

**FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
THE ROTARY FOUNDATION OF  
ROTARY INTERNATIONAL  
30 JUNE 2011**

## CONTENTS

	<b>Page</b>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS .....	3
 <b>FINANCIAL STATEMENTS</b>	
STATEMENT OF FINANCIAL POSITION.....	4
STATEMENT OF ACTIVITIES .....	5
STATEMENT OF FUNCTIONAL EXPENSES.....	6
STATEMENT OF CASH FLOWS .....	7
NOTES TO FINANCIAL STATEMENTS.....	8



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit - Tax - Advisory

Grant Thornton LLP  
175 W Jackson Boulevard, 20th Floor  
Chicago, IL 60604-2687

T 312.856.0200  
F 312.565.4719  
[www.GrantThornton.com](http://www.GrantThornton.com)

Trustees  
The Rotary Foundation of Rotary International

We have audited the accompanying statement of financial position of The Rotary Foundation of Rotary International (the "Foundation") as of 30 June 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 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 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Chicago, Illinois  
30 September 2011

**The Rotary Foundation of Rotary International**  
**STATEMENT OF FINANCIAL POSITION**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

<b>ASSETS</b>	
<b>ASSETS</b>	
Cash and cash equivalents	\$ 53,183
Pledges receivable, net	2,541
Prepaid expenses and other assets	3,810
Investments	764,141
Split-interest agreements	<u>28,781</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>852,456</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accrued program awards	\$ 37,261
Accounts payable and accrued expenses	3,092
Split-interest agreements payable	16,009
Due to Rotary International	<u>1,127</u>
Total liabilities	57,489
<b>NET ASSETS</b>	
Unrestricted	496,430
Temporarily restricted	101,818
Permanently restricted	<u>196,719</u>
Total net assets	794,967
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>852,456</u></b>

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2011**  
**(In thousands of U.S. dollars)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues</b>				
Contributions	\$ 109,256	\$ 82,942	\$ 16,289	\$ 208,487
Net investment return	84,729	32,104	-	116,833
Grants and other activities, net	313	-	2,408	2,721
Net assets released from restrictions	83,931	(83,931)	-	-
<b>Total revenues</b>	<b>278,229</b>	<b>31,115</b>	<b>18,697</b>	<b>328,041</b>
<b>Expenses</b>				
<b>Program awards and expenses</b>				
Educational programs	21,794	-	-	21,794
Humanitarian programs	47,472	-	-	47,472
PolioPlus program	77,870	-	-	77,870
Global grants	12,826	-	-	12,826
District grants	6,295	-	-	6,295
Other programs	2,384	-	-	2,384
<b>Total program awards and expenses</b>	<b>168,641</b>	<b>-</b>	<b>-</b>	<b>168,641</b>
Development expenses	17,499	-	-	17,499
General administration	5,694	-	-	5,694
<b>Total expenses</b>	<b>191,834</b>	<b>-</b>	<b>-</b>	<b>191,834</b>
Change in net assets before pension-related changes	86,395	31,115	18,697	136,207
Pension-related changes	1,290	-	-	1,290
<b>Change in net assets</b>	<b>87,685</b>	<b>31,115</b>	<b>18,697</b>	<b>137,497</b>
<b>Net assets</b>				
Beginning of year, as previously reported	369,941	108,498	179,031	657,470
Restatement (see note I)	38,804	(37,795)	(1,009)	-
Beginning of year, as restated	408,745	70,703	178,022	657,470
End of year	\$ 496,430	\$ 101,818	\$ 196,719	\$ 794,967

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended 30 June 2011**  
**(In thousands of U.S. dollars)**

	Program awards and expenses						Supporting services			Total expenses
	Educational programs	Humanitarian programs	PolioPlus programs	Global grants	District grants	Other programs	Total program awards and expenses	Development expenses	General administration	
Expenses by natural classification										
Program awards	\$ 16,592	\$ 40,547	\$ 75,620	\$ 9,310	\$ 6,064	\$ 2,114	\$ 150,247	\$ -	\$ -	\$ 150,247
Salaries, benefits and payroll taxes	3,766	5,266	1,130	2,631	231	224	13,248	10,861	2,090	26,199
External services	249	355	341	229	-	-	1,174	695	734	2,603
Travel	351	238	420	166	-	20	1,195	879	1,910	3,984
Conferences, conventions and meetings	29	34	14	21	-	-	98	589	82	769
Media and public relations	112	160	198	112	-	3	585	410	72	1,067
Information technology and communications	174	247	61	166	-	-	648	474	121	1,243
Publications and printing	71	25	14	22	-	15	147	327	129	603
Postage, shipping and freight	122	146	19	30	-	8	325	904	68	1,297
Recognition	-	-	-	-	-	-	-	1,062	9	1,071
Cost of sales	-	-	-	-	-	-	-	-	69	69
Occupancy	215	302	21	60	-	-	598	565	38	1,201
Insurance, finance fees and taxes	18	26	4	10	-	-	58	480	209	747
General office and miscellaneous	95	126	28	69	-	-	318	253	163	734
Total expenses by natural classification	\$ <u>21,794</u>	\$ <u>47,472</u>	\$ <u>77,870</u>	\$ <u>12,826</u>	\$ <u>6,295</u>	\$ <u>2,384</u>	\$ <u>168,641</u>	\$ <u>17,499</u>	\$ <u>5,694</u>	\$ <u>191,834</u>

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**STATEMENT OF CASH FLOWS**  
**Year ended 30 June 2011**  
**(In thousands of U.S. dollars)**

Cash flows from operating activities	
Change in net assets	\$ 137,497
Adjustments to reconcile change in net assets to net cash flows used in operating activities	
Permanent Fund contributions	(15,427)
Contributed securities	(548)
Foreign currency translation gains	(5,801)
Realized gains on sale of investments, net	(12,629)
Unrealized gains on investments, net	(90,255)
Changes in assets and liabilities	
Pledges receivable, net	309
Prepaid expenses and other assets	(164)
Split-interest agreements	(4,352)
Accrued program awards	(14,218)
Accounts payable and accrued expenses	(1,287)
Split-interest agreements payable	1,350
Due to Rotary International	(2,175)
	<hr/>
Net cash used in operating activities	(7,700)
Cash flows from investing activities	
Purchase of investments	(851,317)
Proceeds from sale of investments	863,790
Change in short-term investments	(17,113)
	<hr/>
Net cash used in investing activities	(4,640)
Cash flows from financing activities	
Proceeds from contributions restricted for investment in Permanent Fund	13,859
	<hr/>
Net cash provided by financing activities	13,859
Effect of exchange rate changes on cash	5,801
	<hr/>
Increase in cash and cash equivalents	7,320
Cash and cash equivalents, beginning of year	45,863
	<hr/>
Cash and cash equivalents, end of year	\$ 53,183
	<hr/>

The accompanying notes are an integral part of this statement.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS**  
**30 June 2011**  
**(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 supports the efforts of Rotary International to achieve world understanding and peace through polio eradication and international humanitarian, educational and cultural exchange programs. The Foundation’s operations include educational, cultural exchange and humanitarian programs; fund development and donor services; and investment of funds. Operating revenue 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.

***Associate Foundations***

The Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan and the United Kingdom. The associate foundations provide local Rotarians and other donors with tax benefits for charitable contributions under the laws in each country, except Brazil where the laws do not allow for individuals to have charitable deductions. The associate foundations accept contributions and make program disbursements on behalf of the Foundation. The financial activities conducted by the associate foundations on behalf of the Foundation are included in the statement of financial position and the related statements of activities, functional expenses and cash flows.

***Cash and Cash Equivalents***

Cash and cash equivalents include operating cash and liquid investments with an initial maturity of three months or less, including interest-bearing accounts, money market mutual funds and fixed-term deposits, and are stated at cost, which approximates fair value. The Foundation maintains foreign and domestic cash accounts, including cash and cash equivalents of \$23,680 as of 30 June 2011, 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 2011. The Foundation believes it is not exposed to significant credit risk on cash and cash equivalents.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Pledges Receivable***

The Foundation receives unconditional multi-year pledges ranging from one to ten years. Management makes assumptions regarding the outstanding pledges and ultimate collectibility 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 2011, the present value discount is \$110 and the allowance for uncollectible pledges is \$113.

***Investments***

Investments are carried at fair value and are primarily based on quoted market prices, except for certain alternative investments totaling \$99,071 at 30 June 2011. Alternative investments include private equity, real estate, and hedge funds, for which quoted market prices are not readily available. The estimated fair value of private equity and real estate investments is based on quarterly valuations and other data provided by external investment fund managers, updated for capital calls and distributions and other market activity for the most current fiscal quarter. Hedge funds are valued on a monthly basis. The valuations for these alternative investments involve appraisals, assumptions, and methods that are reviewed by management.

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-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.

Fair value is the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The accounting guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels.

***Level 1*** - Inputs are quoted prices in active markets for identical assets or liabilities that the Foundation has access to on the measurement date. The quoted prices provide the most reliable evidence, except when a significant event occurs that may affect the fair value measurement.

***Level 2*** - Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly. Level 2 inputs include: quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield; and inputs that are derived from principally observable market data by correlation or other means (market-corroborated inputs). Included in Level 2 are investments measured using a net asset value (“NAV”) per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 90 days.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Investments - Continued***

**Level 3** - One or more unobservable inputs, which are deemed significant to the determination of the fair value, for which there is little or no market data available. Unobservable inputs reflect the Foundation's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) and are developed based on the best information available. Included in Level 3 are investments measured using NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

***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 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 2011 resulted in an expense of \$1,128.

***Financial Instruments***

The Foundation, from time to time, enters into foreign exchange option and forward contracts for the purpose of managing foreign exchange risk. There were no outstanding foreign exchange option and forward contracts as of 30 June 2011.

***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 statement of financial position.

***Due to Rotary International***

Rotary International and the Foundation handle certain fiscal matters of 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.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***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 Rotary districts and clubs, Rotarians and others.

Unrestricted net assets that are Trustee-designated represent amounts that have been designated for specific programs or uses including polio eradication, the endowment fund, and disaster recovery and term gifts. These assets also include the operating reserves which supports the Foundation's operating expenses in the event that current year investment earnings are inadequate, and program reserves made up of accumulated investment earnings on unrestricted and temporarily restricted donations.

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, disaster recovery 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 is a qualified not-for-profit organization exempt from income tax under section 501(c)(3) of the Internal Revenue Code, but is subject to U.S. tax on any unrelated business income. The Foundation applied the uncertain tax position guidance, as required by U.S. GAAP, to all tax positions for which the statute of limitations would remain open and determined there were no material unrecognized tax liabilities or benefits. The tax years ended 2008, 2009, and 2010 are still open to audit for federal purposes. The tax years ended 2007, 2008, 2009, and 2010 are still open to audit for state purposes.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***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 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.

***Recent Accounting Pronouncements Adopted***

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06 ("ASU 2010-06"), "*Improving Disclosures about Fair Value Measurements*," which, among other things, amends Accounting Standards Codification 820. ASU 2010-06 clarifies existing disclosures and requires new disclosures about fair value measurements. The Foundation adopted these new provisions as of 30 June 2011, and has included the required disclosures in the footnotes in the accompanying financial statements.

In January 2010, the FASB issued ASU 2010-07, "*Not-for-Profit Entities: Mergers and Acquisitions*," which provides guidance on accounting for mergers and acquisitions of not-for-profit entities. ASU 2010-07 is effective for transactions occurring on or after 15 December 2009. The Foundation adopted ASU 2010-07 with no impact on the accompanying financial statements.

In July 2010, the FASB issued ASU 2010-20, "*Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*." ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures are effective for annual reporting periods ending on or after 15 December 2010. The Foundation adopted ASU 2010-20 with no impact on the accompanying financial statements.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
(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 2011:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
<b>Assets</b>				
<b>Investments at fair value</b>				
Invested cash and short-term investments (a)	\$ 20,252	\$ -	\$ -	\$ 20,252
Equity (b)	58,248	-	48	58,296
Fixed income (c)	128,355	3,593	-	131,948
Exchange traded funds (d)	8,991	-	-	8,991
Mutual funds (e)	207,746	-	-	207,746
Commingled funds (f)	-	74,054	-	74,054
Limited liability companies (g)	-	147,076	-	147,076
Private equity funds (h)	53	-	17,353	17,406
Real estate funds (i)	-	-	49,033	49,033
Hedge funds (j)	-	-	32,632	32,632
<b>Total investments at fair value</b>	<b>\$ 423,645</b>	<b>\$ 224,723</b>	<b>\$ 99,066</b>	<b>747,434</b>
<b>Investments not at fair value</b>				<b>16,707</b>
<b>Total investments</b>				<b>\$ 764,141</b>
<b>Split-interest agreements</b>				
Exchange traded funds	\$ 28,507	\$ -	\$ -	\$ 28,507
<b>Total split-interest agreements at fair value</b>	<b>\$ 28,507</b>	<b>\$ -</b>	<b>\$ -</b>	<b>28,507</b>
<b>Split-interest agreements not at fair value</b>				<b>274</b>
<b>Total split-interest agreements</b>				<b>\$ 28,781</b>

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued**

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

Investments categorized as Level 2 include: certain fixed income instruments, primarily corporate bonds, international bonds, asset-backed securities, non-exchange traded funds, limited liability companies, commingled funds, and U.S. agency bonds, valued primarily using matrix and/or market corroborated pricing.

Investments categorized as Level 3 include: certain equity, hedge funds, private equity funds and real estate funds.

(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.

(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. Investors own shares of the fund and are provided a NAV per share, as previously defined, on a regular basis. 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 that mutual and commingled funds do, and are provided with regular NAV reporting.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
(In thousands of U.S. dollars)

**NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued**

(h) Private equity funds include several funds that invest globally. Capital is committed to these investments and 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 Board of Trustees on a quarterly basis. Redemptions of the closed-ended fund have been suspended until the fund's outstanding credit facility is repaid; per the fund manager, this is anticipated in the first calendar quarter of 2013.

(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, and proceeds have been distributed as the underlying managers have been able to provide liquidity. Another fund is in bankruptcy, with all assets in cash pending distribution to creditors and investors. In fiscal year 2006, the Foundation recorded a valuation reserve of \$16 million on a cost basis of \$26 million and has not received any distributions from this fund as of 30 June 2011.

For fair value measurements using significant unobservable inputs (Level 3), the changes for the fiscal year ended 30 June 2011 are as follows:

	Equity	Private equity funds	Real estate funds	Hedge Funds	Total
Beginning balance	\$ -	\$ 13,479	\$ 39,261	\$ 25,353	\$ 78,093
Realized gains	-	500	-	67	567
Unrealized (losses) gains	(827)	1,706	9,563	1,690	12,132
Purchases	-	4,945	4,670	10,618	20,233
Sales	-	(3,277)	(4,461)	(5,096)	(12,834)
Transfers in	875	-	-	-	875
Ending balance	<u>\$ 48</u>	<u>\$ 17,353</u>	<u>\$ 49,033</u>	<u>\$ 32,632</u>	<u>\$ 99,066</u>

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

**NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued**

Foundation investments reported at NAV as of 30 June 2011 include: exchange traded funds, 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
<b>Investments</b>				
Exchange traded funds (d)	\$ 8,991	\$ -	Daily	-
Mutual funds (e)	207,746	-	Daily	-
Commingled funds (f)	74,054	-	Daily/monthly	22 <sup>nd</sup> day of preceding month
Limited liability companies (g)	147,076	-	Daily/monthly	2 business days before end of month
Private equity funds (h)	17,406	20,924	-	-
Real estate funds (i)	49,033	-	Quarterly	60-90 days
Hedge funds (j)	32,632	-	Monthly/quarterly	30-90 days/not <5 days before end of month
Total	<u>\$ 536,938</u>	<u>\$ 20,924</u>		

At 30 June 2011, the Foundation has investments in bonds in the amount of \$27,718 denominated in currencies other than the U.S. dollar. Accrued interest and dividends are included in total investments.

The components of net investment return for the fiscal year ended 30 June 2011 are as follows:

Interest and dividends	\$ 10,239
Realized gains, net	12,629
Unrealized gains, net	90,255
Investment and banking fees	(2,004)
Currency gains, net	<u>5,714</u>
Total	<u>\$ 116,833</u>

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE D - ENDOWMENTS**

The Foundation's endowment (known as the Permanent Fund) comprises donor-restricted and trustee-designated endowment funds. The primary objective of the Permanent Fund is to support the programs of the Foundation in perpetuity. 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 is classified as temporarily restricted net assets until it has been appropriated for expenditure by the Foundation and has met any purpose restrictions. The amount of the fund that is trustee-designated is classified as unrestricted net assets. A portion of the Permanent 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 Permanent 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 Permanent 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 Advisory Committee. Assets of the Permanent Fund are invested to ensure that capital is preserved and enhanced over time, both in real and nominal terms. The investment policy for the Permanent 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.

In June 2010, the Trustees approved a new spending policy beginning in fiscal year 2011, in which annual spending will occur each year from those endowed gifts where the market values exceed their accumulated gift values. The Trustees approved a spending rate for fiscal year 2011 of 4.5%.

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

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
(In thousands of U.S. dollars)

**NOTE D - ENDOWMENTS - Continued**

Changes in endowment net assets for the fiscal year ended 30 June 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, as previously reported	\$ -	\$ 8,181	\$ 169,269	\$ 177,450
Restatement (see note I)	(5,547)	6,556	(1,009)	-
Endowment net assets, beginning of year, as restated	(5,547)	14,737	168,260	177,450
Investment return				
Interest, dividends and investment fees, net	36	1,788	-	1,824
Realized and unrealized gains, net	8,600	30,316	-	38,916
Total investment return	8,636	32,104	-	40,740
Contributions	-	-	15,426	15,426
Transfer of funds	596	-	-	596
Conversion of split-interest agreements to endowment	-	-	261	261
Appropriation of endowment assets for expenditure	-	(5,745)	-	(5,745)
Endowment net assets, end of year	\$ <u>3,685</u>	\$ <u>41,096</u>	\$ <u>183,947</u>	\$ <u>228,728</u>

Endowment composition by net asset class as of 30 June 2011 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (768)	\$ 41,096	\$ 183,947	\$ 224,275
Trustee-designated endowment funds	4,453	-	-	4,453
Endowment net assets, end of year	\$ <u>3,685</u>	\$ <u>41,096</u>	\$ <u>183,947</u>	\$ <u>228,728</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 the Uniform Prudent Management of Institutional Funds Act 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. These deficiencies totaled \$768 as of 30 June 2011.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE E - ROTARY INTERNATIONAL REIMBURSEMENTS**

In accordance with an administrative services agreement dated 14 April 2009, Rotary International charges the Foundation for expenses incurred on its behalf. Both Boards 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 year ended 30 June 2011:

Salaries, benefits and payroll taxes	\$ 14,694
External services	1,723
Travel	1,122
Conferences, conventions and meetings	164
Media and public relations	798
Information technology and communications	1,221
Publications and printing	117
Postage, shipping and freight	572
Occupancy	1,202
Insurance, finance fees and taxes	114
General office and miscellaneous	<u>589</u>
Total	<u>\$ 22,316</u>

The Foundation allocates these costs based on staff resources required to support each functional area. These amounts are allocated as follows for the year ended 30 June 2011:

Educational programs	\$ 3,429
Humanitarian programs	4,845
PolioPlus program	836
Future Vision programs	2,275
Development expenses	9,469
General administration	<u>1,462</u>
Total	<u>\$ 22,316</u>

All employees are employed by Rotary International and the compensation and benefit expenses are allocated to the Foundation, including \$1,290 of pension-related changes.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE F - NET ASSETS**

The components of the Foundation's net assets as of 30 June 2011 are as follows:

Unrestricted	\$ 377,299
Undesignated	
Trustee-designated	
PolioPlus	84,618
Operating reserve fund	50,000
Programs reserve	(21,215)
Permanent Fund	4,453
Disaster recovery/term gifts	<u>1,275</u>
Total unrestricted net assets	496,430
Temporarily restricted	
PolioPlus	55,938
Permanent Fund earnings awaiting appropriation	41,096
Disaster recovery/term gifts	<u>4,784</u>
Total temporarily restricted net assets	101,818
Permanently restricted	
Annual programs fund	131,763
Educational programs	42,324
Humanitarian programs	5,706
Global grants	701
PolioPlus program	175
Other	3,279
Split-interest agreements	<u>12,771</u>
Total permanently restricted net assets	196,719
Total net assets	<u>\$ 794,967</u>

Net assets released from restrictions by incurring expenses which satisfied donor restrictions for the fiscal year ended 30 June 2011 are as follows:

PolioPlus	\$ 77,011
Permanent Fund earnings appropriated for use	4,580
Disaster recovery/term gifts	2,101
Prior year pledges received	<u>239</u>
Total	<u>\$ 83,931</u>

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE G - THE BILL & MELINDA GATES FOUNDATION GRANT**

Beginning in 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 join 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, the Foundation recognizes revenue when funds from BMGF are received and committed or spent.

Through the four-year period ended 30 June 2011, the Foundation received a total of \$330,090 from BMGF recorded as temporarily restricted revenue, out of a total grant award of \$355,120. The agreement has provisions whereby the Foundation is responsible for separately raising \$200,000 by 30 June 2012, which it is doing through Rotary International’s *US\$200 Million Challenge*. Through 30 June 2011, the *US\$200 Million Challenge* has reported \$183,894 toward this goal.

In September 2011, the Foundation and BMGF added an addendum to the agreement for an additional grant award from BMGF.

---

**NOTE H - SUBSEQUENT EVENTS**

Management considered subsequent events through 30 September 2011, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events, other than disclosed in note G, which would require recognition or disclosure in the financial statements.

---

**NOTE I - RESTATEMENT**

Subsequent to the issuance of the Foundation’s 2010 financial statements, management determined that certain classifications of net assets were inaccurate. A portion of previously reported temporarily restricted net assets totaling \$44,351 and a portion of previously reported permanently restricted net assets totaling \$3,051 should have been classified as unrestricted board-designated net assets as the use restrictions were board imposed and not donor driven. Another component of previously reported temporarily restricted net assets representing \$8,598 of endowments that were underwater should have been classified as a reduction in unrestricted net assets, but were instead reported as a reduction in temporarily restricted net assets. Finally, a portion of previously reported temporarily restricted net assets totaling \$2,042 should have been classified as permanently restricted net assets, as they related to donor contributions. As a result of these matters, the beginning unrestricted, temporarily restricted, and permanently restricted net assets of the Foundation at 1 July 2010 have been restated to properly reflect the classification.

**The Rotary Foundation of Rotary International**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2011**  
**(In thousands of U.S. dollars)**

---

**NOTE I - RESTATEMENT - Continued**

The restated amounts as of 1 July 2010 are as follows:

	<u>As previously reported</u>	<u>Restatement</u>	<u>As restated</u>
Unrestricted net assets	\$ 369,941	\$ 38,804	\$ 408,745
Temporarily restricted net assets	108,498	(37,795)	70,703
Permanently restricted net assets	<u>179,031</u>	<u>(1,009)</u>	<u>178,022</u>
Total	<u>\$ 657,470</u>	<u>\$ -</u>	<u>\$ 657,470</u>