FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL
30 JUNE 2012 AND 2011

C O N T E N T S

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF FUNCTIONAL EXPENSES	7
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Trustees
The Rotary Foundation of Rotary International

We have audited the accompanying statements of financial position of The Rotary Foundation of Rotary International (the Foundation) as of 30 June 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our 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 2012 and 2011, 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.

Grant Thornton LLP

Chicago, Illinois
2 November 2012

The Rotary Foundation of Rotary International
STATEMENTS OF FINANCIAL POSITION
30 June 2012 and 2011
(In thousands of U.S. dollars)

ASSETS	2012	2011
ASSETS		
Cash and cash equivalents	$ 48,347	$ 53,183
Pledges receivable, net	5,365	2,541
Prepaid expenses and other assets	3,778	3,810
Investments	727,708	764,141
Split-interest agreements	28,508	28,781
TOTAL ASSETS	$ 813,706	$ 852,456
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accrued program awards	$ 57,187	$ 37,261
Accounts payable and accrued expenses	3,844	3,092
Split-interest agreements payable	15,830	16,009
Due to Rotary International	2,973	1,127
Total liabilities	79,834	57,489
NET ASSETS		
Unrestricted	485,340	496,430
Temporarily restricted	34,404	101,818
Permanently restricted	214,128	196,719
Total net assets	733,872	794,967
TOTAL LIABILITIES AND NET ASSETS	$ 813,706	$ 852,456

The accompanying notes are an integral part of these statements.

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

	Unrestricted	Temporarily restricted	Permanently 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
Global grants	14,396	-	-	14,396
District grants	5,094	-	-	5,094
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 ACTIVITIES
Year ended 30 June 2011
(In thousands of U.S. dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	$ 109,256	$ 82,942	$ 16,289	$ 208,487
Investment return, net	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)	-	-
Total revenues	278,229	31,115	18,697	328,041
Expenses				
Program awards and expenses				
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
Total program awards and expenses	168,641	-	-	168,641
Development expenses	17,499	-	-	17,499
General administration	5,694	-	-	5,694
Total expenses	191,834	-	-	191,834
Change in net assets before pension-related changes other than net periodic benefit cost	86,395	31,115	18,697	136,207
Pension-related changes other than net periodic benefit cost	1,290	-	-	1,290
Change in net assets	87,685	31,115	18,697	137,497
Net assets				
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 2012
(In thousands of U.S. dollars)

	Program awards and expenses							Supporting services		
	Educational programs	Humanitarian programs	PolioPlus programs	Global grants	District grants	Other programs	Total program awards and expenses	Development expenses	General administration	Total expenses
Expenses by natural classification										
Program awards	$ 16,904	$ 48,415	$ 102,774	$ 10,580	$ 5,094	$ 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
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	$ 14,396	$ 5,094	$ 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
STATEMENT OF FUNCTIONAL EXPENSES
Year ended 30 June 2011
(In thousands of U.S. dollars)

	Program awards and expenses							Supporting services		
	Educational programs	Humanitarian programs	PolioPlus programs	Global grants	District grants	Other programs	Total program awards and expenses	Development expenses	General administration	Total expenses
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	$ 21,794	$ 47,472	$ 77,870	$ 12,826	$ 6,295	$ 2,384	$ 168,641	$ 17,499	$ 5,694	$ 191,834

The accompanying notes are an integral part of this statement.

The Rotary Foundation of Rotary International
STATEMENTS OF CASH FLOWS
Years ended 30 June 2012 and 2011
(In thousands of U.S. dollars)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (61,095)	$ 137,497
Adjustments to reconcile change in net assets to net cash flows used in operating activities		
Permanent Fund contributions	(17,356)	(15,427)
Contributed securities	(1,068)	(548)
Foreign currency translation losses (gains)	7,951	(5,801)
Realized gains on sale of investments, net	(43,863)	(12,629)
Unrealized losses (gains) on investments, net	61,854	(90,255)
Changes in assets and liabilities		
Pledges receivable, net	(124)	309
Prepaid expenses and other assets	32	(164)
Split-interest agreements	273	(4,352)
Accrued program awards	19,926	(14,218)
Accounts payable and accrued expenses	752	(1,287)
Split-interest agreements payable	(179)	1,350
Due to Rotary International	1,846	(2,175)
Net cash used in operating activities	(31,051)	(7,700)
Cash flows from investing activities		
Purchase of investments	(1,236,276)	(851,317)
Proceeds from sale of investments	1,256,486	863,790
Change in short-term investments	(700)	(17,113)
Net cash provided by (used in) investing activities	19,510	(4,640)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in Permanent Fund	14,656	13,859
Net cash provided by financing activities	14,656	13,859
Effect of exchange rate changes on cash	(7,951)	5,801
(Decrease) increase in cash and cash equivalents	(4,836)	7,320
Cash and cash equivalents, beginning of year	53,183	45,863
Cash and cash equivalents, end of year	$ 48,347	$ 53,183

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 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 $22,533 and $23,680 as of 30 June 2012 and 2011, 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 2012 and 2011. 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 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 2012 and 2011, the present value discount is $119 and $110, respectively, and the allowance for uncollectible pledges is $194 and $113, respectively.

Investments

Investments are carried at fair value, primarily based on quoted market prices, except for certain equity and alternative investments totaling $125,868 and $99,066 at 30 June 2012 and 2011, respectively. 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. 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 2011.

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.

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.

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 2012 and 2011 resulted in an expense of $206 and $1,128, respectively.

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. 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 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 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.

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 2012 and 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 statements 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.

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 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 2009, 2010 and 2011 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.

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 expands the required disclosures for fair value measurement that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. ASU 2011-04 will be effective for the year ending 30 June 2013, with early adoption permitted. The Foundation has not yet adopted this guidance. The Foundation believes that the adoption of this standard will not materially expand its financial statement footnote disclosures.

In January 2010, the FASB issued 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.

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 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable 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)	267,508	-	-	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	$ 500,531	$ 86,092	$ 125,868	712,491
Investments not at fair value				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

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
Investments at fair value				
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
Total investments at fair value	$ 423,645	$ 224,723	$ 99,066	747,434
Investments not at fair value				16,707
Total investments				$ 764,141
Split-interest agreements				
Exchange traded funds	$ 28,507	$ -	$ -	$ 28,507
Total split-interest agreements at fair value	$ 28,507	$ -	$ -	28,507
Split-interest agreements not at fair value				274
Total split-interest agreements				$ 28,781

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. It is possible for the value of these funds to dip below $1.

(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.

(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 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 2012.

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

	Equity	Private equity funds	Real estate funds	Hedge funds	Total
Balance as of 30 June 2010	$ -	$ 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
Balance as of 30 June 2011	48	17,353	49,033	32,632	99,066
Realized (losses) gains	(716)	1,280	50,133	115	50,812
Unrealized gains (losses)	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

Foundation investments reported at NAV or its equivalent as of 30 June 2012 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
Investments				
Exchange traded funds	$ 9,105	$ -	Daily	Daily
Mutual funds	267,508	-	Daily/monthly	Daily/<20th day of month
Commingled funds	34,690	-	Monthly	22nd day of preceding month
Limited liability companies	51,402	-	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	$ 488,573	$ 21,676		

Foundation investments reported at NAV or its equivalent 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
Investments				
Exchange traded funds	$ 8,991	$ -	Daily	-
Mutual funds	207,746	-	Daily	-
Commingled funds	74,054	-	Daily/monthly	22nd day of preceding month
Limited liability companies	147,076	-	Daily/monthly	2 business days before end of month
Private equity funds	17,406	20,924	-	-
Real estate funds	49,033	-	Quarterly	60-90 days
Hedge funds	32,632	-	Monthly/quarterly	30-90 days/not <5 days before end of month
Total	$ 536,938	$ 20,924		

At 30 June 2012 and 2011, the Foundation has investments in bonds in the amount of $29,754 and $27,718, 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 2012 and 2011 are as follows:

	2012	2011
Interest and dividends	$ 14,079	$ 10,239
Realized gains, net	43,863	12,629
Unrealized (losses) gains, net	(61,854)	90,255
Investment and banking fees	(3,203)	(2,004)
Currency (losses) gains, net	(7,968)	5,714
Total	$ (15,083)	$ 116,833

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 2012 and 2011.

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.

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

Changes in endowment net assets for the 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	$ 3,685	$ 41,096	$ 183,947	$ 228,728

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

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

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	$ 3,685	$ 41,096	$ 183,947	$ 228,728

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 $1,101 and $768 as of 30 June 2012 and 2011, respectively.

NOTE E - ROTARY INTERNATIONAL REIMBURSEMENTS

In accordance with an administrative services agreement dated 14 April 2009, as amended, Rotary International charges the Foundation for expenses incurred on its behalf. Boards of each entity meet annually to adjust the agreement as needed. These expense allocations flow through intercompany accounts of the two entities and are as follows for the years ended 30 June 2012 and 2011:

	2012	2011
Salaries, benefits and payroll taxes	$ 14,434	$ 14,694
External services	1,930	1,723
Travel	427	1,122
Conferences, conventions and meetings	39	164
Media and public relations	15	798
Information technology and communications	1,605	1,221
Publications and printing	79	117
Postage, shipping and freight	518	572
Occupancy	1,768	1,202
Insurance, finance fees and taxes	276	114
General office and miscellaneous	412	589
Total	$ 21,503	$ 22,316

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 2012 and 2011:

	2012	2011
Educational programs	$ 3,272	$ 3,429
Humanitarian programs	4,867	4,845
PolioPlus program	750	836
Future Vision programs	2,066	2,275
Development expenses	9,515	9,469
General administration	1,033	1,462
Total	$ 21,503	$ 22,316

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 other than net periodic benefit cost for the year ended 30 June 2011. There were no pension-related changes other than net periodic benefit cost for the year ended 30 June 2012.

NOTE F - NET ASSETS

The components of the Foundation's net assets as of 30 June 2012 and 2011 are as follows:

	2012	2011
Unrestricted		
Undesignated	$ 384,031	$ 377,299
Trustee-designated		
PolioPlus	99,051	84,618
Operating reserve fund	29,073	50,000
Programs reserve	(32,008)	(21,215)
Permanent Fund	5,124	4,453
Disaster recovery/term gifts	69	1,275
Total unrestricted net assets	485,340	496,430
Temporarily restricted		
PolioPlus	-	55,938
Permanent Fund earnings awaiting appropriation	30,393	41,096
Disaster recovery/term gifts	4,011	4,784
Total temporarily restricted net assets	34,404	101,818
Permanently restricted		
Annual programs fund	140,636	131,763
Educational programs	42,336	42,324
Humanitarian programs	4,980	5,706
Global grants	7,408	701
PolioPlus program	175	175
Split-interest agreements	12,671	12,771
Other	5,922	3,279
Total permanently restricted net assets	214,128	196,719
Total net assets	$ 733,872	$ 794,967

Net assets released from restrictions by incurring expenses, which satisfied donor restrictions for the years ended 30 June 2012 and 2011, are as follows:

	2012	2011
PolioPlus	$ 100,901	$ 77,011
Permanent Fund earnings appropriated for use	5,661	4,580
Disaster recovery/term gifts	7,359	2,101
Prior year pledges received	167	239
Total	$ 114,088	$ 83,931

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 five-year period ended 30 June 2012, the Foundation received a total of $340,105 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 was accomplished by 31 December 2011.

In September 2011, the Foundation and BMGF added an addendum to the agreement for an additional grant award from BMGF of $50,090 subject to revised contingencies. In accordance with the new grant agreement, 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 will be recorded as revenue during fiscal year 2013.

NOTE H - SUBSEQUENT EVENTS

Management considered subsequent events through 2 November 2012, 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 restated amounts as of 1 July 2010 are as follows:

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