

Rotary Club of McHenry Charitable Foundation, Inc.
March 30, 2017 – By-Laws & Operating Agreement Resolution

WHEREAS, Rotary International's 2016 Council on Legislation met from April 10 to April 15, 2016 in Chicago, Illinois, USA and took actions including adopting 61 pieces of legislation; and

WHEREAS, the Rotary International ("**RI**") recommended club Constitution was updated on June 3, 2016 and the RI recommended Bylaws were updated July 18, 2016; and

WHEREAS, prior to 2016 the Rotary Club of McHenry, Illinois, Inc. (the "**Club**") adopted its existing Constitution (the "**Old Constitution**") and its existing Bylaws (the "**Old Club Bylaws**"); and

WHEREAS, the Club and its members ("**Members**") elected to form the Rotary Club of McHenry Charitable Foundation, Inc., an Illinois not for profit corporation and a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "**Foundation**") to fund ongoing charitable/service operations on a tax exempt basis and to ensure continued sustainability of the Club's charitable/service operations; and

WHEREAS, the Foundation is a voluntary, not for profit, Illinois corporation consisting of members (the "**Foundation Members**") who are the Members of the Club; and

WHEREAS, the Club's Members and the Foundation Members share interest in developing, improving and maintaining the cultural, recreational, economic, educational and social welfare of people in the greater McHenry area and throughout the world; and

WHEREAS, prior to 2016 the Foundation adopted its By-Laws (the "**Old Foundation By-Laws**") and certain operating policies and procedures (the "**Old Foundation Operating Procedures**"); and

WHEREAS, those certain "Constitution & Bylaws of the Rotary Club of McHenry" attached hereto (the "**Club's Constitution and Bylaws**"), as well as those certain "By-Laws & Operating Agreement of the Rotary Club of McHenry Charitable Foundation, Inc." attached hereto (respectively, the "**Foundation By-Laws**" and the "**Operating Agreement**") have been circulated to the Foundation's Board of Directors, the Club's Board of Directors, the Members and the Foundation Members for their review and consideration; and

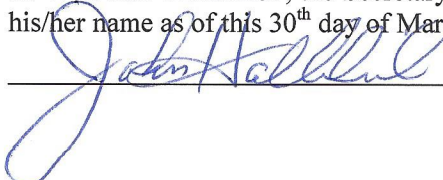
WHEREAS, the Members have determined to amend and restate in their entirety the Old Constitution and the Old Bylaws, the Foundation Members have determined to amend and restate in their entirety the Old Foundation By-Laws and the Old Foundation Operating Procedures, and the Members and the Foundation Members have determined that the Club and the Foundation should enter into a written agreement to document their agreement regarding their respective ongoing charitable/service operations (and other matters):

NOW, THEREFORE, it is hereby:

RESOLVED, that (1) the Old Foundation By-Laws and the Old Foundation Operating Procedures are hereby amended and restated in their entirety to be and to read as that certain "By-Laws & Operating Agreement of the Rotary Club of McHenry Charitable Foundation, Inc." attached hereto and (2) the Foundation is (and the Foundation Officers are) hereby authorized and directed to enter into and to perform the Operating Agreement, which is likewise attached hereto.

THE UNDERSIGNED HEREBY CERTIFIES that (a) he/she is the duly elected and qualified Secretary and the custodian of the books and records (and seal) of the Foundation, which is duly formed pursuant to the laws of the state of Illinois, (b) the foregoing is a true record of the resolution duly presented and motioned at a meeting of the Foundation held in accordance with state law and the Old Foundation By-Laws on March 23, 2017 (updated for dates and new information), (c) at such March 23, 2017 meeting a motion was made and seconded to approve this Resolution, (d) this Resolution was duly voted upon, approved and adopted at the March 30, 2017 special meeting of the Foundation, and (e) consequently, this Resolution is now in full force and effect.

IN WITNESS WHEREOF, the Secretary of the Rotary Club of McHenry Charitable Foundation, Inc. has hereunder affixed his/her name as of this 30th day of March 2017.

_____, John Halbleib, Secretary

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By-Laws¹
&
Operating Agreement
of

Rotary Club of McHenry Charitable Foundation, Inc.

¹ These are the By-Laws and Operating Agreement of the Rotary Club of McHenry Charitable Foundation, Inc., first adopted on November 25, 2008, which were revised on each of September 1, 2010, August 30, 2012, September 5, 2013, and March 30, 2017.

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**Rotary Club of McHenry Charitable Foundation, Inc.
Foundation By-Laws**

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**Rotary Club of McHenry Charitable Foundation, Inc.
Foundation By-Laws**

Rotary Club of McHenry Charitable Foundation, Inc. By-Laws²

Foundation By-Laws Article 1: Formation, Name and Definitions

Section FB-1.1. Formation.

The Rotary Club of McHenry (the “Club”) and such Club’s Members (as that term is defined in the Club’s Constitution) elected to form the **Rotary Club of McHenry Charitable Foundation, Inc.**, an Illinois not for profit corporation which is also a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Foundation”) to fund ongoing charitable/service operations on a tax exempt basis and to ensure continued sustainability of the Club’s charitable/service operations. The Foundation is a voluntary, not for profit, Illinois corporation consisting of members who are Members of the Club; their shared members are interested in developing, improving and maintaining the cultural, recreational, economic, educational and social welfare of people in the greater McHenry area and throughout the world.

Section FB-1.2. Name.

The name of this corporation shall be the **Rotary Club of McHenry Charitable Foundation, Inc.**

Section FB-1.3. Club Constitution and Rotary International.

The term “Constitution” shall mean the Constitution of the Rotary Club of McHenry, as amended from time to time as provided therein, and the term “Bylaws” shall mean the Bylaws of the Rotary Club of McHenry, as amended from time to time as provided therein. The Constitution and Bylaws are hereby incorporated into and made a part of these Rotary Club of McHenry Charitable Foundation, Inc. By-Laws (as amended from time to time, the “Foundation By-Laws”). To the extent that these Foundation By-Laws and the Rotary Club of McHenry & Rotary Club of McHenry Charitable Foundation, Inc. – Charitable/Service Operations Agreement (as amended from time to time, the “Operating Agreement”) do not expressly conflict with the RI Constitution, RI Bylaws, the Club’s Constitution (except where permitted), and the Rotary Code of Policies, these Foundation By-Laws and the Operating Agreement shall govern the operation of the Foundation. Otherwise, the Constitution and the Bylaws shall govern the operation of the Club. To the extent that these Foundation By-Laws or the Operating Agreement do expressly conflict with the RI Constitution, RI Bylaws, the Club’s Constitution (except where permitted), or the Rotary Code of Policies, the Foundation By-Laws and/or the Operating Agreement shall automatically be amended (without the need for Foundation Member vote or any other action) *mutatis mutandis*, but only to the extent needed to avoid such express conflict.

Section FB-1.4. Definitions and Cross Referencing.

(a) Incorporation of Constitution Definitions

Unless otherwise defined in these Foundation By-Laws or the Operating Agreement, all terms used in these Foundation By-Laws and the Operating Agreement, unless the context otherwise

² These are the By-Laws (followed by the Operating Agreement) of the Rotary Club of McHenry Charitable Foundation, Inc., first adopted on November 25, 2008, which were revised on each of September 1, 2010, August 30, 2012, September 5, 2013, and March 30, 2017.

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clearly requires, shall have the meanings ascribed to them in *Article 1: Definitions* of the Constitution (including such defined terms as are defined throughout the Constitution, the Bylaws, the Operating Agreement, the other Governing Documents and the Foundation Governing Documents (refer to the applicable Indexes for the locations of other defined terms)).

(b) Cross Referencing.

Note that references to an article such as to “*Foundation By-Laws Article*” and to a section such as “*Section FB-*” are references to articles and sections of these Foundation By-Laws; references to an article such as to “*OA Article*” and to a section such as “*Section OA-*” are references to articles and sections of the Operating Agreement; references to an article such as to “*Bylaws Article*” and to a section such as “*Section B-*” are references to articles and sections of the Bylaws; references to a section such as “*Section R-*” are references to sections of the Resolution for Authorizing One or More Satellite Clubs; and all others references to articles and sections (e.g., “Article” and “Section”) are references to articles and sections of the Constitution.

(c) Additional Definitions

Unless the context otherwise clearly requires, as used in these Foundation By-Laws or the Operating Agreement the following additional terms shall have the meanings ascribed to them below (and as defined throughout these Foundation By-Laws, the Constitution, the Bylaws, the Operating Agreement, the other Governing Documents and the Foundation Governing Documents (refer to the applicable Indexes for the locations of other defined terms)).

Section FB-1.4(c)(i). The terms “Annual Budget Deadline” and “Foundation Annual Budget Deadline” shall have the respective meanings ascribed to each of them in *Section OA-2.5. Annual Budgeting for the Next Fiscal Year*.

Section FB-1.4(c)(ii). The term “Available Charitable Funds” shall mean the annual amount defined as such in *Section OA-5.1. Annual Development of the Fiscal Year’s Charitable/Service Budget*, as further defined to include Foundation Endowment Account Earnings at *Subsection OA-3.2(b) Foundation Endowment Account*.

Section FB-1.4(c)(iii). The terms “Available Restricted Funds” and “Available Restricted Funds Report” shall have the respective meanings ascribed to each such term in paragraph 7 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(iv). The terms “Available Unrestricted Funds” and “Available Unrestricted Funds Report” shall have the respective meanings ascribed to each such term in paragraph 8 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(v). The term “Benefits Account” means the checking account owned by the Foundation (currently at the McHenry Savings Bank and known as checking account number 1020004055), referred to as the “Benefits Account” and sometimes referred to as the “Blues, Brews & Barbecue Account”, and shall also mean any successor account.

Section FB-1.4(c)(vi). The terms “Benefits Committee Report”, “Benefits Disbursements”, “Benefits Funding”, “Benefits Receipts”, “Minimum Benefits Account Balance”, “Transferred Benefits Funding”, and “Year End Transferred Benefits Funding” shall have the respective meaning ascribed to each such term in paragraph 1 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

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Section FB-1.4(c)(vii). The term “Bylaws” shall have the meaning ascribed to it in *Subsection FB-1.3. Club Constitution and Rotary International*.

Section FB-1.4(c)(viii). The term “Calendar Year Reports” shall have the meaning ascribed to such term in *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(ix). The term “Calendar Year Reports Deadline” shall have the meaning ascribed to such term in *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(x). The term “Chairperson” shall mean the Foundation Officer described in *Section FB-5.2. Chairperson* who is duly elected or appointed pursuant to *Foundation By-Laws Article 5: Officers*.

Section FB-1.4(c)(xi). The term “Charitable/Service Budget Allocation Guidelines” shall have the meaning ascribed is *Subsection OA-5.3.(b)* of the Operating Agreement.

Section FB-1.4(c)(xii). The term “Chuck & Lois Peterson Endowment Account” means the account currently known as the *Rotary Club of McHenry Charitable Foundation Chuck & Lois Peterson Endowment* (Morgan Stanley investment account number 628-033273), and shall also mean any successor account. This account was established by Chuck & Lois Peterson as an endowment in the amount of Twenty-Five Thousand Dollars (\$25,000.00). Only earnings can be distributed and such distribution of earnings is restricted to: The Home of the Sparrow, Inc. (McHenry, IL) (herein referred to as “Home of the Sparrow”), FISH of McHenry, Inc. (herein referred to as “FISH”) and the Rotary Club of McHenry Charitable Foundation (that is, this Foundation) in the percentages designated in their formation document. This Chuck & Lois Peterson Endowment Account has it's own checkbook and disbursements are made via check based upon Foundation Board direction. Based upon a written cash donation dated July 5, 2012, here are the attributes of the “Chuck & Lois Peterson Charitable Endowment of the Rotary Club of McHenry Charitable Foundation” (herein, the “Rotary Club of McHenry Charitable Foundation Chuck & Lois Peterson Endowment”):

- Lois Peterson provided a cash contribution to The Rotary Club of McHenry Charitable Foundation in memory of her husband Chuck Peterson, which was endowed and named as follows;
- The “Chuck & Lois Peterson Charitable Endowment of the Rotary Club of McHenry Charitable Foundation”;
- "To provide for the granting of funds as indicated for local charitable purposes consistent with the philosophy and guidelines of the Rotary Club of McHenry”;
- The original corpus was Twenty-Five Thousand Dollars (\$25,000.00) and as of the end of calendar year 2016 such corpus remained Twenty-Five Thousand Dollars (\$25,000.00) (the “Chuck & Lois Peterson Charitable Endowment Corpus”), which is subject to these restrictions(the “Chuck & Lois Peterson Charitable Endowment Restrictions”):
 - the Chuck & Lois Peterson Charitable Endowment Corpus is to be held in a perpetual endowment account entitled “Chuck & Lois Peterson Charitable Endowment” as a sub-account of the Rotary Club of McHenry Charitable Foundation;
 - only the allocated income/earnings (e.g., interest, dividends and etc.) on such

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Chuck & Lois Peterson Charitable Endowment Corpus (and other assets in such endowment) (herein referred to as the “**Chuck & Lois Peterson Charitable Endowment Earnings**”) from such account are to be utilized as donations for charitable purposes in the greater McHenry, Illinois area;

- the Chuck & Lois Peterson Charitable Endowment Corpus shall remain in perpetuity with only the Chuck & Lois Peterson Charitable Endowment Earnings being available for contributions, donations, contributions, grants and etc. in any Fiscal Year (or at whatever interval the Foundation Board deems appropriate) in accordance with the following:
 - Thirty Percent (30%) of the Chuck & Lois Peterson Charitable Endowment Earnings to FISH (formerly known as the McHenry area Friends in Service Here);
 - Twenty Percent (20%) of the Chuck & Lois Peterson Charitable Endowment Earnings the Home of the Sparrow; and
 - Fifty Percent (50%) of the Chuck & Lois Peterson Charitable Endowment Earnings to the Rotary Club of McHenry Charitable Foundation to be distributed to local community charitable entities within the scope of the philosophy, guidelines and mission of the Rotary Club of McHenry Charitable Foundation;
- in perpetuity in accordance with the original intent for establishing the Chuck & Lois Peterson Charitable Endowment, the Foundation shall have the sole authority with respect to all distributions, contributions or grants of Chuck & Lois Peterson Charitable Endowment Earnings; and
- the Foundation may adopt whatever additional by-laws it deems necessary to accept and administer such donation.

Section FB-1.4(c)(xiii). The term “**Club**” shall have the meaning ascribed to it in *Section FB-1.1. Formation.*

Section FB-1.4(c)(xiv). The term “**Club Funding**” shall have the meaning ascribed to it in *Subsection FB-8.1(b) Classification of Funds* and *Section OA-2.2. Club, Restricted and Unrestricted Funding.*

Section FB-1.4(c)(xv). The terms “**Club Operating Costs**” and “**Club Treasurer Operating Cost Report**” shall have the respective meanings ascribed to each such term in paragraph 4 of *Section OA-2.4. Calendar Year Reports and Related Funding.*

Section FB-1.4(c)(xvi). The term “**Club’s Checking Account**” shall have the meaning ascribed to it in paragraph 6 of *Subsection OA-2.5(b).*

Section FB-1.4(c)(xvii). The term “**Constitution**” shall have the meaning ascribed to it in *Section FB-1.3. Club Constitution and Rotary International.*

Section FB-1.4(c)(xviii). The term “**Corpus Funds**” shall mean and include (i) the Chuck & Lois Peterson Charitable Endowment Corpus; (ii) the Harry Dean Memorial Scholarship Corpus; (iii) the Foundation Endowment Amount; as well as (iv) each and every other funds or accounts

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which is or are subject to the restriction that such funds or account are never to be touched, distributed, or otherwise utilized (other than to be invested so as to generate earnings or some other return on investment).

Section FB-1.4(c)(xix). The term “Donor Advised Funds” shall mean those types of funds contemplated in *Subsection FB-8.1(d) Donor Advised Funds* and accepted by the Foundation.

Section FB-1.4(c)(xx). The term “Eligible High School” shall have the meaning set forth in *Subsection OA-4.2(a)*.

Section FB-1.4(c)(xxi). The term “Eligible Student” shall have the meaning set forth in *Subsection OA-4.2(a)*.

Section FB-1.4(c)(xxii). The terms “Federal Employer Identification Number”, “Employer Identification Number”, and “EIN” shall mean 26-2442569.

Section FB-1.4(c)(xxiii). For purposes of clarity, the terms “Fiscal Year” and “Year” for purposes of the Foundation shall be defined in the same manner as such terms are defined in the Constitution of the Club; thus, the Fiscal Year of the Foundation shall end on June 30. Refer to *Section FB-8.6. Fiscal Year* for further clarification.

Section FB-1.4(c)(xxiv). The term “Foundation” shall have the meaning ascribed to it in *Section FB-1.1. Formation*.

Section FB-1.4(c)(xxv). The term “Foundation Accounts” refers to the various investment accounts and checking accounts of the Foundation, which currently include the Main Foundation Account, the Foundation Endowment Account, the Harry Dean Endowment Account, the Chuck & Lois Peterson Endowment Account, the Foundation Checking Account (if any), the Benefits Account, and all other accounts (whether investment, checking, savings, or of any other nature) owned or controlled by the Foundation.

Section FB-1.4(c)(xxvi). The term “Foundation Account Performance Report” shall have the meaning ascribed to such term in paragraph 6 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(xxvii). For purposes of clarity, the terms “Foundation Annual Budget” and “Foundation Budget” shall mean each of the budgets contemplated in the first paragraph of *Section FB-8.3. Foundation Annual Budget* and shall have the respective meanings ascribed to each in the second paragraph of *Section FB-8.3. Foundation Annual Budget*, prepared by the Foundation Board as contemplated by said *Section FB-8.3*.

Section FB-1.4(c)(xxviii). The terms “Foundation Annual Financial Review”, “Foundation Annual Financial Statement” and “Foundation Annual Financial Statement Deadline” shall have the respective meanings ascribed to each of them in *Section FB-8.5. Annual Review, Calendar Year Reports, and Other Financial Reporting*.

Section FB-1.4(c)(xxix). The terms “Foundation Annual Meeting”, “Foundation Board Annual Meeting”, “Foundation Board Regular Meeting”, “Foundation Board Special Meeting”, and “Foundation Member Special Meeting” shall have the respective meaning ascribed to each such term in *Section FB-7.1. Annual Meetings* and *Section FB-7.2. Regular and Special Meetings*.

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Section FB-1.4(c)(xxx). The term *Foundation Approved Grants* shall have the meaning ascribed to such term in paragraph 7 of *Section OA-5.2. Service Projects Committee*.

Section FB1.4(c)(xxxi). The term “*Foundation Articles*” shall have the meaning ascribed to it in the Constitution, *Subsection B-9.7(a)* of the Club’s Bylaws, and *Section OA-1.1. Governing Documents*.

Section FB-1.4(c)(xxxii). The term “*Foundation By-Laws*” shall have the meaning ascribed to it in *Subsection FB-1.3. Club Constitution and Rotary International*.

Section FB-1.4(c)(xxxiii). the “*Foundation Charitable/Service Budget*” shall mean the Foundation Budget which is the “one in respect of the Foundation’s charitable/service operations”, prepared by the Foundation Board as contemplated by *Section FB-8.3. Foundation Annual Budget*.

Section FB-1.4(c)(xxxiv). The term “*Foundation Checking Account*” means that checking account (if any) as the Foundation may establish from time to time for the purpose of writing ordinary checks, excluding however the Benefits Account.

Section FB1.4(c)(xxxv). The term “*Foundation Director*” shall have the meaning ascribed to it in *Section FB-4.2. Composition*.

Section FB1.4(c)(xxxvi). The term “*Foundation Endowment Account*” means the account currently known as the *Rotary Club of McHenry Charitable Foundation Endowment* (Morgan Stanley investment account number 628-148629-550), and shall also mean any successor account. This is the Foundation’s endowment account and receives it's funding via internal transfer from the Main Foundation Account in amounts approved by the Foundation Board. The minimum principal amount of the Foundation Endowment Account shall be such minimum as is set from time to time by the Foundation Board by increasing the last minimum amount (confirmed by a simple majority vote of the Foundation Members at a meeting at which a Quorum of such Foundation Members are present) as contemplated by the third paragraph of *Section OA-3.1. Foundation Endowment Account* (the “*Minimum Foundation Endowment Account*”), which minimum may include increases in the balance of the Foundation Endowment Account, whether increased through investment growth or earnings (decreased through losses or market value decreases) or through the exercise of discretion by the Foundation Board by transferring funds into the Foundation Endowment Account from the Main Foundation Account (or any other source). The principal amount of such Minimum Foundation Endowment Account is also referred to herein as the “*Foundation Corpus*” or “*Foundation Endowment Amount*”, which as of December 31, 2016 has been established as Thirty Five Thousand Dollars (\$35,000). The Foundation Endowment Amount cannot be utilized by the Foundation. Rather, only the cumulative earnings from the Foundation Endowment Account minus the Foundation Endowment Amount (herein referred to as “*Foundation Endowment Account Earnings*”) are available to fund the Charitable/Service Budget amount to be funded by the Foundation. Upon Foundation Board approval, Foundation Endowment Account Earnings may be internally transferred to the Main Foundation Account for disbursement as Available Charitable Funds. The term “*Foundation Endowment Account Transfer Deadline*” shall have the meaning ascribed to such term in *Section OA-3.2(b)*. Refer to *OA Article 3: Foundation Endowment Account* for more regarding the Foundation Endowment Account.

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Section FB1.4(c)(xxxvii). The term “Foundation Endowment Account Shortfall” shall have the meaning ascribed to such term in *Subsection OA-3.2(b) Foundation Endowment Account*.

Section FB1.4(c)(xxxviii). The term “Foundation Governing Documents” shall have the meaning ascribed to it in the Constitution and in the second paragraph of *Section OA-1.1. Governing Documents*.

Section FB1.4(c)(xxxix). The term “Foundation Illinois Sales Tax Exemption” shall have the meaning ascribed to it in *Section FB-2.2. Illinois Treatment*.

Section FB-1.4(c)(xl). The term “Foundation Member” shall have the meaning ascribed to it in *Section FB-3.1. Foundation Membership* and “Foundation Member Meeting” shall mean the Foundation Annual Meeting and such other meetings of the Foundation Members duly called pursuant to *Foundation By-Laws Article 7: Meetings* (as applicable).

Section FB1.4(c)(xli). The term “Foundation Officer” shall refer to each of the officers elected or appointed pursuant to *Foundation By-Laws Article 5: Officers*, which shall include the Foundation’s Chairperson, Vice-Chairperson, Secretary, Treasurer and such other officers as are elected pursuant to *Section FB-5.6. Other Officers*.

Section FB-1.4(c)(xlii). The term “Foundation Operating Budget” shall mean the Foundation Budget which is the “one in respect of Foundation operations”, prepared by the Foundation Board (and funded) as contemplated by *Section FB-8.3. Foundation Annual Budget*.

Section FB-1.4(c)(xliii). The terms “Foundation Operating Costs” and “Foundation Treasurer Operating Cost Report” shall have the respective meanings ascribed to each such term in paragraph 5 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(xliv). The term “Foundation Tax Year” means the twelve (12) calendar months period ending June 30³ of each calendar year.

Section FB1.4(c)(xlv). The term “Governing Documents” shall have the meaning ascribed to it in the Constitution and *Section OA-1.1. Governing Documents*.

Section FB-1.4(c)(xlvi). The term Grant Candidates shall have the meaning ascribed to such term in *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(xlvii). The term Grant Candidates Minimum Requirements shall have the meaning ascribed to such term in *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(xlviii). The term “Grant Restrictions” shall mean that grants (other than those which have their own unique Restrictions) must satisfy the funding, minimum Service Projects Committee requirements, and allocation requirements imposed upon the awarding of grants as contemplated in *OA Article 5: Development and Allocations of the Charitable/Service Budget*.

Section FB-1.4(c)(xlix). The term “Guidelines for Distributions” shall mean the general guidelines set forth in *Foundation By-Laws Article 9: Guidelines for Distribution of Funds*.

Section FB-1.4(c)(l). The term “Harry Dean Endowment Account” means the account currently known as the *Rotary Club of McHenry Charitable Foundation Harry Dean Endowment* (Morgan Stanley investment account number 628-043917-550), and shall also mean any

³ Note that the current IRS Form 990-EZ and the Form AG990-IL are both filed for the twelve (12) months Fiscal Year of July 1 to June 30.

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successor account. This account was established by the Harry Dean Family for business related scholarships. The endowed amount was originally Eleven Thousand Dollars (\$11,000.00); it has remained so since its creation. It is not anticipated that any additional deposits would be made to this account. Upon direction from the Scholarship Committee funds are internally transferred to the Main Foundation Account and disbursed to the scholarship recipient via check. Based upon a motion passed on October 23, 2006, here are the attributes of the Harry Dean Memorial Scholarship Endowment, now known as the Rotary Club of McHenry Charitable Foundation Harry Dean Endowment:

- The original corpus was Ten Thousand Dollars (\$10,000) but as of the end of calendar year 2016 such corpus totaled Eleven Thousand Dollars (\$11,000) (together with such additional funds as are added to such corpus, the “**Harry Dean Memorial Scholarship Corpus**”), which is subject to these restrictions (the “**Harry Dean Memorial Scholarship Restrictions**”):
 - the Harry Dean Memorial Scholarship Corpus is to be kept in a separate account and cannot be disbursed;
 - only earnings (e.g., interest, dividends and etc.) on such Harry Dean Memorial Scholarship Corpus (and other assets in such endowment) (herein referred to as the “**Harry Dean Memorial Scholarship Earnings**”) can be used to fund the scholarships which are funded in whole or in part with such Harry Dean Memorial Scholarship Earnings;
 - the Harry Dean Memorial Scholarship Corpus and undisbursed Harry Dean Memorial Scholarship Earnings shall be invested in the same manner as other Foundation assets;
 - scholarships which are funded by the Foundation can be funded in whole or in part with such Harry Dean Memorial Scholarship Earnings; *provided, however, that* the recipients of scholarships funded in whole or in part with such Harry Dean Memorial Scholarship Earnings should be enrolled in a business or management related course, a vocation based program or such other program(s) as are approved from time to time by the Scholarship Committee;
 - grants are referred to as “**The Rotary Club of McHenry Harry Dean Memorial Scholarship**”;
 - upon a favorable vote of the Foundation Board, all or a portion of the Harry Dean Memorial Scholarship Earnings in any particular Fiscal Year can be added to the Harry Dean Memorial Scholarship Corpus, whereupon such designated Harry Dean Memorial Scholarship Earnings shall permanently become part of the Harry Dean Memorial Scholarship Corpus;
 - Recipients of The Rotary Club of McHenry Harry Dean Memorial Scholarship shall be selected by the Scholarship Committee;
 - the minimum amount of The Rotary Club of McHenry Harry Dean Memorial Scholarship is Five Hundred Dollars (\$500);
 - in any given Fiscal Year, if the Harry Dean Memorial Scholarship Earnings do

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not total at least Five Hundred Dollars (\$500), then additional funding shall be allocated from other available Foundation scholarship funds so as to achieve the minimum amount of The Rotary Club of McHenry Harry Dean Memorial Scholarship of Five Hundred Dollars (\$500); and

- in any given Fiscal Year the Harry Dean Memorial Scholarship Earnings are in excess of Five Hundred Dollars (\$500), the excess over Five Hundred Dollars (\$500) can be (i) converted to Harry Dean Memorial Scholarship Corpus, (ii) held as "retained" Harry Dean Memorial Scholarship Earnings for distribution at a later date, or (iii) utilized in such Fiscal Year as additional scholarship funding for The Rotary Club of McHenry Harry Dean Memorial Scholarship(s).

Section FB-1.4(c)(li). The term "**IRS**" shall refer to the United States of America, Department of the Treasury, Internal Revenue Service (or such successor thereof)

Section FB-1.4(c)(lii). The term "**IRS Favorable Ruling**" refers to that certain Internal Revenue Service determination letter number 308350004 dated January 7, 2009 in which the IRS determined in respect of the Foundation that: (1) it has the status of a **public charity** pursuant to Section 170(b)(1)(A)(vi); (2) it is required to file an **IRS Form 990**; (3) it's **accounting period ends December 31**⁴; (4) the **Effective Date of Exemption is December 13, 2007** (the date on which it was incorporated in Illinois); (5) **contributions to it are deductible**; (6) **no addendum** to such IRS Favorable Ruling applies; and (7) as follows:

We are pleased to inform you that upon review of your application for tax exempt status we have determined that you are **exempt from Federal income tax under section 501(c)(3)** of the Internal Revenue Code. **Contributions** to you are **deductible under section 170** of the Code. You are also **qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522** of the Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Organizations exempt under section 501(c)(3) of the Code are further classified as either public charities or private foundations. We determined that you are a public charity under the Code section(s) listed in the heading of this letter.

Please see enclosed ***Publication 4221-PC, Compliance Guide for 501(c) (3) Public Charities***, for some helpful information about your responsibilities as an exempt organization.

Section FB-1.4(c)(liii). Based on a motion approved on November 19, 2015 by the Foundation Board approving the Kathy Pelz Scholarship Resolution, the term "**Kathy Pelz Scholarship**" shall mean that certain scholarship arising pursuant to the following incorporated and accepted operating procedures of the Foundation (the "**Kathy Pelz Scholarship Restrictions**"):

- The Kathy Pelz Scholarship will be funded by monies donated to the Rotary Club of McHenry Charitable Foundation in Kathy Pelz's name;
- any funds received by the Foundation identified for the Kathy Pelz Scholarship shall be separately accounted for from other Foundation funds and used exclusively for the Kathy

⁴ Note that the current IRS Form 990-EZ and the Form AG990-IL are both filed for the twelve (12) months Fiscal Year of July 1 to June 30.

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Pelz Scholarship awards, additionally any investment income generated by the Kathy Pelz funds shall be accented for and retained by the fund;

- as of December 31, 2016, funding of the Kathy Pelz Scholarship has been added to the Main Foundation Account, the principal amount of funding for the Kathy Pelz Scholarship has totaled Three Thousand Five Hundred Dollars (\$3,500), and yield (whether increase in market value or earnings) on such amount shall be allocated on a pro-rated basis (comparing the funded principal amount to the totals in the Main Foundation Account) based on the overall yield on the Main Foundation Account; and
- disbursement of scholarship funds held shall be at the direction of the Scholarship Committee with no further action of the Foundation Board.

Section FB-1.4(c)(liv). The term “Main Foundation Account” means the account currently known as the *Rotary Club of McHenry Charitable Foundation* (Morgan Stanley investment account number 628-1486236-550), and shall also mean any successor account. This investment account accepts deposits from fund raisers and contributions for any other sources; it also holds funds designated for the Kathy Pelz Scholarship. Amounts from the Main Foundation Account are disbursed via checks. This is the main investment account of the Foundation.

Section FB-1.4(c)(lv). The term Major Grant shall have the meaning ascribed to such term in paragraph 6 of *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(lvi). The terms “Memorial Donation” and “Memorial” mean any gift, contribution, donation, bequest, designation of the Foundation as beneficiary (or recipient), or any other such transfer to the Foundation which serves to memorialize, honor or give recognition to any person or entity. The term “Memorials” has the meaning ascribed to such term in *Subsection OA-5.3(c)* regarding Memorials initiated and funded by the Foundation.

Section FB-1.4(c)(lvii). The term Minor Grant shall have the meaning ascribed to such term in paragraph 6 of *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(lviii). The term “Operating Agreement” shall mean that certain Charitable/Service Operations Agreement dated as of March 30, 2017 by and between the Rotary Club of McHenry and the Rotary Club of McHenry Charitable Foundation, Inc., as amended from time to time, which Operating Agreement shall be one of the documents included in the definition of “Foundation Governing Documents”.

Section FB-1.4(c)(lix). The term Proposed Grant shall have the meaning ascribed to such term in paragraph 1 of *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(lx). The term “Quorum” shall mean the minimum number of participants who must be present when a vote is taken, which Quorum (a) for the Club is (i) one-third of the Members for Club decisions and (ii) a majority of the Directors for Board decisions,⁵ and (b) for the Foundation is (i) a simple majority of the Foundation Members for Foundation decisions and (ii) four (4) Foundation Directors (that is, members of the Foundation Board) then in office for Foundation Board decisions (noting that at least four (4) Foundation Directors’ supporting votes are required to take action by the Foundation Board).

⁵ RI permits each club to choose how it defines a quorum for voting purposes. This definition is the definition recommended by RI.

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Section FB-1.4(c)(lxi). The term **Recommended Grant** shall have the meaning ascribed to such term in paragraph 5 of *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(lxii). The term **Recommended Grant Amount** shall have the meaning ascribed to such term in paragraph 5 of *Section OA-5.2. Service Projects Committee*.

Section FB-1.4(c)(lxiii). The term **“Restricted Funds”** shall mean and include (i) all endowments, funds, assets, and other resources which are subject to the Chuck & Lois Peterson Charitable Endowment Restrictions, Harry Dean Memorial Scholarship Restrictions, Kathy Pelz Scholarship Restrictions, or any other restrictions, and (ii) all Corpus Funds; and the term **“Restricted Funds”** shall have such general meaning as is ascribed to it in *Subsection FB-8.1(b) Classification of Funds*, *Subsection FB-8.1(d) Donor Advised Funds*, and *Section OA-2.2. Club, Restricted and Unrestricted Funding*.

Section FB-1.4(c)(lxiv). The term **“Restrictions”** shall mean (i) the Chuck & Lois Peterson Charitable Endowment Restrictions; (ii) the Harry Dean Memorial Scholarship Restrictions; (iii) the Kathy Pelz Scholarship Restrictions; (iv) those restrictions which are imposed on the Corpus Funds; (v) to the extent that Available Charitable Funds have been allocated to a Scholarship Budget in any particular Fiscal Year, then those Scholarship Restrictions as are applicable to the Scholarship Program; and (vi) each and every other restriction applicable to particular funds or accounts including each other restriction arising from time to time in association with any bequest, donation or endowment made to the Foundation, in each case, to the extent applicable to each particular fund(s) or accounts.

Section FB-1.4(c)(lxv). The term **“Rotary Foundation”** shall mean The Rotary Foundation of Rotary International, an Illinois not-for-profit corporation (and its successors).

Section FB-1.4(c)(lxvi). The term **“Scholarship Budget”** shall have the meaning set forth in *Section OA-4.1. Scholarship Committee Composition* of the Operating Agreement.

Section FB-1.4(c)(lxvii). The term **“Scholarship Committee”** shall mean the committee described in *OA Article 4: Scholarships* of the Operating Agreement.

Section FB-1.4(c)(lxviii). The term **“Scholarship Committee Report”** shall have the meaning ascribed to such term in paragraph 2 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(lxix). The term **“Scholarship Program”** shall have the meaning set forth in *Section OA-4.1. Scholarship Committee Composition* as the scholarship program operated consistent with *OA Article 4: Scholarships* of the Operating Agreement.

Section FB-1.4(c)(lxx). The term **“Scholarship Restrictions”** shall mean the restrictions imposed on the awarding of scholarship as contemplated in *OA Article 4: Scholarships* of the Operating Agreement.

Section FB-1.4(c)(lxxi). The term **“Scholarship Selection Criteria”** shall have the meaning set forth in *Subsection OA-4.2(d)*.

Section FB-1.4(c)(lxxii). The term **“Scholarships”** shall have the meaning set forth in *Subsection OA-4.2(a)*.

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Section FB-1.4(c)(lxxiii). The term “Secretary” shall mean the Foundation Officer described in *Section FB-5.4. Secretary* who is duly elected or appointed pursuant to *Foundation By-Laws Article 5: Officers*.

Section FB-1.4(c)(lxxiv). The term “Service Projects Committee Report” shall have the meaning ascribed to such term in paragraph 3 of *Section OA-2.4. Calendar Year Reports and Related Funding*.

Section FB-1.4(c)(lxxv). The term “Service Projects Subcommittee”) shall mean each of these subcommittees thereof: the “Community Service Projects Subcommittee” (Chaired by the Director of Community Service); the “International Service Projects Subcommittee” (Chaired by the Director of International Service); the “Vocational Service Projects Subcommittee” (Chaired by the Director of Vocational Service); and the “Youth Service Projects Subcommittee” (Chaired by the Director of Youth Service).

Section FB-1.4(c)(lxxvi). The term “Service Projects Subcommittee Deadline” shall have the meaning ascribed to such term in the last paragraph of *Subsection OA-2.1(b)(ii) Vocational, Community, International, and Youth Service*.

Section FB-1.4(c)(lxxvii). The term “Service Projects Subcommittee Responsibilities” shall have the meaning ascribed to such term in the first paragraph of *Subsection OA-2.1(b)(ii) Vocational, Community, International, and Youth Service*.

Section FB-1.4(c)(lxxviii). The term “Service Projects Subcommittee Strategic Plan” shall have the meaning ascribed to such term in the last paragraph of *Subsection OA-2.1(b)(ii) Vocational, Community, International, and Youth Service*.

Section FB-1.4(c)(lxxix). The term “Treasurer” shall mean the Foundation Officer described in *Section FB-5.5. Treasurer* who is duly elected or appointed pursuant to *Foundation By-Laws Article 5: Officers*.

Section FB-1.4(c)(lxxx). The term “Unrestricted Funds” refers to all available funds of the Foundation which are not Restricted Funds or Club Funding; and the term “Unrestricted Funds” shall have such general meaning as is ascribed to it in *Subsection FB-8.1(b) Classification of Funds*, and *Subsection FB-8.1(g) Unrestricted Funds*, and *Section OA-2.2. Club, Restricted and Unrestricted Funding*.

Section FB-1.4(c)(lxxxi). The term “Vice-Chairperson” shall mean the Foundation Officer described in *Section FB-5.3. Vice-Chairperson* who is duly elected or appointed pursuant to *Foundation By-Laws Article 5: Officers*.

Section FB-1.4(c)(lxxxii). The term “Youth Service Projects Subcommittee Strategic Plan” shall have the meaning ascribed to such term at the beginning of *OA Article 4: Scholarships*.

Foundation By-Laws Article 2: Tax Exempt Status

Section FB-2.1. Federal Tax Treatment

The Foundation has applied for and received Section 501(c)(3) "charitable tax exemption". In the IRS Favorable Ruling in that certain Internal Revenue Service determination letter number 308350004 dated January 7, 2009, the IRS determined in respect of the Foundation that: (1) it

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has the status of a **public charity** pursuant to Section 170(b)(1)(A)(vi); (2) it is required to file an **IRS Form 990**; (3) it's **accounting period ends December 31⁶**; (4) the **Effective Date of Exemption is December 13, 2007** (the date on which it was incorporated in Illinois); (5) **contributions to it are deductible**; (6) **no addendum** to such IRS Favorable Ruling applies; and (7) as follows:

We are pleased to inform you that upon review of your application for tax exempt status we have determined that you are **exempt from Federal income tax under section 501(c)(3)** of the Internal Revenue Code. **Contributions** to you are **deductible under section 170** of the Code. You are also **qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522** of the Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Organizations exempt under section 501(c)(3) of the Code are further classified as either public charities or private foundations. We determined that you are a public charity under the Code section(s) listed in the heading of this letter.

Please see enclosed ***Publication 4221-PC, Compliance Guide for 501(c) (3) Public Charities***, for some helpful information about your responsibilities as an exempt organization

This designation allows exemption from Federal income taxes for most types of revenue. Moreover, it is recognized as a public charity by the IRS. Donations to The Rotary Club of McHenry Charitable Foundation Inc. are thus treated by the IRS as donations and grants made to a public charity.

Section FB-2.2. Illinois Treatment

The Foundation applied for, and on February 7, 2017 was issued, Illinois Sales Tax Exemption Certificate (the “***Foundation Illinois Sales Tax Exemption***”), which Foundation Illinois Sales Tax Exemption is numbered E99001571 issued for a Charitable organization with an Issue Date of 02/07/2017 and an Expiration Date of 03/01/2022, and which states “This entity is authorized under the Retailers' Occupation Tax Act to purchase tangible personal property for use or consumption tax-free.”

Section FB-2.3. Maintenance of Tax Exempt Status

The Foundation Directors and the Foundation Members shall use their reasonable efforts to maintain and preserve the tax exempt statuses described in *Section FB-2-1. Federal Tax Treatment* and *Section FB-2.2. Illinois Treatment*; *provided, however, that* such reasonable efforts to maintain and preserve the tax exempt statuses shall be the Foundation's responsibility and shall be limited to the resources and funds of the Foundation.

⁶ Note that the current IRS Form 990-EZ and the Form AG990-IL are both filed for the twelve (12) months Fiscal Year of July 1 to June 30.

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Foundation By-Laws Article 3: Membership, Dues and Contributions

Section FB-3.1. Foundation Membership

All Members in good standing of the Club shall be members of the Foundation (each of which is herein referred to as a “**Foundation Member**”). No membership certificate shall be required.

Section FB-3.2. Dues

No dues shall be required of Foundation Members in their capacities as members of the Rotary Club of McHenry Charitable Foundation, Inc.

Section FB-3.3. Termination of Foundation Membership

Any Foundation Member who fails to remain a Member in good standing of the Rotary Club of McHenry (as determined by the Board of the Rotary Club of McHenry) shall automatically and simultaneously be dropped as a Foundation Member. Any former Foundation Member who is reinstated as a Member in good standing of the Club shall automatically and simultaneously be reinstated as a Foundation Member.

Section FB-3.4. Acceptance of Contributions by the Foundation Board

All contributions to the Foundation shall be subject to the approval of the Foundation Board. All funds of Foundation shall be separated from and not commingled with the funds of the Club.

Section FB-3.5. Contributions must be Voluntary

All contributions must be voluntary. No contributions shall be solicited or secured by undue force, job discrimination, or financial reprisal, or by the threat of same.

Section FB-3.6. No Personal Benefit to Members or Contributors and Segregation of Funds

No part of the contributions (or earnings thereon) to (or other assets of) the Foundation shall inure to the benefit of, or be distributable to, Foundation Members, Foundation Directors, Foundation Officers or private persons; *provided, however*, that the Foundation shall be authorized and empowered to pay reasonable compensation for services rendered (or assets received) and to make payments and distributions in furtherance of the purposes set forth in these Foundation By-Laws. No substantial part of the activities of the Foundation shall be the carrying on or propaganda, or otherwise attempting to influence legislation, and the Foundation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office. Notwithstanding any other provisions of these activities, the Foundation shall not carry on any other activities not permitted to carried on (a) by a corporation exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).

Foundation By-Laws Article 4: Board of Directors

Section FB-4.1. Duties

The Foundation Board shall manage the affairs of the Foundation.

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Section FB-4.2. Composition

The Foundation Board shall consist of seven (7) members, who are elected or appointed as provided in this *Foundation By-Laws Article 4: Board of Directors* and who are referred to as the “**Foundation Directors**”.

Section FB-4.3. Selection and Terms

The Foundation Board shall be comprised of the current Club President, the current Club Treasurer and five (5) members at large. The five (5) members-at-large shall be elected by the Foundation Members and serve a term of three-years or until their successors are elected and qualified. The candidate who receives a majority of the votes is declared elected. All terms shall begin July 1 of any given year and end June 30 of any given year (at the end of each such three-year term), in sync with the Fiscal Year.

Section FB-4.4. Removal and Vacancies

Any Foundation Director may be removed by an affirmative vote of the majority of the Foundation Board when in its judgment the best interests of the Foundation would be served thereby. Foundation Board vacancies shall be filled in the same manner set forth above in *Section FB-4.3. Selection and Terms* for the election of Foundation Directors by Foundation Members (or if the vacancy arises in connection with the current Club President or Club Treasurer, then such vacancy shall be filled as provided in the Club Bylaws (See *Section B-3.4. Vacancies* and *Section B-3.5. Vacancy of Officer/Director Elect*)) and such successor shall serve the remaining term of such Foundation Board vacancy.

Foundation By-Laws Article 5: Officers

Section FB-5.1. Designation, Election, Terms

The officers of the Foundation (herein referred to as “**Foundation Officers**”) shall include a Chairperson, a Vice-Chairperson, a Secretary, a Treasurer, and such other officers (if any) as are elected pursuant to *Section FB-5.6. Other Officers*. Each Foundation Officer (other than the Foundation’s Treasurer who shall be the Treasurer of the Club) shall be elected by the Foundation Board from among the Foundation Directors. They shall be elected at the start of each Fiscal Year, or as soon thereafter as convenient. They shall serve a term of three years or until their successors are elected and qualified; *provided however*, that the Foundation Treasurer shall be the Treasurer of the Club.

Any vacancy shall be filled by election by the Foundation Board of one of the remaining Foundation Directors, and the person so elected shall serve for the unexpired term remaining of the vacancy to be filled.

Section FB-5.2. Chairperson

The Chairperson shall be the chief executive officer of the Foundation and shall preside at meetings of the Foundation, the Foundation Board, and the Foundation Members. Other than the Scholarship Committee and the Committees of the Club, the Chairperson shall appoint any committees, committee chairmen and committee members of the Foundation. The Chairperson shall discharge all duties incident to the office of Chairperson and such other duties as may be prescribed by the Foundation Board.

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The duties of the Chairperson include (i) presiding at meetings of the Foundation, the Foundation Board, and the Foundation Members, (ii) serving as a Foundation Director, (iii) performing such other duties as may be prescribed by the Foundation Board, and (iv) performing such other duties as ordinarily pertain to the office of chief executive officer of a corporation exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).

Section B-5.3. Vice-Chairperson.

The duties of the Vice-Chairperson include (i) in the absence of the Chairperson, presiding at meetings of the Foundation, the Foundation Board, and the Foundation Members, (ii) serving as a Foundation Director, (iii) performing such other duties as may be prescribed by the Chairperson or the Foundation Board, and (iv) performing such other duties as ordinarily pertain to the office of the vice-president of a corporation exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).

In the absence of the Chairperson, or in the event of the Chairperson being unable or refusing to act, the Vice-Chairperson shall perform the duties of the Chairperson, and when so acting, shall have all the powers and be subject to all the restrictions upon the Chairperson.

Section FB-5.4. Secretary

The duties of the Secretary of the Foundation shall include performing such duties as are commonly ascribed to this office or as shall be prescribed by the Foundation Board, including: (i) transcribing and maintaining the minutes of the meetings of the Foundation, the Foundation Board, and the Foundation Members, (ii) serving as custodian of the corporate seal and other corporate records; *provided, however*, that such custodianship may be fulfilled by uploading such records to “ClubRunner” or such other electronic means as is utilized by the Club and/or the Foundation and *provided further, however*, that, all other Foundation Officers and Foundation Directors shall ensure that such corporate records are promptly prepared, gathered and delivered to the Secretary to facilitate each Secretary’s fulfillment of the Secretary’s duties; and (iii) serving as a Foundation Director. Upon retirement from office, each retiring Secretary shall deliver and surrender to the incoming Secretary or to the Chairperson all such records as have been maintained by said retiring Secretary.

Section FB-5.5. Treasurer.

The duties of the Treasurer of the Foundation shall include (i) having custody of all Foundation funds, (ii) collecting and disbursing all monies in accordance with the instructions of the Foundation Board, (iii) accounting for such Foundation funds to the Foundation Members (a) no less than annually and (b) at any other time upon demand by the Foundation Board, (iv) serving as a Foundation Director, (v) performing such other duties as may be prescribed by the Foundation Board, (vi) keeping full accurate accounts, preparing and presenting financial statements, and preparing and filing of all reports to governmental authorities required by law or directed to be filed by the Foundation Board, and (vii) performing such other duties as pertain to the office of Treasurer of a corporation exempt from Federal income tax under Section 501 (c) (3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law). Upon retirement from office, each retiring Treasurer shall deliver and surrender to the incoming Treasurer or to the Chairperson all funds, books of account(s), or

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any other Foundation property as have been within the control of said retiring Treasurer.

If the Foundation Board directs, the Treasurer shall give bond for the faithful discharge of his/her duties in the sum and with such surety or sureties as the Foundation Board shall determine. The premium for such bond shall be paid by the Foundation.

Section FB-5.6. Other Officers

The Foundation Board may create, and by its own election, fill other offices.

Section FB-5.8. Removal and Vacancies

Any Foundation Officer elected by the Foundation Board may be removed by an affirmative vote of the majority of the Foundation Board when in its judgment the best interests of the Foundation would be served thereby. Foundation Officer vacancies shall be filled in the same manner.

Foundation By-Laws Article 6: Compensation and Indemnification

The Foundation Directors and the Foundation Officers shall serve without compensation, but, by resolution of the Foundation Board, Foundation Officers and Foundation Directors may be reimbursed for the reasonable out-of-pocket costs of serving as Foundation Directors and Foundation Officers. Nothing herein shall be construed to preclude any Foundation Director or Foundation Officer from serving the Foundation in any other capacity and receiving reasonable compensation therefore. Furthermore, the Foundation shall indemnify its officers and directors to the full extent permitted by Illinois law. The Foundation may, to such extent and in such manner as is determined by the Foundation Board, but in no event to an extent greater than is permitted by Illinois law, indemnify any employees or agents of the Foundation permitted to be indemnified by provisions of Illinois law. If the Foundation Board requires the Treasurer to give bond for the faithful discharge of his/her duties as contemplated by *Section FB-5.5 Treasurer*, the premium for such bond shall be paid by the Foundation.

Foundation By-Laws Article 7: Meetings

Section FB-7.1. Annual Meetings

The annual meeting of the Foundation Members (the “**Foundation Annual Meeting**”) shall be held in December during a Regular Meeting of the Club, with no less than one (1) week notice given prior to such Foundation Annual Meeting by announcement at a Regular Meeting of the Club, through the Reel or by email to the Foundation Members. The annual meeting of the Foundation Board (the “**Foundation Board Annual Meeting**”) shall be held immediately after and at the same place as the Foundation Annual Meeting of the Foundation Members, without further notice other than these By- Laws.

Section FB-7.2. Regular and Special Meetings

The Foundation Board may provide by resolution the time and place for the holding of any regular meetings of the Board (each, a “**Foundation Board Regular Meeting**”). Special meetings of the Foundation Board (each, a “**Foundation Board Special Meeting**”) and special meetings of the Foundation Members (each, a “**Foundation Member Special Meeting**”) may be called by the Foundation Chairperson on his or her own initiative, or shall be called upon the

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written request of three (3) Foundation Directors (presented to the Chairperson or the Secretary of the Foundation).

Section FB-7.3. Quorum and Votes at Meetings of Foundation Directors

Four (4) Foundation Directors then in office shall constitute a Quorum for the transaction of business at Foundation Board meetings. Action by the Foundation Board shall be taken by the affirmative vote of four (4) of the Foundation Directors. A vote by email (or other satisfactory electronic means) shall be considered a valid vote.

Section FB-7.4. Quorum and Votes at Meetings of Members

A simple majority of the Foundation Members shall constitute a “Quorum” for the transaction of business at meetings of Foundation Members. Action by the Foundation Members shall be taken by the affirmative vote of a majority of the Foundation Members in attendance, so long as a Quorum is present; *provided, however*, that in any event not less than one third (1/3) of all Foundation Members voting in the affirmative is required for a Foundation Member motion to pass. At any Foundation Member meeting in which a Quorum is present and a vote is taken, the result of that vote is valid (and email voting is not required).

Section FB-7.5. Notice

Prior notice of any Foundation Board Regular Meeting or any Foundation Board Special Meeting shall be given at least five (5) days (or more) by the Chairperson (or the Secretary if called by Foundation Directors) by announcement at a Regular Meeting of the Club, through the Reel or by email to the Foundation Members. Prior notice of any Foundation Member Special Meetings shall be given at least one (1) week prior to such meeting by announcement at a Regular Meeting of the Club, through the Reel or by email to the Foundation Members.

Reasonable efforts⁷ shall be made to provide advanced notice of the date, time, location and agenda of all Foundation Annual Meetings, Foundation Board Annual Meetings, Foundation Board Regular Meetings, Foundation Board Special Meetings, and Foundation Member Special Meetings so as to afford each Foundation Member an opportunity to attend such meetings.

Foundation By-Laws Article 8: Foundation Finances

Section FB-8.1. Donations, Benefits, Fundraisers and Other Sources of Funding.

(a) General

The IRS Favorable Ruling is set forth in that certain Internal Revenue Service determination letter number 308350004 dated January 7, 2009 in which the IRS determined in respect of the Foundation that: (1) it has the status of a public charity pursuant to Section 170(b)(1)(A)(vi);⁸ (2)

⁷ This may include the circulation of a meetings schedule, announcements at other meetings (including Club meetings) and electronic means (e.g., email, text messaging and any other common electronic method).

⁸ As a public charity pursuant to Section 170(b)(1)(A)(vi), the IRS views the Foundation as “(vi) an organization referred to in subsection (c)(2) which normally receives a substantial part of its support (exclusive of income received in the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501(a)) from a governmental unit referred to in subsection (c)(1) or from direct or indirect contributions from the general public,” That is, under “(c)(2)” “(c) Charitable contribution defined – For purposes of this section, the term “charitable contribution” means a contribution or gift to or for the use of— [. . .] (2)A corporation, trust, or community chest, fund, or foundation— (A) created or organized in the United States or in any possession thereof, or under the law of the United States, any State, the District of Columbia, or any possession of the United States; (B) organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or to foster national or international amateur sports

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it is required to file an IRS Form 990; (3) it's accounting period ends December 31 (but is now ending on June 30 of each year)⁹; (4) the Effective Date of Exemption is December 13, 2007 (the date on which it was incorporated in Illinois); (5) contributions to it are deductible; (6) no addendum to such IRS Favorable Ruling applies; and (7) as follows:

We are pleased to inform you that upon review of your application for tax exempt status we have determined that you are exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. Contributions to you are deductible under section 170 of the Code. You are also qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522 of the Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Organizations exempt under section 501(c)(3) of the Code are further classified as either public charities or private foundations. We determined that you are a public charity under the Code section(s) listed in the heading of this letter.

Please see enclosed Publication 4221-PC, Compliance Guide for 501(c) (3) Public Charities, for some helpful information about your responsibilities as an exempt organization.

(b) Classification of Funds

Donations (or other funding) to the Foundation which come from or otherwise derive from (1) Club transfers of funds or (2) benefits or other fundraisers organized by the Members through the Benefits Committee (together with the earnings thereon) are herein referred to as “**Club Funding**”. To the extent that donations (or other funding) come to the Foundation from the public with Restrictions, such funds (including the earnings thereon) shall be considered “**Restricted Funds**”. To the extent that donations (or other funding) come to the Foundation from the public without Restrictions, represent earnings on investments which are likewise without Restrictions, or they are funds over which the donor expressly requested that the Foundation determine their charitable use or distribution, such donations and earnings thereon shall be considered “**Unrestricted Funds**”.

(c) Public

Contributions from the public are welcomed. Such donations to the Foundation may take any permitted form, including without limitation, larger gifts that ordinarily are made by way of estate planning strategies, but may also include (without limitation): (i) cash donations; (ii) securities which have appreciated in value such that donation to the Foundation may give rise to tax advantages for the donor; (iii) life insurance policies which name the Foundation as a beneficiary; (iv) retirement account(s) which name the Foundation as beneficiary of the donor's retirement account(s); (v) any and all such gifts as may be so named to give honor or recognition

competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals; (C) no part of the net earnings of which inures to the benefit of any private shareholder or individual; and (D) which is not disqualified for tax exemption under section 501(c)(3) by reason of attempting to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

A contribution or gift by a corporation to a trust, chest, fund, or foundation shall be deductible by reason of this paragraph only if it is to be used within the United States or any of its possessions exclusively for purposes specified in subparagraph (B). Rules similar to the rules of section 501(j) shall apply for purposes of this paragraph.”

⁹ Note that the current IRS Form 990-EZ and the Form AG990-IL are both filed for the twelve (12) months Fiscal Year of July 1 to June 30.

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to a special person, donor, organization, or business entity in perpetuity (e.g., donor acknowledgements, memorial and other such donations); as well as (vi) donations which designate potential grant or similar recipients. The income from gifts will be used in keeping with desires as indicated at the time of the gift, subject to the purpose, governance, and objectives of the Foundation. In the case of Memorial Donations, both donor and family of the person memorialized will be acknowledged. In the case of all other donations, the donor will be acknowledged.

(d) Donor Advised Funds

To the extent (and only to the extent) that accepting donor advised funds does not adversely affect the Section 501(c)(3) tax exempt status of the Foundation and the associated contributions are deductible under Section 170 of the Internal Revenue Code, “donor advised funds” may be accepted by the Foundation. Generally, a Donor Advised Fund is a separately identified fund or account that is maintained and operated by a Section 501(c)(3) organization, which is called a sponsoring organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account. Such Donor Advised Funds shall be considered “Restricted Funds” to the extent such endowments, funds, assets, and other resources are subject to any other restrictions other than the unfettered discretion of the Foundation Board.

(e) Earnings on Investments

Earnings on investments shall be classified according the classification of the underlying investment and the associated Restrictions (if applicable), unless expressly otherwise provided by the applicable donation or bequest.

(f) Unrestricted and Other Funds

If donations are made to the Foundation and such are not Restricted Funds and not Club Funding, such funds constitute Unrestricted Funds, as that term is defined in *Subsection FB-8.1(g) Unrestricted Funds*, below.

(g) Unrestricted Funds

The term “Unrestricted Funds” refers to all available funds of the Foundation which are not Restricted Funds or Club Funding. The Foundation Board shall determine the distribution or other use of such Unrestricted Funds.

Section FB-8.2. Use of Club Funding, Restricted Funds and Unrestricted Funds

The distribution or use of Club Funding, Restricted Funds and Unrestricted Funds shall be as agreed in the Operating Agreement. The distribution or use of Restricted Funds shall be determined by the respective Restrictions applicable to such Restricted Funds. The distribution or use of Club Funding, Unrestricted Funds and Available Charitable Funds are determined pursuant to said Operating Agreement.

Section FB-8.3. Foundation Annual Budget.

On or prior to the Foundation Annual Budget Deadline last preceding the beginning of each Fiscal Year, the Foundation Board shall prepare a Foundation Annual Budget of estimated

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income and expenditures for such Fiscal Year, which shall stand as the limit of expenditures by the Foundation for these purposes, unless otherwise ordered by action of the Foundation Board. The Foundation Annual Budget shall be broken into two (2) separate parts: one in respect of Foundation operations and one in respect of the Foundation's charitable/service operations.

For purposes of clarity, the terms "**Foundation Annual Budget**" and "**Foundation Budget**" shall mean each of the budgets contemplated in the first paragraph of this *Section FB-8.3. Foundation Annual Budget*. The term "**Foundation Operating Budget**" shall mean the Foundation Budget which is the "one in respect of Foundation operations" and the "**Foundation Charitable/Service Budget**" shall mean the Foundation Budget which is the "one in respect of the Foundation's charitable/service operations", in each case prepared by the Foundation Board as contemplated by this *Section FB-8.3. Foundation Annual Budget* and the Operating Agreement.

Generally, the Club's Charitable/Service Budget shall be fulfilled through the Foundation as contemplated in *Section B-9.7. Foundation; provided, however, that* in any particular Fiscal Year the Club may designate any portion of the Club's Charitable/Service Budget to be fulfilled by Member contributions of resources (e.g., labor, material, funding, and etc.) which shall be made by the contributing Member through the Foundation (rather than from existing Foundation funds) thereby discharging the Foundation's responsibilities for such designated portion. Such Member contribution (to the extent permitted) shall be recognized as a donation to the Foundation.

The Foundation Operating Budget shall be funded from the Main Foundation Account. The Foundation Charitable/Service Budget shall be funded as contemplated in the Operating Agreement from Available Charitable Funds.

Section FB-8.4. Deposits and Payment of Bills.

The Treasurer of the Foundation shall deposit all Foundation funds in one or more financial institutions designated by the Foundation Board. Consistent with the Operating Agreement, the Treasurer of the Foundation shall organize said deposits such that there is and will be sufficient and timely funding of the Foundation Operating Budget and the Foundation Charitable/Service Budget. All bills that have been either (a) approved by at least one (1) other Foundation Officer or Foundation Director or (b) is included in the Foundation Annual Budget as to amount and payee shall be paid by the Treasurer of the Foundation or another authorized Foundation Officer.

Section FB-8.5. Annual Review, Calendar Year Reports, and Other Financial Reporting.

A thorough review of all financial transactions of the Foundation by a qualified person shall be made once each year. Such "**Foundation Annual Financial Review**" shall be reported first to the Foundation Board and then to the Board and Club Members.

Foundation Members will receive an annual financial statement (the "**Foundation Annual Financial Statement**" of the Foundation in such form as is authorized by the Foundation Board. The Foundation Annual Financial Statement shall (1) be supported by the Foundation Annual Financial Review, (2) include a comparison of actual amounts to those set forth in the Foundation Annual Budget, and (3) be delivered to the Foundation Members within sixty (60) calendar days of the end of the last Fiscal Year (herein, the "**Foundation Annual Financial Statement Deadline**").

The Treasurer of the Foundation shall provide such information on a quarterly basis as facilitates the timely preparation and distribution of the Quarterly Financial Reports to the Members and

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Foundation Members. Such Quarterly Financial Reports shall well illustrate the overall financial condition of the Club and the Foundation, as well as the general sources of funds (e.g., Dues, Club sponsored benefits, and etc.), uses of funds (e.g., grants, scholarships, RI Foundation, and etc.), and assets (e.g., bank account balances, investments, and etc.).

Section FB-8.6. Fiscal Year

The Fiscal Year of the Foundation shall end on June 30; “Fiscal Year” and “Year” shall be defined in the same manner as such terms are defined in the Constitution of the Club. Thus, the term “Year” shall mean the twelve (12) months period beginning on July 1 of each calendar year and ending on the following June 30 of the next calendar year; for purposes of consistency, references to the “2017 Year” shall mean the Year beginning on July 1, 2016 and continuing through June 30, 2017. The term “Fiscal Year” means a Year and for purposes of consistency, references to the “2017 Fiscal Year” shall mean the Year beginning on July 1, 2016 and continuing through June 30, 2017, and so on for each subsequent year.

Foundation By-Laws Article 9: Guidelines for Distribution of Funds

Section FB-9.1. General

All assets, funds, and other resources owned or controlled by the Foundation shall be utilized, dispersed or otherwise distributed as provided in the Operating Agreement, and as otherwise expressly provided herein.

Section FB-9.2. Reporting to Members

A report on all actions taken by the Foundation since the last report shall be given to the Members of the Club (and Members of the Foundation) at each Regular Meeting of the Club. This report shall be given no less often than quarterly (even if there is no new action to report).

Section FB-9.3. Dissolution

Upon the dissolution of the Foundation and after paying or making provision for the payment of all of the liabilities of the Foundation (including without limitation disposition of Restricted Funds (excluding the Foundation Endowment Account) in accordance with their respective Restrictions), the Foundation Board shall dispose of all of the assets of the Foundation exclusively for the purposes of the Foundation in such manner, or to such organization or organizations organized and operated exclusively for charitable, educational, religious, or scientific purposes as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law) as the Foundation Board shall determine.

After funding sufficient resources to fulfill all grant, scholarship and other Foundation commitments that exist or are projected to exist at the time of dissolution, all remaining assets of the Foundation shall be donated to the Rotary Foundation.

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Foundation By-Laws Article 10: Amendments

Section FB-10.1. Foundation Members.

The power to alter, amend, or repeal the Foundation By-Laws or adopt new Foundation By-Laws (including without limitation, the Operating Agreement) shall be vested in the Foundation Members. Such action may be taken at any meeting of the Foundation Members for which two (2) weeks' prior written notice of the purpose shall have been given and at which a Quorum of Foundation Members are present. The Foundation By-Laws may contain any provisions for the regulation and management of the affairs of the Foundation not inconsistent with law or the Foundation Articles. A written affirmative vote of two-thirds ($2/3^{\text{rd}}$) of the total Foundation Members is required to approve and adopt any modification of the Foundation By-Laws (including the Operating Agreement). Voting may be accomplished by email or other acceptable electronic means. Immediately following the meeting, the Secretary of the Foundation will contact by email those Foundation Members not present at the meeting stating the issue being voted on, advising those not present that each has three (3) calendar days in which to vote by email directed to the Secretary.

Section FB-10.2. Review by Foundation Board

These Foundation By-Laws shall be reviewed by the Foundation Board every three (3) years, and a written record shall be kept of any recommended changes. They shall be reviewed by May of 2020 and every subsequent three (3) years thereafter.

Section FB-10.3. Foundation Board Recommendations Regarding Foundation By-Laws

The Foundation Board will report to the Foundation Members by November 15th of each review year (e.g., 2020, 2023, 2026, and etc.) regarding the Foundation Board's recommendations regarding the Foundation By-Laws so as to facilitates a vote at the next Foundation Annual Meeting.

Foundation By-Laws Article 11: Waiver of Notice

Whenever any notice is required to be given under the provisions of the General Not-For-Profit Corporation Act of Illinois or under the provisions of the Foundation Articles or the Foundation By-Laws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Foundation By-Laws Article 12: Miscellaneous

Section FB-12.1. Gender.

All gender references, including but not limited to he, she, his, her, him, her, are to include both sexes and are not meant to be gender specific.

Section FB-12.2. Compliance with Law.

If any of the provisions of these Foundation By-Laws and/or the Operating Agreement is found to be unconstitutional, or otherwise invalid, the others will continue to remain in full force and

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effect. To the extent that these Foundation By-Laws and the Operating Agreement are found to be unconstitutional, or otherwise invalid, the Foundation By-Laws and the Operating Agreement shall automatically be amended (without the need for Foundation Member vote or any other action) *mutatis mutandis*, but only to the extent needed to avoid such unconstitutionality or invalidity.

Section FB-12.3. Operating Agreement

The Foundation is hereby authorized and directed to execute, deliver, and perform the Operating Agreement, which is hereby incorporated herein and made a part hereof.

Rotary Club of McHenry
&
Rotary Club of McHenry Charitable Foundation, Inc.

**Charitable/Service
Operations Agreement**

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TO FACILITATE

TWO-SIDED PRINTING

Rotary Club of McHenry
Rotary Club of McHenry Charitable Foundation, Inc.
Charitable/Service Operations Agreement

**Rotary Club of McHenry & Rotary Club of McHenry Charitable
Foundation, Inc. – Charitable/Service Operations Agreement**

This **CHARITABLE/SERVICE OPERATIONS AGREEMENT** (as amended from time to time, the “**Operating Agreement**”) is entered into as of March 30, 2017 (effective however as of May 1, 2017) by and between the Rotary Club of McHenry, an Illinois corporation (together with its successors and assigns, the “**Club**”) and the Rotary Club of McHenry Charitable Foundation, Inc., an Illinois not for profit corporation and a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (together with its successors and assigns, the “**Foundation**”). As used herein, terms which are defined in the Governing Documents or the Foundation Governing Documents shall have the meanings ascribed to such defined terms in such Governing Documents and Foundation Governing Documents, as such terms are defined in *Section OA-1.1. Governing Documents*, below.

WHEREAS, the Club and its Members elected to form the Foundation to fund ongoing charitable/service operations on a tax exempt basis and to ensure continued sustainability of the Club’s charitable/service operations, this Operating Agreement is entered into to document their agreement regarding such ongoing charitable/service operations; and

WHEREAS, the Foundation is a voluntary, not for profit, Illinois corporation consisting of members who are Members of the Club; and

WHEREAS, their shared members are interested in developing, improving and maintaining the cultural, recreational, economic, educational and social welfare of people in the greater McHenry area and throughout the world,

NOW, THEREFORE, IT IS HEREBY AGREED:

OA Article 1: Governing Documents and Defined Terms

Section OA-1.1. Governing Documents

The Club has entered into and is governed by that certain Constitution of the Rotary Club of McHenry (as amended from time to time to the extent permitted pursuant to *Article 22: Amendments* of such Constitution, herein the “**Constitution**”), those certain Bylaws of the Rotary Club of McHenry duly adopted in accordance with *Article 20: Bylaws, Constitution and Rotary International* of said Constitution (as amended from time to time, herein the “**Bylaws**”), and this Operating Agreement, which together with any other documents which govern the activities of the Club are herein referred to as the “**Governing Documents**”.

The Foundation has entered into and is governed by the Foundation Articles (which term “**Foundation Articles**” shall have the meaning ascribed to such term in *Subsection B-9.7. Foundation, (a) General*), the Foundation By-Laws (which term “**Foundation By-Laws**” shall have the meaning ascribed to such term in *Subsection B-9.7. Foundation, (b) Foundation Membership*), and this Operating Agreement, which together with any other documents which govern the activities of the Foundation are herein referred to as the “**Foundation Governing Documents**”.

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Section OA-1.2. Definitions and Express Conflicts.

As used herein, terms which are defined in the Governing Documents or the Foundation Governing Documents shall have the meanings ascribed to such defined terms in such Governing Documents and Foundation Governing Documents. To the extent that this Operating Agreement expressly conflicts with the Governing Documents or the Foundation Governing Documents or expressly conflicts with the RI Constitution, RI Bylaws, or the Rotary Code of Policies, this Operating Agreement shall automatically be amended (without the need for Member or Foundation Member vote or any other action) *mutatis mutandis*, but only to the extent needed to avoid such express conflict.

Section OA-1.3. Separate Operation of the Club and the Foundation

(a) Members and Foundation Members

As provided in *Section FB-3.1. Foundation Membership* of the Foundation By-Laws, each Member in good standing of the Club is simultaneously a Foundation Member. It is hereby recognized and agreed that notice to Members shall constitute notice to Foundation Members and notice to Foundation Members shall constitute notice to Members.

It is further recognized and agreed a Quorum of Members and a Quorum of Foundation Members are different. For Club decisions, only one-third of the Members are required to form a Quorum; however, for Foundation decisions, a simple majority of the Foundation Members are required to form a Quorum. Moreover, notices to Members and Foundation Members must satisfy the applicable requirements as set forth in the Club's Bylaws and the Foundation By-Laws.

Therefore, at any Meeting of the Club such Meeting may go into recess and become a Foundation Member Meeting, so long as any business to be addressed, action to be taken and/or decision to be made at such newly constituted Foundation Member Meeting has been duly noticed to all Foundation Members (in accordance with the Foundation Governing Documents (or effectively waived)) and such Foundation Member Meeting is of a duly constituted Quorum of Foundation Members.

Likewise, at any Foundation Member Meeting such meeting may go into recess and become a Meeting of the Club, so long as any business to be addressed, action to be taken and/or decision to be made at such newly constituted Meeting of the Club has been duly noticed to all Members (in accordance with the Governing Documents (or effectively waived)) and such Meeting is of a duly constituted Quorum of Members of the Club.

(b) Committees

All Committees shall have the members, responsibilities, and authority as is set forth in the Governing Documents and the Foundation Governing Documents.

(c) Officers and Directors

Notwithstanding simultaneous membership in the Club and the Foundation and certain shared objects and purposes, the individuals acting as an officer and/or director of the Club or the Foundation shall (i) possess (and be vested with) such duties and responsibilities separate from his or her role as a Member and Foundation Member and (ii) owe and exercise such duties and

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responsibilities directly and separately to and on behalf of the Club and the Foundation, as the case may be.

OA Article 2: Ongoing Charitable/Service Operations

Section OA-2.1. Ongoing Charitable and Service Operations of the Club

(a) General

The purposes of the Club are to pursue the Object of Rotary, carry out successful service projects based on the Five Avenues of Service, contribute to the advancement of Rotary by strengthening Membership, support The Rotary Foundation, and develop leaders beyond the Club level. The Club and its Members elected to form the Foundation as an Illinois not for profit corporation and a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code to fund ongoing charitable/service operations on a tax exempt basis and to ensure continued sustainability of the Club's charitable/service operations. This is their Operating Agreement regarding such ongoing charitable/service operations.

(b) Five Avenues of Service

(i) General, Club Service, and Service to the Foundation

The Five Avenues of Service are described in *Article 6: Five Avenues of Service* of the Club's Constitution. Rotary's Five Avenues of Service are the philosophical and practical framework for the work of the Club, as well as the Foundation. The Five Avenues of Service are Club Service, Vocational Service, Community Service, International Service, and Youth Service. Club Service and service to the Foundation are achieved through the Governing Documents and the Foundation Governing Documents, as well as the Club's Operating Budget and the Foundation Operating Budget.

(ii) Vocational, Community, International, and Youth Service

Vocational Service, Community Service, International Service, and Youth Service will be furthered from time to time through the Club's Charitable/Service Budget and the Foundation Charitable/Service Budget. The Service Projects Committee of the Club shall be comprised of four (4) subcommittees (each is herein referred to as a "**Service Projects Subcommittee**"): the "**Community Service Projects Subcommittee**" (Chaired by the Director of Community Service), the "**International Service Projects Subcommittee**" (Chaired by the Director of International Service), the "**Vocational Service Projects Subcommittee**" (Chaired by the Director of Vocational Service), and the "**Youth Service Projects Subcommittee**" (Chaired by the Director of Youth Service). These subcommittees shall have the following responsibilities (collectively, the "**Service Projects Subcommittee Responsibilities**"):

- **Community Service Projects Subcommittee** – service projects focused upon improving the quality of life of those who live within this Club's locality or municipality (e.g., donations to FISH of McHenry, Inc., Wonder Lake Food Pantry, Pioneer Center, the Diaper Bank, participation in hands on projects such as construction, landscaping and maintenance at RotaryPark (located at the corner of Waukegan Road and Third Street), and etc.).

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- **International Service Projects Subcommittee** – service projects focused upon advancing international understanding, goodwill, and peace and projects designed to help people in other lands (e.g., donating to Rotary International’s effort to eradicate Polio, ShelterBox, projects in developing countries to provide clean water, housing, education and sanitation, and etc.).
- **Vocational Service Projects Subcommittee** – service projects focused upon promoting high ethical standards in businesses and professions, recognizing the worthiness of all dignified occupations, and fostering the ideal of service in the pursuit of all vocations, in respect of which Members will conduct themselves and their businesses in accordance with Rotary’s principles and lend their vocational skills to Club-developed projects in order to address the issues and needs of society.
- **Youth Service Projects Subcommittee** – service projects focused upon developing youth and young adults through leadership development activities, involvement in community and international service projects, and exchange programs that enrich and foster world peace and cultural understanding (e.g., sponsor high school students in McHenry and Johnsburg to attend Rotary Youth Leadership programs, scholarships for high school seniors residing in McHenry and Johnsburg who will be attending postsecondary education programs, supporting the Rotary Youth Exchange by funding outgoing high school students or hosting incoming exchange students, grants in support of advanced placement testing, and etc.).

Each Service Projects Subcommittee shall prepare and deliver to the Service Projects Committee not later than February 28 of each calendar year (the “**Service Projects Subcommittee Deadline**”) a strategic plan and associated proposed budget relative to its respective Service Projects Subcommittee Responsibilities and the achievement thereof during the next Fiscal Year (each a “**Service Projects Subcommittee Strategic Plan**”).

Section OA-2.2. Club, Restricted and Unrestricted Funding

Donations (or other funding) to the Foundation which come from or otherwise derive from (1) Club transfers of funds or (2) benefits or other fundraisers organized by the Members through the Benefits Committee (together with the earnings thereon) are herein referred to as “**Club Funding**”. To the extent that donations (or other funding) come to the Foundation from the public with Restrictions, such funds (including the earnings thereon) shall be considered “**Restricted Funds**”. To the extent that donations (or other funding) come to the Foundation from the public without Restrictions, represent earnings on investments which are likewise without Restrictions (including without limitation Foundation Endowment Account Earnings), or they are funds over which the donor expressly requested that the Foundation determine their charitable use or distribution, such donations and earnings thereon shall be considered “**Unrestricted Funds**”.

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Section OA-2.3. Annual Budgets

The Club and the Foundation shall prepare budgets.

(a) Club

As provided in the Club's Bylaws at *Section B-9.1. Annual Budget*, prior to the beginning of each Fiscal Year (but not later than the Annual Budget Deadline), the Board of the Club shall prepare an Annual Budget of estimated income and expenditures for such Fiscal Year, which shall stand as the limit of expenditures for these purposes, unless otherwise ordered by action of the Board of the Club. The Annual Budget shall be broken into two (2) separate parts: the Club's Operating Budget and the Charitable/Service Budget.

The Club's Operating Budget shall be funded through Dues paid by Members of the Club (as Members of the Club). The Club's Charitable/Service Budget shall be funded through Available Charitable Funds.

(b) Foundation

As provided in the Foundation's *Section FB-8.3. Foundation Annual Budget*, prior to the beginning of each Fiscal Year (but not later than the Foundation Annual Budget Deadline), the Foundation Board shall prepare a Foundation Annual Budget of estimated income and expenditures for such Fiscal Year, which shall stand as the limit of expenditures by the Foundation for these purposes, unless otherwise ordered by action of the Foundation Board. The Foundation Annual Budget shall be broken into two (2) separate parts: the Foundation Operating Budget and the Foundation Charitable/Service Budget.

The Foundation Operating Budget shall be funded through amounts described in Subsections OA-5.1(a) and (b) of the definition of Available Charitable Funds. That portion of the Foundation Charitable/Service Budget which funds the Club's Charitable/Service Budget shall be funded through Available Charitable Funds and the remainder of the Foundation Charitable/Service Budget shall be funded through Available Restricted Funds.

Section OA-2.4. Calendar Year Reports and Related Funding

Inasmuch as (i) the Foundation receives and invests (and reviews reporting relative to) all Club Funding, Restricted Funds, and Unrestricted Funds, (ii) the Club's Charitable/Service Budget (including any portion of the Charitable/Service Budget to be fulfilled by Member contributions of resources (e.g., labor, material, funding, and etc.) which shall be made by the contributing Member through the Foundation (rather than from existing Foundation funds)) shall be fulfilled through the Foundation, (iii) there shall be a consistent use of such Club Funding, Restricted Funds, and Unrestricted Funds from year to year, (iv) the Club's Annual Budget and the Foundation Annual Budget must be timely prepared prior to each Fiscal Year (and not later than the Annual Budget Deadline and the Foundation Annual Budget Deadline, respectively), and (v) the following reports shall be used to determine each Fiscal Year's Foundation Charitable/Service Budget (which shall include and serve as the limit upon the Club's Charitable/Service Budget for such Fiscal Year), not later than January 31 of each calendar year (the "*Calendar Year Reports Deadline*") for the twelve months period ending December 31 of the prior calendar year, the following reports shall be prepared and delivered (for each such calendar year, herein referred to as the "*Calendar Year Reports*") for such calendar year):

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1. the Benefits Committee shall report (the “**Benefits Committee Report**”) to the Board and the Foundation Board (a) on a cash basis for all benefits and other fundraisers managed by the Benefits Committee for the last calendar year: (i) the total sum received (for each such calendar year, herein referred to as “**Benefits Receipts**”), (ii) the total sum paid out or otherwise disbursed (for each such calendar year, herein referred to as “**Benefits Disbursements**”), and (iii) the excess of said total sum received over the total sum paid out or otherwise disbursed (for each such calendar year, herein, such excess is referred to as “**Benefits Funding**”), (b) the minimum amount required to remain in the Benefits Account as of the end of the last calendar year (to serve as the beginning balance as of January 1 of the next calendar year) (herein referred to as the “**Minimum Benefits Account Balance**”), (c) for the last calendar year the amount already transferred to the Main Foundation Account from the Benefits Account during such calendar year (for each such calendar year, herein referred to as the “**Transferred Benefits Funding**”), and (d) for the last calendar year, the excess of Benefits Funding over the Minimum Benefits Account Balance (for each such calendar year, herein referred to as the “**Year End Transferred Benefits Funding**”);¹⁰
2. the Scholarship Committee shall report (the “**Scholarship Committee Report**”) to the Board and the Foundation Board regarding recipients of scholarships, (a) the names, amounts, term of scholarship, educational institution (high school and post-secondary), amount paid by calendar year end, and (b) amount payable and timing of payment for each scholarship, in each case for each recipient and listed by each recipient;
3. the Service Projects Committee shall report (the “**Service Projects Committee Report**”) to the Board and the Foundation Board regarding grants and other distributions of Club Funding and Unrestricted Funds, for each such grant or other distribution and recipient: name of recipients, tax status of such recipient (e.g., 501(c)(3)), amount of awarded grant or other distribution, amount paid through such calendar yearend, amount to be paid after such calendar yearend, and the Avenue of Service (e.g., Vocational Service, Community Service, International Service or Youth Service) into which such grant or other distribution has been allocated;
4. the Treasurer of the Club shall report (the “**Club Treasurer Operating Cost Report**”) on a cash basis to the Board and the Foundation Board all operating costs of the Club (for each such calendar year, herein referred to as “**Club Operating Costs**”);
5. the Treasurer of the Foundation shall report (the “**Foundation Treasurer Operating Cost Report**”) on a cash basis to the Board and the Foundation Board all operating costs of the Foundation (e.g., Illinois Secretary of State annual report fees, Illinois Attorney General filing fee, and etc.) (for each such calendar year, herein referred to as “**Foundation Operating Costs**”);

¹⁰ Generally, available Benefits Funding should roughly equal (1) the sum of Transferred Benefits Funding, plus Year End Transferred Benefits Funding and/or (2) the sum of the starting balance of the Benefits Account, plus Benefits Receipts, minus Benefits Disbursements, minus Minimum Benefits Account Balance (assuming that the beginning and ending balance remains the same each year as the Minimum Benefits Account Balance).

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6. the Foundation Board shall report to the Board and the Foundation Board as of December 31 of such calendar year and for such calendar year for each Foundation Account (for each such calendar year, herein referred to for each such Foundation Account as such Foundation Account's "**Foundation Account Performance Report**" and collectively, as the "**Foundation Account Performance Reports**"): (a) the balance as of the beginning of such calendar year, (b) the balance as of the end of such calendar year, (c) the earnings (or losses) during such calendar year, and (d) increase or decrease in market value during such calendar year;
7. based upon the applicable Foundation Account Performance Reports and applicable Restrictions, the Foundation Board shall prepare and report (the "**Available Restricted Funds Report**") to the Board and the Foundation Board the (a) amounts and (b) uses of those Restricted Funds available for distribution (for the next Fiscal Year, the "**Available Restricted Funds**"); and
8. based upon the applicable Foundation Account Performance Reports and applicable Restrictions, the Foundation Board shall prepare and report (the "**Available Unrestricted Funds Report**") to the Board and the Foundation Board the amounts and uses of those Unrestricted Funds available for distribution (for the next Fiscal Year, the "**Available Unrestricted Funds**") and reflected in the calculation of Available Charitable Funds pursuant to *Section OA-5.1*.

Section OA-2.5. Annual Budgeting for the Next Fiscal Year

(a) Foundation

Based upon the Calendar Year Reports, the Foundation Annual Budget (including the Foundation Operating Budget and the Foundation Charitable/Service Budget) for the next Fiscal Year shall:

1. be determined by the Foundation Board as early as possible in each calendar year (but not later than March 31 (the "**Foundation Annual Budget Deadline**"));
2. be based upon information through December 31 of the prior calendar year;
3. Benefits Funding¹¹ from the prior calendar year shall be allocated to (A) the Benefits Account in an amount reasonably determined to be sufficient to continue Benefits Funding efforts in the current calendar year and (B) the Main Foundation Account in an amount equal to the excess of such Benefits Funding from the prior calendar year over that which is to remain in the Benefits Account pursuant to the foregoing Clause 3(A) (that is, the amount reasonably determined to be sufficient to continue Benefits Funding efforts in the current calendar year).
4. Unrestricted Funds¹² shall be allocated by the Foundation Board;
5. Restricted Funds shall be utilized as specified in their applicable Restrictions; and

¹¹ This is based upon the Calendar Year Reports' calculation of Benefits Funding. Refer to paragraph 1 of *Section OA 2.4*.

¹² This is based upon the Available Unrestricted Funds Report and the Available Unrestricted Funds for the next Fiscal Year. Refer to paragraph 8 of *Section OA 2.4*.

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6. the Foundation Board shall develop the Foundation Operating Budget and after considering input from the Service Projects Committee of the Club, the Foundation Charitable/Service Budget (which shall include the Club's Charitable/Service Budget to the extent funded by Foundation funding).

(b) Club

Based upon the Calendar Year Reports, the Club's Annual Budget (including the Club's Operating Budget and Charitable/Service Budget) for the next Fiscal Year shall:

1. be determined by the Club's Board as early as possible in each calendar year (but not later than March 31 (the "**Annual Budget Deadline**"));
2. be based upon information through December 31 of the prior calendar year;
3. Benefits Funding¹³ from the prior calendar year shall be allocated as provided in paragraph 3 of *Subsection OA-2.5 (a) Foundation*, above;
4. Dues of the Members shall be used to fund the Club's Operating Budget (including meals, dues paid to RI and the District, subscription fees for RI magazines and similar subscriptions, and other Operating Budget items);
5. the Board shall develop the Operating Budget and after considering input from the Service Projects Committee of the Club, the Charitable/Service Budget (which shall be timely provided to the Foundation Board and included in the Foundation Charitable/Service Budget to the extent that the Club's Charitable/Service Budget is to be funded by Foundation funds); and
6. reflect the transfer to the Foundation of amounts in the Club's checking account (the "**Club's Checking Account**") into the Main Foundation Account of such sums as exceed an amount sufficient to fund the Club's Operating Budget and an additional amount determined by the Board as prudent to fund unanticipated Club operating funding requirements.

(c) Fiscal Year Funding Shortfalls

When funds to be allocated in the normal course pursuant to Paragraphs 3 and 4 of *Subsection OA-2.5(a)* for a particular Fiscal Year fail to generate adequate funding: (a) to fulfill the desired levels of annual giving, (b) to supplement long term commitments of giving on occasions when the size of the gift that the Foundation Board wishes to provide is larger than funds available for giving for such purposes in any given Fiscal Year and is to be distributed over a period of time (i.e., Polio Eradication), and (c) to provide advance funding of expenses required for annual fundraisers arising in such Fiscal Year (after applying any existing balance in the Benefits Account), then see *Section OA-3.2. Permitted Uses of the Main Foundation Account and the Foundation Endowment Account*, below.

¹³ This is based upon the Calendar Year Reports' calculation of Benefits Funding. Refer to paragraph 1 of *Section OA 2.4*.

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(d) Benefits & Fundraising

The Benefits Committee (which is currently and informally referred to as the “**Blues, Brews & Barbecue Committee**”) shall have primary responsibility to designing, planning, organizing and managing benefits and other fundraisers. The Benefits Committee shall develop such event budgets (that is, projected receipts and expenses) as are reasonably sufficient to implement each of the benefits and other fundraisers. The Benefits Committee shall designate at least two (2) signatories for purposes of the Benefits Account and shall be fiscally responsible for the economic success of each benefit or other fundraiser. Members shall volunteer (their time, vocational skills, and other resources) as needed and available to facilitate each such benefit’s or other fundraiser’s economic success.

Reasonable requests for additional funding to be placed into the Benefits Account from the Main Foundation Account shall be promptly honored by the Foundation.

The Benefits Committee shall propose at least one (1) of its committee members to serve on the Service Projects Committee.

Section OA-2.6. Calendar Year versus Fiscal Year

References herein to information gathered for a calendar year is being utilized purely for planning purposes. All plans, budgets, and other products of the planning set forth in this Operating Agreement are intended to be for Rotary Fiscal Years developed prior to the commencement of each such Fiscal Year; thus, that which is developed using calendar year information (e.g., *Sections OA-2.4 and OA-2.5*) can be modified (upward or downward) to reflect more recent, reliable information.

OA Article 3: Foundation Endowment Account

Section OA-3.1. Foundation Endowment Account

As more fully stated in *Section FB-1.1. Formation*, the Club and its Members elected to form the Foundation to fund ongoing charitable/service operations on a tax exempt basis and to ensure continued sustainability of the Club’s charitable/service operations. Pursuant to such Club objectives (particularly the Club’s objective to ensure continued sustainability of the Club’s charitable/service operations), one ongoing shared objective of the Foundation and the Club shall be to annually increase the Foundation Endowment Account. The initial target minimum was set at Twenty-Five Thousand Dollars (\$25,000); the ending balance of the Foundation Endowment Account on December 31, 2016 was Thirty-Six Thousand Four Hundred One Dollars and Forty Six Cents (\$36,401.46).

The term “***Foundation Endowment Account***” means the account currently known as the *Rotary Club of McHenry Charitable Foundation Endowment* (Morgan Stanley investment account number 628-148629-550), and shall also mean any successor account. This is the investment account which receives its principal funding via internal transfer from the Main Foundation Account in amounts determined by the Foundation Board.

The minimum Foundation Endowment Account shall be such minimum as is set from time to time by the Foundation Board (confirmed by a simple majority vote of the Foundation Members

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at a meeting at which a Quorum of such Foundation Members are present) (the “**Minimum Foundation Endowment Account**”), which minimum may include increases in the balance of the Foundation Endowment Account, whether increased through investment growth or earnings (decreased through losses or market value decreases) or through the exercise of discretion by the Foundation Board by transferring funds into the Foundation Endowment Account from the Main Foundation Account (or any other source).

The principal amount of such Minimum Foundation Endowment Account is also referred to herein as the “**Foundation Corpus**” or “**Foundation Endowment Amount**”, which as of December 31, 2016 has been established as Thirty Five Thousand Dollars (\$35,000). The Foundation Endowment Amount cannot be utilized by the Foundation. Rather, only the cumulative earnings from the Foundation Endowment Account minus the Foundation Endowment Amount (herein referred to as “**Foundation Endowment Account Earnings**”) are available to fund the Charitable/Service Budget amount to be funded by the Foundation. Upon Foundation Board approval, Foundation Endowment Account Earnings may be internally transferred to the Main Foundation Account for disbursement as Available Charitable Funds. See *Subsection OA-3.2(b)*, below.

Section OA-3.2. Permitted Uses of the Main Foundation Account and the Foundation Endowment Account

(a) Main Foundation Account

When Benefits Funding¹⁴ and Unrestricted Funds¹⁵ derived from the prior calendar year as contemplated by paragraphs 3 and 4 of *Subsection OA-2.5 (a) Foundation* (above) for a particular Fiscal Year fail to generate adequate Fiscal Year funding (as reasonably determined by the Foundation Board) to:

- (a) fund in full the Foundation Operating Budget,
- (b) fulfill the desired levels of annual giving,
- (c) supplement long term commitments of giving on occasions when the size of the gift that the Foundation Board wishes to provide is larger than funds available for giving for such purposes in any given Fiscal Year and is to be distributed over a period of time (i.e., Polio Eradication), and
- (d) provide advance funding of expenses required for annual fundraisers arising in such Fiscal Year (after applying any existing balance in the Benefits Account), then:

First, the Board and Foundation Board may vote to modify the proposed Charitable/Service Budget and/or the Foundation Charitable/Service Budget as necessary in order to cause the Benefits Funding and Unrestricted Funds derived from the prior calendar year to be sufficient to satisfy said modified Charitable/Service Budget and/or the Foundation Charitable/Service Budget so that such Benefits Funding and Unrestricted Funds together provide adequate funding during the applicable Fiscal Year; and

¹⁴ This is based upon the Calendar Year Reports’ calculation of Benefits Funding. Refer to paragraph 1 of *Section OA 2.4*.

¹⁵ This is based upon the Available Unrestricted Funds Report and the Available Unrestricted Funds for the next Fiscal Year. Refer to paragraph 8 of *Section OA 2.4*.

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Second, when adequate funding during the applicable Fiscal Year does not result from modification of the proposed Charitable/Service Budget and/or the Foundation Charitable/Service Budget or such Boards elect not to modify the proposed Charitable/Service Budget and/or the Foundation Charitable/Service Budget, then sufficient funding from the Main Foundation Account shall be utilized to fund (1) any remaining shortfall during the applicable Fiscal Year (to the extent such funds are not already committed to another obligation or commitment) as well as (2) any Foundation Endowment Account Shortfall.

(b) Foundation Endowment Account

Based upon the Calendar Year Reports, (i) the excess (if any) of the calendar year ending balance of the Foundation Endowment Account over the Minimum Foundation Endowment Account shall constitute (A) “Foundation Endowment Account Earnings,” and (B) “Available Charitable Funds” for the next succeeding Fiscal Year, whereupon an amount equal to the Foundation Endowment Account Earnings shall be transferred from the Foundation Endowment Account to the Main Foundation Account not later than April 15 of each calendar year (the “Foundation Endowment Account Transfer Deadline”); *provided, however, that* (ii) the excess (if any) of the Minimum Foundation Endowment Account over the calendar year ending balance of the Foundation Endowment Account shall constitute a “Foundation Endowment Account Shortfall”, whereupon an amount equal to the Foundation Endowment Account Shortfall shall be transferred from the Main Foundation Account to the Foundation Endowment Account not later than the Foundation Endowment Account Transfer Deadline.

It is agreed and understood that the Foundation Endowment Account shall not be utilized other than as described above to (i) transfer Foundation Endowment Account Earnings, (ii) fund Foundation Endowment Account Shortfalls, or (iii) to increase the Minimum Foundation Endowment Account as contemplated in *Section OA-3.1. Foundation Endowment Account*.

OA Article 4: Scholarships

The Club and the Foundation share the purpose of serving the young residents of their local community by fostering postsecondary education. The Youth Service Projects Subcommittee shall prepare and deliver to the Service Projects Committee not later than Service Projects Subcommittee Deadline of each calendar year a strategic plan and associated proposed budget relative to its Service Projects Subcommittee Responsibilities and the achievement thereof during the next Fiscal Year (for the applicable Fiscal Year, the “Youth Service Projects Subcommittee Strategic Plan”).

Inasmuch as postsecondary education in America and the needs of the greater McHenry area have been changing, it is agreed and understood that the Youth Service Projects Subcommittee Strategic Plan need not recommend scholarships in any particular Fiscal Year but may recommend other means of fulfilling the Youth Service Projects Subcommittee Responsibilities (i.e., service projects focused upon developing youth and young adults through leadership development activities, involvement in community and international service projects, and exchange programs that enrich and foster world peace and cultural understanding (e.g., sponsor high school students in McHenry and Johnsburg to attend Rotary Youth Leadership programs, scholarships for high school seniors residing in McHenry and Johnsburg who will be attending

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postsecondary education programs, supporting the Rotary Youth Exchange by funding outgoing high school students or hosting incoming exchange students, grants in support of advanced placement testing, and etc.)); *provided, however, that* any allocation of Available Charitable Funds to scholarships recommended in the Youth Service Projects Subcommittee Strategic Plan shall be subject to this *OA Article 4: Scholarships*.

Certain Restricted Funds contemplate scholarships and such scholarships shall be awarded in accordance with this *OA Article 4: Scholarships* and the Restrictions applicable to such funds.

Subject to available funding as set forth in the Foundation Charitable/Service Budget and applicable Foundation Accounts, the Foundation shall award such scholarships as are determined by a committee responsible for the fulfillment of this *OA Article 4: Scholarships* (herein, the “**Scholarship Committee**”) on behalf of the Club and the Foundation. The Scholarship Committee shall determine the nature and terms of each postsecondary scholarship awarded in any particular Fiscal Year, subject in the case of Restricted Funds to the applicable Restrictions.

Section OA-4.1. Scholarship Committee Composition

The Scholarship Committee shall (a) consist of not less than five (5) Members; (b) be responsible for the preparation of an annual scholarship budget (herein, the “**Scholarship Budget**”) for the Fiscal Year (with a description regarding such Scholarship Budget’s implications on each of the affected Fiscal Years) and shall include such scholarships as are funded in whole or in part through Restricted Funds; (c) be comprised of the Club’s Director of Youth Service, the Foundation Chairperson, the Foundation’s Treasurer, and at least two (2) additional Members coincident with the election of Club officers and directors each year; and (d) operate the scholarship program consistent with this *OA Article 4: Scholarships* (as so consistently operated, the “**Scholarship Program**”).

Section OA-4.2. Scholarship Program

(a) Eligible Students and High Schools

The Scholarship Program shall provide scholarships to individuals and as otherwise specified in any applicable Restrictions (herein, “**Scholarships**”). The term “**Eligible Student**” means (a) each graduating high school senior who is legal resident of any community served by the McHenry Community High School District 156 or the Johnsburg School District 12 (also known as Johnsburg Community Unit School District Number 12) and (b) is attending either a public or a private school (each, an “**Eligible High School**”), which private and public school currently include Johnsburg High School, Marian Central Catholic High School (that is, Marian Central Catholic High School students compete against students from the three public schools and are assigned to one of the three public schools based on each such Marian Central Catholic High School candidate’s legal residence), McHenry High School East Campus, and McHenry High School West Campus.

(b) Postsecondary Scholarships

In addition to scholarship funding otherwise contemplated by Restricted Funds and subject to the Scholarship Budget, the Club and Foundation may award additional scholarships in such amounts, for such postsecondary education programs, and with such terms as the Scholarship

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Committee determines from time to time (all as funded through the Foundation Charitable/Service Budget).

(c) Advertising and Related Materials

The Scholarship Committee shall advertise the Scholarship Program through the counseling office (or other comparable office) of each Eligible High School, and provide each such Eligible High School with the requisite information and application forms.

(d) Scholarship Selection Criteria

Eligible Students are evaluated based upon on a combination of past and current academic performance, financial need, an essay, their knowledge of the purposes of Rotary, and their responses to interview questions (collectively, the “Scholarship Selection Criteria”). Each Year, the Scholarship Committee shall establish a subcommittee for each potential recipient of each budgeted scholarship. Each of such subcommittee shall (a) be comprised of at least one (1) member of the Scholarship Committee and two (2) additional Members, (b) interview all candidates for its scholarship on the same night, and (c) on the same night as the interviews, select a recipient for its scholarship based upon the Scholarship Selection Criteria.

(e) Disbursement and Other Terms of Scholarships

Each scholarship shall be disbursed in the amount(s) and manner and subject to the timing and other terms as are determined by the Scholarship Committee.

(f) Notification of Scholarships

The Scholarship Committee shall notify each Eligible High School of the recipients’ names. The Scholarship Committee shall choose a Member to notify each recipient at such recipients Eligible High School’s senior awards night.

(g) Scholarship Records

The Foundation shall through the Scholarship Committee maintain records regarding past scholarship recipients. Such records shall include (without limitation) for each such recipient a record of such recipients:

- Name
- Name of High School from which graduating (and for graduates of private schools, the public school to which assigned for purposes of competition)
- Year of High School Graduation
- Name(s) of College, University, Community College, Vocational School, or Other Postsecondary Educational Institution Attended
- Amount of Scholarship
- Year(s) in Which Received (or to be received)
- Date of Post-Secondary Graduation
- First Job – Name of Employer and Position

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Section OA-4.3. Scholarship – Recipient’s Responsibilities

It is the scholarship recipient’s responsibility to contact the Chair of the Scholarship Committee yearly to keep the Foundation appraised of current information as to disbursements, payment of tuition, continued attendance in the recipient’s program, and etc.

**OA Article 5: Development and Allocations of the
Charitable/Service Budget**

Section OA-5.1. Annual Development of the Fiscal Year’s Charitable/Service Budget

The term “Available Charitable Funds” shall mean the sum of:

- (a) Benefits Funding¹⁶ and Unrestricted Funds¹⁷ derived from the prior calendar year as contemplated by paragraphs 3 and 4 of *Subsection OA-2.5 (a) Foundation* (above); **plus**
- (b) the sum(s), if any, authorized by the Foundation Board as “reasonably determined by the Foundation Board” pursuant to *Subsection OA-3.2(a) Main Foundation Account* to be utilized to fund the Foundation Charitable/Service Budget for the applicable Fiscal Year pursuant to clauses “Second”; **minus**
- (c) such funds as are required to fund all amounts authorized pursuant to the Foundation Operating Budget; **minus**
- (d) such funds, if any, as the Foundation Board reasonably determines should be added to the Foundation Endowment Account **either**:
 - (i) as an increase in the Minimum Foundation Endowment Account (if applicable) (confirmed by a simple majority vote of the Foundation Members at a meeting at which a Quorum of such Foundation Members are present) as contemplated by the third paragraph of *Section OA-3.1. Foundation Endowment Account*, or
 - (ii) to fund any Foundation Endowment Account Shortfall.

Not later than the Annual Budget Deadline and the Foundation Annual Budget Deadline (respectively), the Charitable/Service Budget and the Foundation Charitable/Service Budget shall be developed annually as contemplated in *Section B-9.1* of the Club’s Bylaws and as contemplated by *Section FB-8.3* of the Foundation By-Laws. That portion of the aggregate total of such annual Charitable/Service Budget which is to be satisfied directly from resources of the Foundation (plus such funds as are required to fund all amounts authorized pursuant to the Foundation Operating Budget) shall be limited to the Available Charitable Funds for the applicable Fiscal Year.

Section OA-5.2. Service Projects Committee

The Service Projects Committee shall (a) have primary responsibility for developing the Charitable/Service Budget (which shall be included as part of the Foundation Charitable/Service

¹⁶ This is based upon the Calendar Year Reports’ calculation of Benefits Funding. Refer to paragraph 1 of *Section OA 2.4*.

¹⁷ This is based upon the Available Unrestricted Funds Report and the Available Unrestricted Funds for the next Fiscal Year. Refer to paragraph 8 of *Section OA 2.4*.

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Budget), which shall include that portion of the Scholarship Budget not funded by funds which are Restricted Funds, (b) prepare the Calendar Year Report required by Paragraph 3 of the definition of Calendar Year Reports, (c) present the Charitable/Service Budget to the Board and the Foundation Board for their approval, (d) identify potential recipients of grants and other disbursements from the Charitable/Service Budget (other than candidates for Scholarships who shall be identified by the Scholarship Committee) (herein, “**Grant Candidates**”), and (e) perform due diligence on each Grant Candidate, which diligence serves to verify that each such Grant Candidate meets these minimum requirements (the “**Grant Candidates Minimum Requirements**”):

1. the proposed grant request (the “**Proposed Grant**”) shall (a) be requested in writing, (b) be originated by a Member, (c) describe (i) the specific program or project to be funded and (ii) the expected benefits to the community and/or recipient of the program to be funded, and (d) request a specific amount;
2. the Grant Candidate is recognized by the IRS as a Section 501(c)(3) tax exempt entity (including, without limitation, public and private educational institutions who hold such status);
3. the intended use of the Proposed Grant fulfills one or more of the Five Avenues of Service either (a) by providing benefits, materials, or services to residents of the locality of the Club which is as follows: The Greater McHenry, Illinois area (including but not limited to these Illinois, USA locations: Bull Valley, Johnsburg, McHenry, Prairie Grove, Ringwood, Spring Grove, Volo, and Wonder Lake); or (b) by fulfilling the International Service requirements of the Club;
4. the Grant Candidate makes a presentation of the project or service to be funded to the Members;
5. the Service Projects Committee recommends the Proposed Grant (each, a “**Recommended Grant**”) and indicates the Service Projects Committee’s recommended amount thereof (the “**Recommended Grant Amount**”);
6. any Proposed Grant of One Thousand Dollars (\$1,000) or more shall be classified as a “**Major Grant**” and such Major Grant must be approved by a majority of Members constituting a Quorum (at the next regularly scheduled meeting of the Club); *provided, however, that* it is understood and agreed that a Proposed Grant of less than One Thousand Dollars (\$1,000) intended to provide operating funds and/or funding for capital purposes shall be classified as a “**Minor Grant**” which does not require any vote by the Members of the Club; and
7. the Recommended Grant and Recommended Grant Amount (or such lesser amount as is determined by the Foundation Board) are approved by a majority of the Foundation Board when a Quorum is present (the “**Foundation Approved Grants**”).

All Foundation Approved Grants (including name of recipient and the amount thereof) shall be reported to the Members present at the next Regular Meeting of the Club.

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Section OA-5.3. Charitable/Service Budget Allocations

(a) Historical

Historically during the Foundation's startup and initial years of operation, the Club and the Foundation allocated Available Charitable Funds through (i) percentage allocations, subject to certain maximum allocations, (ii) preferences regarding specific means of fulfilling particular avenues of service projects, and (iii) an overriding objective to increase what was then referred to as the reserve fund. As the Foundation's assets have grown (including the Foundation Endowment Account and the Main Foundation Account), fundraising has experienced increased success and the desire to fund the ongoing Charitable/Service Budgets through earnings on the Foundation's investments continues to be of importance to the Foundation and the Members, the Club and the Foundation share the objective of not developing Charitable/Service Budgets using largely a formula based approach. Rather, the Charitable/Service Budgets for future Fiscal Years shall be developed based upon Calendar Year Reports, the Service Projects Subcommittee Strategic Plans, as well as the Board and Foundation Board's exercise of discretion for each Fiscal Year next following their exercise of discretion.

(b) Future Fiscal Years

Based upon the most recent Calendar Year Reports and the Service Projects Subcommittee Strategic Plans, the Board and Foundation Board's exercise of discretion for each Fiscal Year next following their exercise of discretion shall be deferential to the following prioritizations (the "**Charitable/Service Budget Allocation Guidelines**") for allocating Available Charitable Funds:

First, the Service Projects Subcommittee Strategic Plan for the Youth Service Projects Subcommittee;

Second, the Service Projects Subcommittee Strategic Plan for the Community Service Projects Subcommittee;

Third, the Service Projects Subcommittee Strategic Plan for the Vocational Service Projects Subcommittee; and

Fourth, the Service Projects Subcommittee Strategic Plan for the International Service Projects Subcommittee;

provided, however, that:

Fifth, the overall objective of the Service Projects Subcommittee Strategic Plans for each of the Youth Service Projects Subcommittee, Community Service Projects Subcommittee, and Vocational Service Projects Subcommittee shall in the judgement of the Board and the Foundation Board give rise to a high level of service to each of the avenues of service for each allocation; and

Sixth, regarding the Service Projects Subcommittee Strategic Plan for the International Service Projects Subcommittee, funding for International projects shall be separately prioritized as a higher priority as follows:

1st those in which a Member has a long term non-financial "service-above-self" interest pursuant to which such Member has invested personal time and/or other resources; and

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2nd those in which RI and/or RI's Rotary Foundation have manifested an ongoing and recognized funding interest.

As to all proposed funding which reflects an allocation of Available Charitable Funds, those which are projected to receive additional funding (e.g., matched funding or initial funding from a third party) shall receive prioritization. In each case where the Rotary Foundation or another third party has made a commitment to fund an equivalent to that funded by the Foundation, such proposed grant, scholarship or similar use of Foundation resources shall receive higher prioritization.

(c) Memorials

During the course of any Fiscal Year there may arise events meriting memorial and/or honorary funding as part of the Members' fulfillment of their philosophical and practical framework for the work of the Club through the Five Avenues of Service, which are Club Service, Vocational Service, Community Service, International Service, and Youth Service. Therefore, each Foundation Charitable/Service Budget shall include an allocation of Available Charitable Funds reasonably determined to be sufficient to fund these types of memorials (herein, "Memorials") (each of which is to be handled on a case-by-case basis):

1. contributions up to \$50 to a memorial for a recently deceased parent, brother, or sister of a Member of the Club;
2. contributions not to exceed \$200 as memorials on behalf of a recently deceased child or spouse of a Member of the Club; and
3. contributions up to \$300 (as a guideline) as memorials on behalf of a recently deceased Member of the Club.

When establishing or making a Memorial, the Foundation Board will consider the wishes of the deceased person's family in selecting the Memorial recipient.

(d) Member Vote

The Charitable/Service Budget Allocation Guidelines set forth in *Subsections OA-5.3.(b) through (c)* (above) may be amended at any Meeting of Club Members. Changing the Charitable/Service Budget Allocation Guidelines requires (1) sending written notice to each Member at least ten (10) calendar days before such Meeting, (2) having a Quorum present for the vote, and (3) having two-thirds of the votes support the change. Any such change of the Charitable/Service Budget Allocation Guidelines shall apply solely to the Fiscal Year of the Charitable/Service Budget for which such Charitable/Service Budget Allocation Guidelines have been modified in accordance with the immediately preceding sentence. Any permanent modification of the Charitable/Service Budget Allocation Guidelines and/or amendment to this Operating Agreement must satisfy the requirements of the *Foundation By-Laws Article 10: Amendments*, *Bylaws Article 11: Amendments* of the Club's Bylaws, and *Article 22: Amendments* of the Club's Constitution.

Rotary Club of McHenry
Rotary Club of McHenry Charitable Foundation, Inc.
Charitable/Service Operations Agreement

IN WITNESS WHEREOF, the parties hereby execute and enter into this Charitable/Service Operations Agreement this 30th day of March, 2017, effective however as of May 1, 2017.

ROTARY CLUB OF MCHENRY

**ROTARY CLUB OF MCHENRY CHARITABLE
FOUNDATION, INC.**

By: William McLemore

By: Ron Bykowski

Its: President

Its: Chairperson

By: Denis Buch

By: Thomas Webb

Its: President-Elect

Its: Vice-Chairperson

Rotary Club of McHenry

Rotary Club of McHenry Charitable Foundation, Inc.

Charitable/Service Operations Agreement

Operating Agreement Exhibit I – Calendar of Events

During each Year/Fiscal Year, the following Calendar of Events shall be observed by the Members of the Rotary Club of McHenry and the Rotary Club of McHenry Charitable Foundation, Inc. (as well as their respective officers, directors, boards and committees):

Calendar	Event		Provision of Governing Document ¹⁸	Fiscal Year Affected	Club	Foundation
Every Thursday at Noon	Regular Meetings		Section 8.1. Regular Meetings and	All	✓	
Third Tuesday of Every Month at 4:00 PM	Club Board Meetings		Section B-5.2. Regular Meetings			
TBD	Foundation Board Meeting		Section B-5.4. Board Meetings	All	✓	
June 30	Term of Club Officers, Directors and Committee members end		Section FB-7.2. Regular and Special Meetings (Determined by Resolution)	All		✓
July 1	New Club Officers, Directors and Committee members assume officer		Section B-3.6. Term of Office, Bylaws Article 8: Committees	Last	✓	
July	Election of Foundation Officers by the Foundation Directors		Section B-3.6. Term of Office, Bylaws Article 8: Committees	New	✓	
			Section FB-5.1. Designation, Election, Terms	New		✓
August	Blues, Brews and Barbecue	Fundraiser			✓	✓
October	Nominating Committee Meeting		Section B-3.1. Nomination and Section B-8.11. The Nominating Committee	Next	✓	
November	Officer Nomination Meeting		Section B-3.1. Nomination and Section B-8.11. The Nominating Committee	Next	✓	
December	Christmas Banquet			All	✓	✓
December	Annual Meeting		Section 8.2. and Section B-5.1.; Section FB-7.1.		✓	✓
December	Election of Officers, Directors, Committees, Chairs of Avenues of Service and Committees at each Annual Meeting (Club and Foundation)		Section 8.2. and Section B-5.1.; Section FB-7.1.	Next	✓	✓
January 31	Calendar Year Reports					
	Responsible Group	Report				
	Benefits Committee	Benefits Committee Report	Section OA-2.4		✓	✓
	Club Treasurer	Club Treasurer Operating Cost Report	Section OA-2.4		✓	
	Foundation Board	Available Restricted Funds Report	Section OA-2.4			
		Available Unrestricted Funds Report			✓	✓
		Foundation Account Performance Reports				
	Foundation Treasurer	Foundation Treasurer Operating Cost Report	Section OA-2.4			✓

¹⁸ Note that references to an article such as to “Foundation By-Laws Article” and to a section such as “Section FB-” are references to articles and sections of these Foundation By-Laws; references to an article such as to “OA Article” and to a section such as “Section OA-” are references to articles and sections of the Operating Agreement; references to an article such as to “Bylaws Article” and to a section such as “Section B-” are references to articles and sections of the Bylaws; references to a section such as “Section R-” are references to sections of the Resolution for Authorizing One or More Satellite Clubs; and all others references to articles and sections (e.g., “Article” and “Section”) are references to articles and sections of the Constitution.

Rotary Club of McHenry

Rotary Club of McHenry Charitable Foundation, Inc.

Charitable/Service Operations Agreement

Calendar	Event		Provision of Governing Document ¹⁸	Fiscal Year Affected	Club	Foundation
	Scholarship Committee	Scholarship Committee Report	Section OA-2.4		✓	✓
	Service Projects Committee	Service Projects Committee Report	Section OA-2.4		✓	✓
	Strategic Plans					
February 28	Responsible Group	Strategic Plan for –				
	Club Board	Club	Operating Agreement Exhibit I		✓	
	Foundation Board	Foundation	Operating Agreement Exhibit I			✓
	Benefits Committee	Fundraising	Operating Agreement Exhibit I		✓	✓
	Club Administration Committee	Club Administration and Club Service	Operating Agreement Exhibit I		✓	
	Membership Committee	Membership	Operating Agreement Exhibit I		✓	✓
	Nominating Committee	Officer, Director & Committee continuity	Operating Agreement Exhibit I		✓	✓
	Public Image Committee	Public Image	Operating Agreement Exhibit I		✓	✓
	Rotary Foundation Committee	Rotary Foundation	Operating Agreement Exhibit I		✓	✓
	Scholarship Committee	Scholarships	Operating Agreement Exhibit I		✓	✓
	Service Projects Committee	Avenues of Service	Service Projects Subcommittee		✓	✓
	Community Service Projects Subcommittee	Community	Deadline – Subsection OA-2.1(b)(ii)		✓	✓
	International Service Projects Subcommittee	International			✓	✓
	Vocational Service Projects Subcommittee	Vocational			✓	✓
	Youth Service Projects Subcommittee	Youth			✓	✓
March 31	Responsible Group	Annual Budgets	Budget	Annual Budget Deadline;		
				Foundation Annual Budget Deadline	✓	✓
				- Section OA-2.5	✓	✓
	Club's Board	Annual Budget	Section OA-2.5(b)		✓	✓
		Operating Budget	Section OA-2.5(b)		✓	✓
		Charitable/Service Budget	Section OA-2.5(b)		✓	✓
	Foundation Board	Foundation Annual Budget	Section OA-2.5(a)		✓	✓
		Foundation Operating Budget	Section OA-2.5(a)		✓	✓
		Foundation Charitable/Service Budget	Section OA-2.5(a)		✓	✓
	Foundation Endowment Account Transfer Deadline					
April 15	Transfer of the Foundation Endowment Account Earnings or Shortfall are due		Section OA-3.2(b)			✓
June - end	Anniversary/Induction Banquet				✓	
June (or at other times)	Election of Foundation Director(s) – as needed		Section FB-4.3. Selection and Terms and Section FB-4.4. Removal and Vacancies			✓
					✓	✓

Rotary Club of McHenry Charitable Foundation, Inc.
Foundation Frequently Asked Questions

Frequently Asked Questions

The following are frequently asked questions regarding the Rotary Club of McHenry Charitable Foundation, Inc. (the “Foundation”):

1. What is the Rotary Club of McHenry Charitable Foundation, Inc.?

- **Organized**

The Rotary Club of McHenry Charitable Foundation, Inc. was incorporated on December 13, 2007 as an Illinois not-for-profit corporation. It is a publicly supported organization which commenced formal operation in 2008 in cooperation with the Rotary Club of McHenry (the “Club”). The Foundation is operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding revisions of any future United States Internal Revenue Law). For Federal tax purposes the Foundation is considered a publicly funded charity.

Both the Club and the Foundation are located in McHenry, Illinois, and their members, officers, and directors are from the greater McHenry, Illinois area.

- **Purpose**

The Rotary Club of McHenry Charitable Foundation, Inc. is an Illinois not-for-profit corporation organized to receive gifts and make grants for charitable purposes that benefit our community. Use of Foundation funds and other resources focus on youth, education, and seniors with an emphasis on the community of the McHenry area first, and then the greater McHenry County area. Some of the available annual charitable/service projects budget can be used for International projects, which is consistent with Rotary International objectives.

- **Governance**

The Foundation Board governs the Rotary Club of McHenry Charitable Foundation Inc. The Foundation Board is elected by the members of the Club (who are simultaneously members of the Foundation). The Foundation Board consists of the current Club President, current Club Treasurer, and five (5) members at large (which generally include the Club’s current President-Elect).

- **Objectives**

The objectives of the Foundation are:

1. To accept any gifts of money, fund raising proceeds, and the investment income therefrom (in each case on such terms and conditions as the Foundation deems advisable) to be used to fulfill the general objectives of the Foundation and, as applicable, such uses as many be established by the donor of specific funds (so long as such restricted uses conform to the general objectives of the Foundation).
2. To receive from the Club funds designated by the Club’s Board of Directors, by resolution, for use by the Foundation.

Rotary Club of McHenry Charitable Foundation, Inc. Foundation Frequently Asked Questions

3. To hold, manage, invest and reinvest, as well as administer all assets of the Foundation as provided in the Foundation By-Laws or as provided by the terms of a particular gift or bequest.

- **Beneficiaries**

The Foundation grants and scholarships are for charitable, philanthropic, public good, community, youth and educational purposes with particular emphasis on (i) the McHenry Area and/or McHenry County based institutions or organizations that promote the welfare of the McHenry Area community or (ii) programs sponsored or endorsed by Rotary International or the Rotary International Foundation Inc.

- **Welcomed Contributions**

While contributions in any amount are welcomed, the Rotary Club of McHenry Charitable Foundation Inc. particularly encourages larger gifts that are ordinarily made by way of estate planning strategies. These include, but are not limited to:

1. Cash donations.
2. Securities which have appreciated in value such that donation to the Rotary Club of McHenry Charitable Foundation Inc. will give rise to tax advantages for the donor.
3. Life insurance policies which name the Rotary Club of McHenry Charitable Foundation Inc. as a beneficiary.
4. Naming the Rotary Club of McHenry Charitable Foundation Inc. as beneficiary of the donor's retirement account(s).

Any and all such gifts may be named to give honor or recognition to a special person, donor, organization, or business entity in perpetuity.

- **Possible Gift Designations**

The income from gifts will be used in keeping with desires as indicated at the time of the gift, subject to the purpose, governance, and objectives of the Rotary Club of McHenry Charitable Foundation Inc.

- **Donor Acknowledgements – Memorial & Other Donations**

In the case of Memorial Donations, both donor and family of the person memorialized will be acknowledged. In the case of all other donations, the donor will be acknowledged.

2. How should I designate the Rotary Club of McHenry Charitable Foundation Inc. in making my will, codicil or trust?

The designation and address of record should be: Rotary Club of McHenry Charitable Foundation Inc., McHenry, Illinois 60050.

3. Are my gifts to the Rotary Club of McHenry Charitable Foundation Inc. tax deductible?

Rotary Club of McHenry Charitable Foundation, Inc. Foundation Frequently Asked Questions

Yes. The Rotary Club of McHenry Charitable Foundation Inc. has applied for and received tax exempt status at the Federal and Illinois state levels. It is an Illinois not for profit corporation which is also a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Its favorable ruling letters from the Internal Revenue Service (the “**IRS**”) and Illinois’ Franchise Tax Board are available.

4. What is the difference between the Rotary Club of McHenry Charitable Foundation Inc. and the Rotary Foundation (sponsored by Rotary International)?

The **Rotary Club of McHenry Charitable Foundation Inc.** is based locally in the greater McHenry, Illinois area. Through its Foundation Board and Members (who are simultaneously members of the **Rotary Club of McHenry**), it is operated for the benefit of the greater McHenry area, in keeping with the objectives of Rotary Club of McHenry Charitable Foundation Inc.

The **Rotary Foundation** is directed and guided by the Secretariat of Rotary International and such organization's headquarters are in Evanston, Illinois. Their funds are expended primarily for projects focused on worldwide or International purposes.

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TO FACILITATE

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Rotary Club of McHenry Charitable Foundation, Inc.

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Note that the following page numbers such as “1” refers to the Foundation By-Laws,, such as “i” to the Operating Agreement, and such as “-1-” to the Foundation Frequently Asked Questions. That is, the Foundation By-Laws’ page numbers are 1, 2, 3, and etc. The Operating Agreement’s page numbers are i, ii, iii, and etc. The Foundation Frequently Asked Questions’ page numbers are -1-, -2-, -3-, and etc.

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