funds from unrestricted net assets to temporarily restricted net assets when deficiencies result from unfavorable market fluctuations. The required transfer is the amount by which the fair value of the assets at fiscal year-end is less than the level required by donor stipulations in order to retain as a fund of perpetual duration. Deficiencies totaled \$27 as of 30 June 2015. There were no deficiencies as of 30 June 2014.

NOTE E - RELATED-PARTY TRANSACTIONS

The Foundation received contributions of \$319 and \$5,357 for the years ended 30 June 2015 and 2014, respectively, from Rotary International.

In addition, Rotary International charges the Foundation for expenses incurred on the Foundation's behalf in accordance with an administrative services agreement dated 7 May 2015. Boards of each entity meet annually to adjust the agreement as needed.

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These expense allocations flow through intercompany accounts of the two entities and are as follows for the years ended 30 June 2015 and 2014:

	2015	2014
Salaries, benefits and payroll taxes	\$ 25,338	\$ 25,112
External services	3,117	3,514
Travel	3,241	3,308
Conferences, conventions and meetings	603	541
Media and public relations	45	159
Information technology and communications	3,057	2,491
Publications and printing	458	555
Postage, shipping and freight	1,027	1,031
Donor recognition	790	753
Cost of sales	56	83
Occupancy	2,244	2,014
Insurance, finance fees and taxes	862	990
General office and miscellaneous	706	645
	<u>41,544</u>	<u>41,196</u>
Total	\$ <u>41,544</u>	\$ <u>41,196</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 2015 and 2014:

	2015	2014
PolioPlus program	\$ 2,476	\$ 2,382
Rotary grants	18,388	17,697
Other programs	22	40
Development expenses	15,804	15,988
General administration	4,854	5,089
	<u>41,544</u>	<u>41,196</u>
Total	\$ <u>41,544</u>	\$ <u>41,196</u>

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

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NOTE F - NET ASSETS

The components of the Foundation's net assets as of 30 June 2015 and 2014 are as follows:

	2015	2014
Unrestricted		
Undesignated	\$ 432,974	\$ 426,342
Trustee-designated		
PolioPlus	80,324	97,791
Operating reserve fund	60,765	67,053
Endowment Fund	18,451	17,622
Areas of focus/term gifts	127	127
Total unrestricted net assets	592,641	608,935
Temporarily restricted		
Endowment Fund earnings awaiting appropriation	62,770	73,762
Areas of focus/term gifts	10,311	7,906
Total temporarily restricted net assets	73,081	81,668
Permanently restricted		
Annual fund	179,039	168,530
Rotary grants	84,262	76,351
PolioPlus program	200	200
Split-interest agreements	15,065	14,501
Other	1,733	1,780
Total permanently restricted net assets	280,299	261,362
Total net assets	\$ 946,021	\$ 951,965

Net assets released from temporary restrictions by incurring expenses, which satisfied donor restrictions for the years ended 30 June 2015 and 2014 are as follows:

	2015	2014
PolioPlus	\$ 98,025	\$ 124,371
Endowment Fund earnings appropriated for use	9,099	7,719
Areas of focus/term gifts	19,147	11,367
Endowment modifications	183	-
Prior-year pledges received	561	362
Total	\$ 127,015	\$ 143,819

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Net assets released from permanent restrictions through modifications to endowment agreements and pledge write offs and allowance for the years ended 30 June 2015 and 2014 are as follows:

	2015	2014
Endowment modifications	\$ 300	\$ -
Pledge write offs and allowance	86	118
Total	\$ <u>386</u>	\$ <u>118</u>

NOTE G - THE BILL & MELINDA GATES FOUNDATION GRANT

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

Through the six-year period ended 30 June 2013, the Foundation received the total grant award of \$355,120 from BMGF and recorded this as temporarily restricted revenue. The addendum had provisions whereby the Foundation was responsible for separately raising \$200,000 by 30 June 2012, which was accomplished by 31 December 2011.

In September 2011, the Foundation and BMGF signed an addendum to the agreement for an additional grant award from BMGF of \$50,090 subject to revised contingencies. The contingencies to the September 2011 grant award were met in October 2012; therefore, the additional \$50,090 award was recorded as revenue during fiscal year 2013 and was received in full by January 2015.

In June 2013, the Foundation and BMGF signed another addendum for an additional grant award from BMGF of up to \$350,000 subject to revised contingencies. The addendum provides a 2:1 match for new spending from non-BMGF funds, with a match of up to \$70,000 per calendar year for five years. The Foundation recorded a \$70,000 award as revenue between fiscal years 2013 and 2014 for spending non-BMGF funds during calendar year 2013. The Foundation also recorded a \$70,000 award as revenue between fiscal years 2014 and 2015 for spending non-BMGF funds during calendar year 2014.

NOTE H - SUBSEQUENT EVENTS

Management considered subsequent events through 22 October 2015, 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.