



- Rotary's strength lies in the talents and dedication of its members and clubs.
- To ensure that The Rotary Foundation will continue to support Rotarians, clubs, and districts in Doing Good in the World, the Trustees have approved a new funding model. Much of the model presents no significant change from previous practices. Perhaps most important, there is no change to District Designated Funds.
- The model first and foremost lays out a clear order of priority to ensure that programs, operating expenses (fund development and general administrative expenses), and an operating reserve are funded.
- The recent recession demonstrated to the philanthropic community that maintaining a strong financial base that includes operating reserves is necessary in order to weather increased volatility in financial markets.
- These measures will safeguard the Foundation's ability to fulfill its mission far into the future.



## THE ROTARY FOUNDATION'S EXPENDITURES GO TO ...



August 2014

Our Foundation's Funding Model

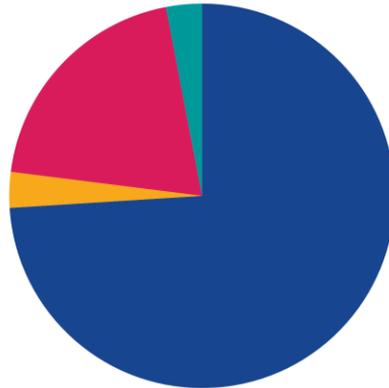
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- The funding model simply strengthens our future by building on a stellar record of efficient use and stewardship of the financial resources entrusted to us. For example, when we look at our annual expenditures over the last 10 years, we've minimized our fundraising and administrative expenses and dedicated 88 to 89 percent of our total spending to programs. This includes expenditures made possible by contributions to the Annual Fund, the Endowment Fund, the PolioPlus Fund, and our net investment earnings.
- The Foundation's sound financial management and its commitment to accountability and transparency are also recognized as exceptional, year after year, by independent evaluators of not-for-profits. Rotary's website provides detailed information on the Foundation's finances.
- The funding model that will take effect on 1 July 2015 will provide a more predictable level of financial support for programs and the operating expenses it takes to make them successful. The funds directed to programs are projected to remain roughly the same in future years.

- With a solid financial base and restored reserves, we'll have an organization that is able to support the good work that Rotarians do in the world — even as the economic and financial environment remains unpredictable.

## FUNDING OUR OPERATING EXPENSES

Operating Expenses = Fund Development & General Administration



■ Annual Fund investment earnings

■ Endowment Fund spendable earnings

■ 5% of Annual Fund contributions

■ 5% of cash contributions for global grants

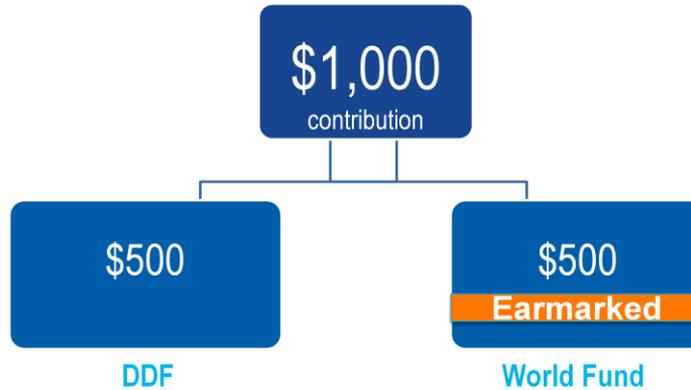
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Our Foundation's Funding Model

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- Operating expenses and the operating reserve have traditionally been funded by net investment returns on Annual Fund assets and a small portion of the earnings from the Endowment Fund.
- However, the Foundation has at times experienced net losses or diminished returns. In order to meet its commitments at such times, it has borrowed from the World Fund and then replenished it.
- The funding model continues to rely on the Annual Fund's investment earnings (shown in dark blue) as the primary source of funds.
- A small portion of Endowment Fund spendable earnings (shown in yellow) provide some funding for operating expenses.
- Beginning 1 July 2015, additional sources of funds will be used as needed to pay for the Foundation's operating expenses.
- Five percent of contributions to the Annual Fund will be earmarked for operating expenses or to build the operating reserve to three times annual operating expenses.
- Five percent of global grant cash contributions will be used to help cover the costs associated with these gifts.
- Occasionally, the Foundation receives a large donation (over \$500,000) from a corporation or foundation. Up to 10 percent of these gifts will be used to cover our operating expenses.
- This diversifies the Foundation's sources of funding, making it less reliant on any one source.

## SHARE SYSTEM EFFECTIVE 1 JULY 2015

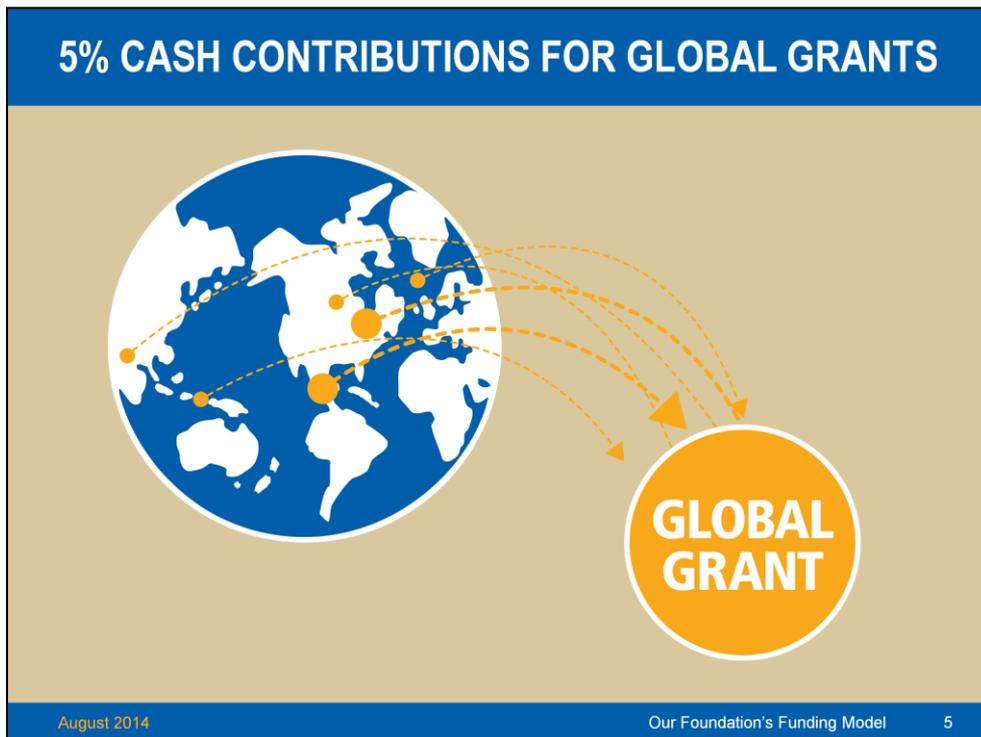


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Our Foundation's Funding Model

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- Let's cover some of the sources in a bit more detail. Contributions to the Annual Fund will continue to be divided, with 50 percent allotted to District Designated Funds (DDF) and 50 percent to the World Fund. **DDF allocations will not be changed in any way.**
- The 5 percent that is being earmarked to potentially pay for the Foundation's operating expenses will come from the World Fund. It will be used only if it is needed to pay expenses when net investment returns are not sufficient, or to fully fund the operating reserve (up to three times annual operating expenses). If funds are not needed for these purposes, they will remain in the World Fund until the World Fund is measured to ensure sufficient funds for programs.
- In the final step, the World Fund will be measured to ensure that it contains 50 percent of the three prior years' worth of contributions, plus \$5 million – a growth factor. Then and only then, surplus funds will be transferred to the Endowment Fund.



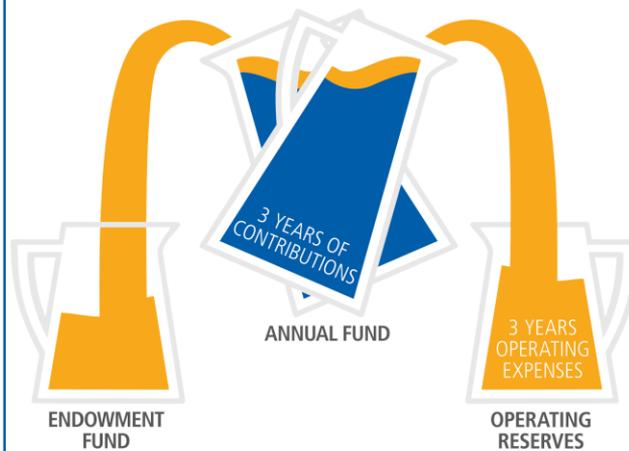
- In the past, cash contributions to support grants were received by the Foundation, currencies were converted, recognition was processed, and funds were ultimately sent to the project. Because these funds were received and sent to the project quickly – in 6 months or less – they flowed through the Foundation, and minimal income was earned to cover the cost of processing the cash.
- This cash has typically required more processing than a simple Annual Fund contribution. A global grant usually has multiple sponsors who support it with cash. The participating clubs may be in many countries, which necessitates conversion of currencies. Some clubs send one payment as a contribution, while other clubs remit multiple payments from club members. As a result, the recognition process is complex.
- This is why the funding model includes 5 percent of the cash donated for global grants to pay for the expenses associated with those donations.

## OUR LONG-TERM STRATEGY

Ensure that we have sufficient funds to operate our Foundation

Maintain a fully funded operating reserve

Transfer surplus funds to the Endowment Fund



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Our Foundation's Funding Model

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- So, once the funds are collected or earmarked, what happens next?
- Our long-term strategy has always been to make sure the Foundation has sufficient resources to pay for its programs and operating expenses. This will not change.
- At the end of each year, the Foundation will determine whether there are sufficient net investment returns and Endowment Fund spendable earnings to cover operating expenses.
- If returns are sufficient to cover operating expenses, the operating reserve will be measured to ensure that it is funded to three times our annual operating expenses.
- If both operating expenses and the operating reserve are funded, the World Fund balances will be analyzed to ensure that 50 percent of the three prior years' contributions, plus a \$5 million growth factor, are available in the World Fund.
- If the World Fund is sufficiently funded and a surplus remains, the surplus will go to the Endowment Fund. Endowment Fund earnings will then be available to fund programs in perpetuity.
- This funding model:
  - Builds our financial strength by ensuring that resources are available to meet current needs: programs and operating expenses.
  - Establishes a reserve to provide for unusual financial events (a

rainy day fund): the operating reserve.

- Ensures an increase in future programs through increased returns on the Endowment Fund.



**Resources:**

- **Our Foundation's Funding Model presentation**
- **Top 10 Things to Know blog**
- **Foundation Funding Model Q&A**
- **[fundingmodel@rotary.org](mailto:fundingmodel@rotary.org)**

Thank you for your attention. This is perhaps a lot to understand. In order to ensure that we continue our dialogue and transparency, we've established an email address to handle questions related to the changes in the Foundation's funding model. Please send your inquiries and comments to [fundingmodel@rotary.org](mailto:fundingmodel@rotary.org). All resources are available on [rotary.org](http://rotary.org), our website.