

Financial Statements and Report of Independent Certified Public Accountants

The Rotary Foundation of Rotary International

30 June 2013 and 2012

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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 (the Foundation), which comprise the statements of financial position as of 30 June 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

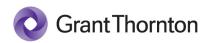
Management's responsibility for the financial statements

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 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois 31 October 2013

Sant Thornton LLP

The Rotary Foundation of Rotary International STATEMENTS OF FINANCIAL POSITION 30 June 2013 and 2012 (In thousands of U.S. dollars)

ASSETS		2013		2012
ASSETS				
Cash and cash equivalents	\$	40,799	\$	48,347
Pledges receivable, net		40,221		5,365
Prepaid expenses and other assets		3,661		3,778
Investments		808,463		727,708
Split-interest agreements	_	30,561	_ –	28,508
TOTAL ASSETS	\$_	923,705	\$_	813,706
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accrued program awards	\$	65,831	\$	57,187
Accounts payable, accrued expenses and deferred revenues		4, 817		3,844
Split-interest agreements payable		17,332		15,830
Due to Rotary International	_	4,170		2,973
Total liabilities		92,150		79,834
NET ASSETS				
Unrestricted		525,127		485,340
Temporarily restricted		71,715		34,404
Permanently restricted	_	234,713		214,128
Total net assets	-	831,555		733,872
TOTAL LIABILITIES AND NET ASSETS	\$	923,705	\$	813,706

The accompanying notes are an integral part of these statements.

The Rotary Foundation of Rotary International STATEMENT OF ACTIVITIES Year ended 30 June 2013 (In thousands of U.S. dollars)

	U	nrestricted		emporarily restricted	Permanently restricted			Total
Revenues								
Contributions	\$	119,384	\$	99,800	\$	20,392	\$	239,576
Investment return, net		34,411		21,549		-		55,960
Grants and other activities, net		196		-		795		991
Net assets released from restrictions	_	84,640		(84,038)	-	(602)	_	
Total revenues		238,631		37,311		20,585		296,527
Expenses								
Program awards and expenses								
Educational programs		21,956		-		-		21,956
Humanitarian programs		50,901		-		-		50,901
PolioPlus program		76,059		-		-		76,059
Rotary grants		26,439		-		-		26,439
Other programs	_	1,154		-	-		_	1,154
Total program awards and expenses		176,509		-		-		176,509
Development expenses		17,684		_		-		17,684
General administration	_	4,651		-	-		_	4,651
Total expenses	_	198,844					_	198,844
Change in net assets		39,787		37,311		20,585		97,683
Net assets								
Beginning of year	_	485,340		34,404	-	214,128	_	733,872
End of year	\$_	525,127	\$_	71,715	\$	234,713	\$_	831,555

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International STATEMENT OF ACTIVITIES Year ended 30 June 2012 (In thousands of U.S. dollars)

	Uı	nrestricted	Temporarily restricted			ermanently restricted		Total
Revenues								
Contributions	\$	112,832	\$	50,181	\$	18,084	\$	181,097
Investment return, net		(11,576)		(3,507)		-		(15,083)
Grants and other activities, net		1,002		-		(675)		327
Net assets released from restrictions		114,088		(114,088)	_	-		-
Total revenues		216,346		(67,414)		17,409		166,341
Expenses								
Program awards and expenses								
Educational programs		22,169		-		-		22,169
Humanitarian programs		55,187		-		-		55,187
PolioPlus program		105,001		-		-		105,001
Rotary grants		19,490		-		-		19,490
Other programs	_	2,192		-		-		2,192
Total program awards and expenses		204,039		-		-		204,039
Development expenses		18,254		_		-		18,254
General administration	_	5,143		-		-		5,143
Total expenses		227,436		-				227,436
Change in net assets		(11,090)		(67,414)		17,409		(61,095)
Net assets								
Beginning of year	_	496,430		101,818	_	196,719		794,967
End of year	\$	485,340	\$	34,404	\$	214,128	\$_	733,872

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International STATEMENT OF FUNCTIONAL EXPENSES Year ended 30 June 2013 (In thousands of U.S. dollars)

					Program av	vards a	and expenses					Supporti	ng servi	ces	
		ucational ograms	manitarian rograms		PolioPlus programs		Rotary grants	Other programs	a	Total program wards and expenses		velopment expenses		General inistration	 Total expenses
Expenses by natural classification		47.000	45 507		72.627		47.000	4 4 2 7		455 504	•				455 504
Program awards	\$	17,298	\$ 45,527	3	73,627	3	17,992	\$ 1,137	\$	155,581	\$	-	\$	-	\$ 155,581
Salaries, benefits and payroll taxes		3,213	3,799		1,042		5,627	-		13,681		11,158		1,535	26,374
External services		437	474		600		536	-		2,047		1,121		630	3,798
Travel		164	63		496		1,526	-		2,249		584		1,747	4,580
Conferences, conventions and meetings		8	8		18		79	-		113		437		42	592
Media and public relations		4	2		9		1	-		16		99		1	116
Information technology and communications		303	389		85		360	-		1,137		851		191	2,179
Publications and printing		18	11		94		35	10		168		249		121	538
Postage, shipping and freight		82	92		11		15	7		207		771		62	1,040
Donor recognition		-	-		-		-	-		-		776		-	776
Cost of sales		-	-		-		-	-		-		-		104	104
Occupancy		317	400		40		171	-		928		876		81	1,885
Insurance, finance fees and taxes		36	45		7		34	-		122		495		72	689
General office and miscellaneous	_	76	 91		30		63	 -		260		267		65	 592
Total expenses by natural classification	\$	21,956	\$ 50,901	\$	76,059	\$	26,439	\$ 1,154	\$	176,509	\$	17,684	\$	4,651	\$ 198,844

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International STATEMENT OF FUNCTIONAL EXPENSES Year ended 30 June 2012 (In thousands of U.S. dollars)

				Program av	wards a	and expenses				Supporting services					
		ucational ograms	manitarian rograms	PolioPlus programs		Rotary grants	 Other programs	a	Total program wards and expenses		velopment expenses		General inistration		Total expenses
Expenses by natural classification		44004	10 115	400 774		45.454	4.004		405 404						105 (01
Program awards	\$	16,904	\$ 48,415	\$ 102,774	\$	15,674	\$ 1,924	\$	185,691	\$	-	\$	-	\$	185,691
Salaries, benefits and payroll taxes		3,679	5,102	1,131		2,882	230		13,024		11,305		1,712		26,041
External services		297	461	368		416	-		1,542		924		738		3,204
Travel		347	107	326		46	9		835		632		1,974		3,441
Conferences, conventions and meetings		151	12	12		5	-		180		276		131		587
Media and public relations		3	11	201		2	3		220		469		1		690
Information technology and communications		227	340	81		220	-		868		638		126		1,632
Publications and printing		57	18	14		19	16		124		367		128		619
Postage, shipping and freight		103	136	16		20	10		285		999		32		1,316
Donor recognition		-	-	-		-	-		-		1,002		3		1,005
Cost of sales		-	-	-		-	-		-		-		80		80
Occupancy		290	430	46		130	-		896		807		65		1,768
Insurance, finance fees and taxes		41	61	11		32	-		145		613		108		866
General office and miscellaneous	_	70	 94	 21		44	 -		229		222		45		496
Total expenses by natural classification	\$	22,169	\$ 55,187	\$ 105,001	\$	19,490	\$ 2,192	\$	204,039	\$	18,254	\$	5,143	\$_	227,436

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International STATEMENTS OF CASH FLOWS Years ended 30 June 2013 and 2012 (In thousands of U.S. dollars)

		2013	 2012
Cash flows from operating activities			
Change in net assets	\$	97,683	\$ (61,095)
Adjustments to reconcile change in net assets to net			
cash flows provided by (used in) operating activities			
Endowment Fund contributions		(19,643)	(17,356)
Contributed securities		(3,221)	(1,068)
Foreign currency translation losses		3,863	7,951
Realized gains on sale of investments, net		(26,032)	(43,863)
Unrealized (gains) losses on investments, net		(22,341)	61,854
Changes in assets and liabilities			
Pledges receivable, net		(34,276)	(124)
Prepaid expenses and other assets		117	32
Split-interest agreements		(2,053)	273
Accrued program awards		8,644	19,926
Accounts payable, accrued expenses and deferred revenues		973	752
Split-interest agreements payable		1,502	(179)
Due to Rotary International	_	1,197	 1,846
Net cash provided by (used in) operating activities		6,413	(31,051)
Cash flows from investing activities			
Purchase of investments		(485,748)	(1,236,276)
Proceeds from sale of investments		442,292	1,256,486
Change in short-term investments	_	14,295	 (700)
Net cash (used in) provided by investing activities		(29,161)	19,510
Cash flows from financing activities			
Proceeds from contributions restricted for investment in			
Endowment Fund	_	19,063	 14,656
Net cash provided by financing activities		19,063	14,656
Effect of exchange rate changes on cash	_	(3,863)	 (7,951)
Decrease in cash and cash equivalents		(7,548)	(4,836)
Cash and cash equivalents, beginning of year	_	48,347	 53,183
Cash and cash equivalents, end of year	\$_	40,799	\$ 48,347

The accompanying notes are an integral part of these statements.

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 consolidated statement of financial position and the related consolidated 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. The Foundation maintains foreign and domestic cash accounts, including cash and cash equivalents of \$14,801 and \$22,533 as of 30 June 2013 and 2012, 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 2013 and 2012. 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 2013 and 2012, the present value discount is \$319 and \$119, respectively, and the allowance for uncollectible pledges is \$162 and \$194, respectively.

Investments

Investments are carried at fair value, except for certain alternative investments. 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.

<u>Level 1</u> - 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.

<u>Level 2</u> - 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.

<u>Level 3</u> - 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.

Certain alternative investments totaling \$146,758 and \$125,868 at 30 June 2013 and 2012, respectively, are not based on quoted market prices (Level 3). 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. The estimates are 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 (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 \$1,801 as of 30 June 2012, subject to certain repatriation restrictions imposed by local governments. There were no investment accounts subject to repatriation restrictions imposed by local governments as of 30 June 2013.

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 2013 and 2012 resulted in an expense of \$2,067 and \$206, 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:

<u>Unrestricted</u> - 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.

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 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.

<u>Temporarily restricted</u> - 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.

<u>Permanently restricted</u> - 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 an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986, as amended, and, as such, is exempt from federal income tax on income earned related to exempt activities under IRC Section 501(a). In addition, the IRS has determined that the Foundation is not a private foundation within the meaning of Section 509(a) of the IRC.

The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain 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. The Foundation is exempt from income tax under IRC Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the IRC. The Foundation applied 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 2010, 2011, 2012 and 2013 are still open to audit for both federal and state 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 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 presentations.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." ASU 2011-04 revised the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 also expanded the required disclosures for fair value measurement that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. The Foundation adopted ASU 2011-04 for the year ending 30 June 2013. The adoption of this standard did not materially expand the Foundation's financial statement footnote disclosures.

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 2013:

	Quoted prices in active markets for identical assets (Level 1)			gnificant other observable inputs (Level 2)	un	ignificant observable inputs (Level 3)		Total
Investments at fair value Equity (b) Fixed income (c) Exchange traded funds (d) Mutual funds (e) Commingled funds (f) Limited liability companies (g) Private equity funds (h) Real estate funds (i) Hedge funds (j)	\$	35,057 116,774 13,181 274,633 - 256	\$	22,733 27,803 39,870 108,317	\$	- - - - 22,600 60,349 63,809	\$	35,057 139,507 13,181 302,436 39,870 108,317 22,856 60,349 63,809
Total investments at fair value	\$	439,901	\$	198,723	\$	146,758		785,382
Investments not at fair value (k)							_	23,081
Total investments							\$_	808,463
Split-interest agreements Invested cash and short-term investments Fixed income Exchange traded funds Mutual funds Real estate	\$	1,239 - 22,758 5,713	\$	726 - - -	\$	- - - 125	\$	1,239 726 22,758 5,713 125
Total split-interest agreements at fair value	\$_	29,710	\$ _	726	\$	125	≡ :	30,561
Split-interest agreements not at fair value							_	
Total split-interest agreements							\$	30,561

The fair values of the Foundation's financial assets that are measured on a recurring basis are as follows as of 30 June 2012:

	Quoted prices in active markets for identical assets (Level 1)			gnificant other observable inputs (Level 2)	un	ignificant observable inputs (Level 3)		Total
Investments at fair value								
Invested cash and short-term								
investments (a)	\$	55,300	\$	-	\$	-	\$	55,300
Equity (b)		62,413		-		-		62,413
Fixed income (c)		106,009		-		-		106,009
Exchange traded funds (d)		9,105		-		-		9,105
Mutual funds (e)		245,664		21,844		-		267,508
Commingled funds (f)		-		34, 690		-		34,690
Limited liability companies (g)		-		51,402		-		51,402
Private equity funds (h)		196		-		19,957		20,153
Real estate funds (i)		-		-		55,100		55,100
Hedge funds (j)	_	_	_	_		50,811	_	50,811
Total investments at fair value	\$	478,687	\$	107,936	\$_	125,868	=	712,491
Investments not at fair value (k)							_	15,217
Total investments							\$_	727,708
Split-interest agreements								
Exchange traded funds	\$	28,234	\$_	-	\$_	-	\$_	28,234
Total split-interest agreements								
at fair value	\$	28,234	\$	-	\$_	-		28,234
Split-interest agreements not at fair value							_	274
Total split-interest agreements							\$_	28,508

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, international bonds, asset-backed securities, non-exchange traded funds, limited liability companies, commingled funds, certain mutual 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 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. 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. Certain mutual funds evaluated as Level 2 are stated at NAV because investors own shares of the fund and are provided a NAV per share 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 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 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 \$16,000 on a cost basis of \$26,000 and has not received any distributions from this fund as of 30 June 2013.

(k) Investments not at fair value include invested cash and short-term investments and a certificate of deposit.

For fair value measurements using significant unobservable inputs (Level 3), the changes are as follows:

	E	Equity		Private uity funds	est	Real ate funds		Hedge funds		Total
Balance as of 1 July 2011	\$	48	\$	17,353	\$	49,033	\$	32,632	\$	99,066
Realized (losses) gains, net		(716)		1,280		50,133		115		50,812
Unrealized gains (losses), net		818		(72)		3,489		(501)		3,734
Purchases		-		12,648		17,973		19,636		50,257
Sales	_	(150)	_	(11,252)		(65,528)	_	(1,071)	_	(78,001)
Balance as of 30 June 2012		-		19,957		55,100		50,811		125,868
Realized gains, net		-		1,807		240		139		2,186
Unrealized (losses) gains, net		-		(216)		3,864		3,941		7,589
Purchases		-		4,527		2,580		10,441		17,548
Sales	_	-	. <u>-</u>	(3,475)	_	(1,435)	_	(1,523)	_	(6,433)
Balance as of 30 June 2013	\$	-	\$_	22,600	\$	60,349	\$_	63,809	\$_	146,758

Foundation investments reported at NAV or its equivalent as of 30 June 2013 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:

	F	Fair value		Unfunded ommitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments						
Mutual funds	\$	27,803	\$	-	Daily/monthly	Daily/14th day of month
Commingled funds		39,870		-	Monthly	22nd day of preceding month
Limited liability companies		108,317		-	Daily/twice monthly	8th or 22nd of current month
Private equity funds		22,600		22,950	-	-
Real estate funds		60,349		-	Quarterly	60-90 days
Hedge funds	-	63,809	=		Monthly/quarterly	30-65 days/not <5 days before end of month
Total	\$	322,748	\$	22,950		

Foundation investments reported at NAV or its equivalent as of 30 June 2012 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:

	F	Fair value		Unfunded ommitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments						
Mutual funds	\$	21,844	\$	-	Daily/monthly	Daily/<20th day of month
Commingled funds		34,690		-	Monthly	22nd day of preceding month
Limited liability companies		51,402		-	Daily	Daily
Private equity funds		19,957		21,676	-	-
Real estate funds		55,100		-	Quarterly	60-90 days
Hedge funds	=	50,811	=		Monthly/quarterly	30-65 days/not <5 days before end of month
Total	\$_	233,804	\$	21,676	•	

At 30 June 2013 and 2012, the Foundation has investments in bonds in the amount of \$35,637 and \$29,754, 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 2013 and 2012 are as follows:

	 2013		
Interest and dividends	\$ 13,962	\$	14,079
Realized gains, net	26,032		43,863
Unrealized gains (losses), net	22,341		(61,854)
Investment and banking fees	(2,710)		(3,203)
Currency losses, net	 (3,665)		(7,968)
Total	\$ 55,960	\$	(15,083)

NOTE D - ENDOWMENTS

Based on the spending policy approved by the Trustees, annual spending occurs each year from those endowed gifts where the market values exceed their accumulated gift values. 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 a spending rate of 4.5% for fiscal years 2013 and 2012.

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.

Changes in endowment net assets for the year ended 30 June 2013 are as follows:

	Unrest		Unrestricted Temporarily restricted		Permanently restricted		Total	
Endowment net assets, beginning of year	\$	4,023	\$	30,393	\$	201,457	\$	235,873
Investment return								
Interest, dividends and investment fees, net		63		3,119		-		3,182
Realized and unrealized gains, net	_	1,345	_	18,430	_	-	_	19,775
Total investment return		1,408		21,549		-		22,957
Contributions		_		_		19,643		19,643
Transfer of funds		1,108		_		-		1,108
Conversion of split-interest agreements to endowment		, -		-		986		986
Modifications to endowment agreements		-		(336)		(602)		(938)
Appropriation of endowment assets for expenditure		_	_	(8,468)	_		-	(8,468)
Endowment net assets, end of year	\$	6,539	\$	43,138	\$_	221,484	\$_	271,161

Changes in endowment net assets for the year ended 30 June 2012 are as follows:

	Unrestricted		Temporarily restricted		Permanently restricted		Total
Endowment net assets, beginning of year	\$	3,685	\$	41,096	\$	183,947	\$ 228,728
Investment return							
Interest, dividends and investment fees, net		111		3,062		-	3,173
Realized and unrealized losses, net	_	(582)	_	(6,570)	_	-	 (7,152)
Total investment return		(471)		(3,508)		-	(3,979)
Contributions		-		_		17,356	17,356
Transfer of funds		809		-		-	809
Conversion of split-interest agreements to endowment		-		-		154	154
Appropriation of endowment assets for expenditure	_	-	_	(7,195)	_	-	 (7,195)
Endowment net assets, end of year	\$_	4,023	\$_	30,393	\$_	201,457	\$ 235,873

Endowment composition by net asset class as of 30 June 2013 is as follows:

	Unr	Unrestricted		1 ,		ermanently restricted	 Total
Donor-restricted endowment funds Trustee-designated endowment funds	\$	(149) 6,688	\$	43,138	\$	221,484	\$ 264,473 6,688
Endowment net assets, end of year	\$_	6,539	\$	43,138	\$	221,484	\$ 271,161

Endowment composition by net asset class as of 30 June 2012 is as follows:

	Un	restricted	Temporarily restricted		Permanently restricted		Total
Donor-restricted endowment funds Trustee-designated endowment funds	\$	(1,101) 5,124	\$ 30,393	\$	201,457	\$	230,749 5,124
Endowment net assets, end of year	\$	4,023	\$ 30,393	\$	201,457	\$	235,873

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. These deficiencies totaled \$149 and \$1,101 as of 30 June 2013 and 2012, respectively.

NOTE E - RELATED-PARTY TRANSACTIONS

The Foundation received contributions of \$5,380 and \$414 for the years ended 30 June 2013 and 2012, 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 31 May 2012. Boards of each entity meet annually to adjust the agreement as needed.

For the year ended 30 June 2013, all expenses other than program awards flowed through Rotary International. Expenses previously charged directly to the Foundation were included in the expense allocation that increased the amount of allocated expenses, as shown below. These expense allocations flow through intercompany accounts of the two entities and are as follows for the years ended 30 June 2013 and 2012:

		2013	2013	
Salaries, benefits and payroll taxes	\$	26,374	\$	14,434
External services		3,798		1,930
Travel		4,580		427
Conferences, conventions and meetings		592		39
Media and public relations		116		15
Information technology and communications		2,179		1,605
Publications and printing		538		79
Postage, shipping and freight		1,040		518
Donor recognition		776		-
Cost of sales		104		-
Occupancy		1,885		1,768
Insurance, finance fees and taxes		689		276
General office and miscellaneous	_	592		412
Total	\$	43,263	_ \$ _	21,503

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 2013 and 2012:

	2013		 2012
Educational programs	\$	4,658	\$ 3,272
Humanitarian programs		5,374	4,867
PolioPlus program		2,432	750
Rotary grants		8,447	2,066
Other programs		17	_
Development expenses		17,684	9,515
General administration		4,651	 1,033
Total	\$	43,263	\$ 21,503

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

NOTE F - NET ASSETS

The components of the Foundation's net assets as of 30 June 2013 and 2012 are as follows:

	2013	013	
Unrestricted			
Undesignated \$	394,185	\$	384,031
Trustee-designated	,		,
PolioPlus	100,513		99,051
Operating reserve fund	29,073		29,073
Programs reserve	(5,401)		(32,008)
Endowment Fund	6,688		5,124
Disaster recovery/term gifts	69		69
Total unrestricted net assets	525,127		485,340
Temporarily restricted			
PolioPlus	24,068		-
Endowment Fund earnings awaiting appropriation	43,138		30,393
Disaster recovery/term gifts	4,509		4,011
Total temporarily restricted net assets	71,715		34,404
Permanently restricted			
Annual fund	153,882		140,636
Educational programs	39,138		42,336
Humanitarian programs	1,710		4,980
Global grants	20,252		7,408
PolioPlus program	175		175
Split-interest agreements	13,229		12,671
Other	6,327	_ =	5,922
Total permanently restricted net assets	234,713	_ =	214,128
Total net assets \$	831,555	\$_	733,872

Net assets released from temporary restrictions by incurring expenses, which satisfied donor restrictions for the years ended 30 June 2013 and 2012 are as follows:

		 2012	
PolioPlus	\$	74,183	\$ 100,901
Endowment Fund earnings appropriated for use		7,015	5,661
Disaster recovery/term gifts		2,341	7,359
Endowment modifications		99	-
Prior year pledges received		400	 167
Total	\$	84,038	\$ 114,088

Net assets released from permanent restrictions through modifications to endowment agreements for the years ended 30 June 2013 and 2012 are as follows:

		 2012	
Endowment modifications Pledge write offs and allowance	\$	548 54	\$ <u>-</u>
Total	\$	602	\$

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, 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. In accordance with this grant addendum, the Foundation recognizes revenue when all contingencies related to the grant are substantially met. 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.

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. In accordance with this grant addendum, the Foundation recognizes revenue when all contingencies related to the grant are substantially met. As of the year ended 30 June 2013, the Foundation spent \$2,263 of non-BMGF funds and recorded a pledge receivable of \$4,526.

NOTE H - SUBSEQUENT EVENTS

Management considered subsequent events through 31 October 2013, 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.