

## **The Rotary Foundation Funding model**

##  ***FAQ & talking points***

The Rotary Foundation (TRF) remains dedicated to funding its global programs. The Trustees have taken measures to strengthen TRF’s long term financial sustainability. In July 2015, TRF will augment the funding sources it uses to cover its administrative and fund development expenses. Currently, such overhead costs are covered by two sources:

* Investment earnings from the Annual Fund
* A portion of the spendable earnings from the Endowment Fund

As of 1 July 2015, TRF will supplement funding from these three sources:

* 5% of the contributions to the Annual Fund
* 5% of grant contributions, formerly known as “flow-through cash”
* 10% or less of select corporate gifts

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| Question | Answer |
| **1.** Isn’t the funding model a big shift for TRF?  | No. Much of the model presents no significant change from previous practices. Perhaps most important, there is no change to District Designated Funds.  |
| **2.** When does the funding model become effective? | On 1 July 2015. All contributions made prior to that date will not be affected and will be processed using the current system.  |
| **3.** Will the additional 5% contribution be required for processing global grant cash if the grant is submitted or approved prior to 1 July? Or does the cash have to be received by TRF before 1 July? | All global grants submitted prior to 30 June 2015 will be exempt from the 5% supplemental amount required for processing cash contributions. Cash does not have to be received by TRF prior to 1 July for the exemption to apply. Global grants that are in Draft or Authorization Pending status will be subject to the additional 5% contribution. |
| **4.** Why does TRF need a funding model? | Currently, TRF relies on net investment returns to fund the majority of its operating expenses (fund development and general and administration expenses). The operating reserve (funds set aside to cover expenses in times of need) is not always fully funded. If there is an earnings shortfall, we may not always have sufficient investment returns to pay for TRF’s operating expenses. If that were to occur, we may have to cut spending on programs. The Trustees want to ensure TRF has sufficient resources to operate in the future without adversely impacting its programs. When the economic downturn hit in 2008, TRF did not have sufficient return on investment to fund operating expenses. In 2009, in order to continue “Doing Good In the World,” it was necessary to fund operating expenses from the World Fund.  |
| **5.** What does it mean to fully fund the operating reserve?  | TRF should have operating reserves equal to three years of operating expenses (fund development and general and administration expenses). In 2015 this is approximately equal to US$67 million.  |
| **6.** How does the funding model work? | At the end of each fiscal year, we review the operating expenses to determine if there are sufficient net investment returns, endowment fund spendable earnings, and 5% of grant cash. If these sources are sufficient to pay operating expenses then the 5% of Annual Fund contributions are not needed.The next priority is funding the operating reserve up to three years of operating expenses (approximately $67 million). If the operating reserve is fully funded, then the 5% of Annual Fund contributions stays in the World Fund. Finally, the World Fund is measured to determine if the balance equals 50% of three prior years of contributions plus a growth factor of $5 million. If the balance in the World Fund exceeds that total amount, only then will the excess be transferred to the Endowment Fund.**It is important to note that the 5% earmarked from the Annual Fund is only used when needed.**  |
| **7.** How will the funding model affect DDF? | **There is no impact on DDF.** Contributions to the Annual Fund SHARE will be allocated 50% to DDF and 50% to the World Fund, as usual. 5% of the Annual Fund contributions in the World Fund will be earmarked to pay operating expenses or fill the operating reserve, but **only if the funds are needed.** |
| **8.** How will global grants funding be affected? | An additional 5% cash contribution will be required to fund a global grant. A system change has been made to the global grant pages in SmartSimple (the online application) so that Rotarians will know immediately the 5% amount that is being added and the total amount required for the project to be fully funded. |
| **9.** How will TRF know how to calculate the additional 5% for cash contributions to the grant? For example, if TRF receives $1,050, will it deduct $50 (5% of $1,000) for the cost of processing the cash and direct $1,000 to the grant? Or will TRF take off $52.50 (5% of $1,050) and direct $997.50 to the grant? | It is up to the project sponsor to indicate to TRF the amount of cash being contributed to the grant. For example, if the sponsor sends $1,050 to TRF and identifies $1,000 as the grant cash amount, then TRF will deduct $50 for processing the cash and apply $1,000 to the grant.  |
| **10.** Why are we making this change to global grants? | Under the current system, the cash contributed in support of a grant by Rotarians, clubs, and districts requires administration, but these funds do not go through the three-year investment cycle to help generate income. The additional 5% cash contributions for global grants will help pay the costs of processing these funds. |
| **11.** Why is the additional 5% needed for cash sent directly to TRF but not for cash sent to the project bank account? How can accepting cash one day and wiring it, along with DDF and the World Fund match for the grant, cost 5% of the cash submitted? | The additional 5% cash contribution is needed to pay the cost of processing these funds. A global grant usually has multiple sponsors who support it with cash. And because the participating clubs are in different countries, currency conversion is often needed, sometimes involving restricted currencies. Some clubs send one payment as a contribution, while others remit multiple payments from members. As a result, the recording, tracking, and donor recognition process is complex. Meanwhile, because contributions are not held for long, minimal investment income is earned to pay the cost of processing the cash. |
| **12.** If cash is contributed toward a global grant, do the sponsors need to remit an additional 5% to the Foundation? | Yes. **The grant will not be fully funded until all the cash, including the 5%, is received.** Grant sponsors may choose other alternatives that do not require the additional 5%. For example, if cash is sent directly to the project bank account, the 5% of the contribution will not be required, because Rotary is not processing the donation or recognition. Use of DDF also eliminates the need to pay the additional 5%. Grant sponsors can use the calculation tool in the online application to determine the best fit for their donors and the project to be funded. |
| **13.** Once we have a global grant number, can cash flow to that grant without being subject to the 5% for processing?    | Cash contributed to a specific global grant is still subject to the 5% for processing as long as it is sent through TRF. However, cash sent directly to the project bank account is not subject to the 5%, because Rotary is not processing the donation or recognition.  |
| **14.** Can DDF be used to pay the 5% to cover the cost of processing global grant cash? | No. DDF can be used to contribute to a global grant, but not for the 5% to cover the cost of processing cash contributions.  |
| **15.** What happens if an out-of-district club pledges $1,000 to the project organizer and sends a $1,000 check to TRF as global grant support, but fails to include the $50 for grant processing? | The grant sponsor is responsible for ensuring that the additional 5% contribution is paid to TRF. The grant sponsor may ask the club or district to add an additional 5% or may ask another club or district to make up the difference. TRF will contact the grant sponsor to advise what remaining cash is needed to fully fund the grant. The grant will not be considered fully funded until all the cash, including the 5%, is received. |
| **16.** Our district is considering matching $10,000 in cash raised by clubs *and the 5% for processing*, or $500, for a total of $10,500. If the district releases $10,500 of DDF, causing a World Fund match of $10,500, wouldn’t that increase the project budget by $1,000? | Yes, in that case, the project budget would be $10,500 cash + $10,500 DDF +$10,500 World Fund match for DDF = $31,500 - $500 for processing grant cash, or $31,000.However, the project budget would benefit significantly if the district contributed the full amount, $20,000, in DDF. No cash contribution would be involved, so the 5% supplemental amount would not be required for processing cash. In this case, the project budget would be $20,000 DDF + $20,000 World Fund match, for a total of $40,000.Alternatively, districts may prefer to release DDF for a project in exchange for a club making a contribution to the Annual Fund, thereby avoiding the 5% additional contribution entirely. |
| **17.** After a global grant project is approved, if I establish a project bank account for deposit of cash contributions instead of sending the contributions to TRF, will 100% of the contributions need to be in the account before TRF releases the 50% match for these funds?If, in addition to these cash contributions, part of my total contribution is DDF, will TRF release a partial match for the DDF component pending the accumulation of the cash contributions in the bank account? Or will the match only be released after all the cash is accumulated?Since all the cash contributions will be evidenced on the bank statement, can any of it be spent on authorized project expenses before the match is received? | Yes, 100% of the cash contributions will need to be in the project bank account before TRF releases the 50% match from the World Fund.The 100% match of the DDF portion of grant contributions will only be released once the grant is fully funded.If the grant has been approved, cash contributions can be spent on authorized project expenses before the match is received. |
| **18.** Where can we find the new grant application? | The new online application will be available in SmartSimple on rotary.org on 1 July 2015. |
| **19.** Will the new application form have a place in the financing section to enter an amount that goes directly to the project bank account but is counted in the total financing and budget amounts? Will there be a mechanism for TRF to know that this deposit has actually been made and available for funding? Will cash that is sent directly to the project bank account still be eligible for the match from the TRF World Fund? | Yes, the application will provide a place to identify cash contributions that are sent directly to the project bank account while also indicating the total funding and budget for the global grant. However, it is up to the project sponsors to provide confirmation that contributions sent to the project bank account have been deposited, so TRF can record them as part of funding for the grant. Once that is done, TRF will remove the additional 5% indicated on the financing page. Cash sent directly to the project account is eligible for the 50% World Fund match. |
| **20.** The budget on the grant application will create the 5% supplemental amount needed for processing cash. But how will cash going directly to the project bank account be distinguished from cash going to TRF if all cash is entered on the “cash from club” line? | When TRF receives the grant application, the grant coordinator will assume that all grant cash is paid to The Rotary Foundation and will calculate the additional 5% amount required to process the cash. When the grant sponsor specifies to the grant coordinator the amount that is going directly to the project bank account, the coordinator will note that amount in SmartSimple and update the calculation so that the 5% will no longer be assessed on the portion paid directly to the project account. Once the change has been made to the grant, Rotary staff and Rotarians will be able to see the new total amount owed.  |
| **21.** How will Foundation recognition points be determined: on the full amount of the cash contribution or on the full amount minus the 5% for administrative costs? | Points for Paul Harris Fellow recognition will be awarded on the full cash contribution; tax receipts will also be on the total amount of the cash contribution. However, the 50% World Fund match will be on the cash going to the grant and not on the additional 5%. |
| **22.** Does the funding model apply to funds now being collected for TRF? | The model applies to contributions made after 1 July 2015. This timeframe allows TRF to communicate the change, update the online grant application, and provide necessary training. Contributions coming in from now through 30 June will be received and approved using the current system. |
| **23.** Is there a “grandfathering period” for the funding model? | As of 1 July, the 5% of grant contributions will be applied as follows: • All grants that are still in Draft or Authorization Pending status as of 1 July will be subject to the 5%. • Grants that are submitted before 1 July will NOT be subject to the 5%. • If a grant was submitted before 1 July and returned to draft after 1 July it will NOT be subject to the 5%.   • Grants that are approved before 1 July will NOT be subject to the 5%. |
| **24.** Wasn’t the new grant model (Future Vision) meant to reduce administrative expense pressures?  | Future Vision did save program operations costs associated with processing grants.  These are the costs of receiving, reviewing, and approving grants, funding grants, and stewardship reviews of grants to ensure they were completed as agreed. Future Vision reduced the number of staff who process the grants, but additional costs are being incurred, as the Rotary Peace Centers Program and other efforts are expanding.However, implementation of Future Vision did not impact certain fund development and general and administration expenses – referred to as operating expenses – which are covered via the funding model. Fund development expenses include the cost of publicizing and conducting fundraising initiatives, legal counsel, and soliciting contributions from individuals, foundations, and others. It also includes the cost of processing contributions, tracking Foundation recognition points, and recognizing TRF donors for their generosity.General and administration expenses include corporate governance costs, costs of processing cash, and other costs. TRF and its associate foundations are subject to the regulations of the countries in which they receive contributions and deliver grant funds.  Therefore, TRF, because of its truly global reach, incurs comparatively higher expenses to ensure that it is compliant in all the jurisdictions in which it operates. These are complex requirements that require specific expertise, and because TRF is dedicated to integrity and fairness, processes have been put in place to ensure that the contributions it receives are not inappropriately used or routed to benefit unscrupulous third parties. In this way, TRF can ensure its donors that their contributions will be used to do good in the world.In the US, a rigorous set of analytics has been established by several charity rating agencies.  These organizations rate charities not only on their costs but more importantly on their commitment to mission, financial sustainability, and transparency in reporting and governance.  The Rotary Foundation has received 4 out of 4 stars from Charity Navigator, placing it in the top 3% of US-based charities. |
| **25.** What happened to the idea that 100% of donation goes to programs?  | 100% of contributions do go to pay for programs over time. Programs include both the grants and the program operations expenses associated with processing and stewarding the grants. Our funding model is unique in the nonprofit world, with our three-year investment cycle generating earnings to pay for fund development and general administration expenses. However, in years when TRF experienced insufficient investment returns or investment losses, funds were taken from the World Fund and replenished over time. It is important to note that all 501(c)3 organizations, including TRF, incur operating expenses to run their foundations and most use a portion of the contributions they receive to pay them. For TRF, as previously noted, these expenses include the costs of reviewing, processing, and stewarding its programs. For reporting purposes, program operating expenses are combined with program awards in accordance with US Generally Accepted Accounting Principles.Prior to 2002, the investment earnings were sufficient to pay for program operating expenses. Since then, however, investment earnings have not always been sufficient to pay for those expenses; therefore, they have been funded partially or fully by the World Fund. Since 2008, all program expenses have been paid for from the World Fund.These changes were communicated over time, but may not have been commonly understood. Therefore, we are hoping that the funding model and its announcement provide more transparency. TRF’s priority is and has always been awarding grants to projects. However, our grant activity is in direct proportion to the flow of donations we receive via the three-year DDF cycle, so that we have no capacity to use donations to boost long-term reserves. Therefore, we need to continue to make sure that we always maintain a strong financial base, including the operating reserves necessary to weather increased volatility in financial markets.  |
| **26.** Under the model, one of the new sources of funding administrative costs is “up to 10% of large corporate gifts.” How will this process work?  | Using a portion of large corporate contributions to fund operating expenses is a well-accepted practice among donors to charities. By obtaining such gifts, TRF can increase support for the projects in our areas of focus. Up to 10% of these gifts will cover our administration costs, thus leaving more funds for clubs and districts to support the grants.The 10% will be negotiated with the contributing corporation on a case-by-case basis, and will apply to large gifts over $500,000. This does not apply to PolioPlus Fund, Endowment Fund, or term gift contributions. |
| **27.** What about reducing TRF’s expenses? | Financial stewardship is still a top priority for TRF. Reducing costs across the board will not allow TRF to reach its long-term goals for growth and greater impact. It is important to make strategic investments to support TRF’s growth and investment in our fundraising activities. The number of Rotarians who support their Foundation has grown in recent years, but there are still many other members, corporate and private foundations, and non-Rotarian prospective donors to reach. More investment in resources must be directed to these efforts.  |
| **28.** How can we avoid paying the additional 5% on cash contributions to a global grant? | There are two ways. First, you can send your cash contributions directly to the project bank account instead of TRF. While these contributions are matched, they do not receive Paul Harris Fellow credit. Alternatively, you can ask your district whether they are willing to release DDF for your project equal to the cash you raise, which donors can then give to the Annual Fund instead of paying directly to the project. DDF receives a much better match than cash contributions, and most districts have DDF that rolls over one year to the next, so the funds are often available. But ultimately, this is a decision that must be made at the district level. |
| **29.** Where can funding model questions be sent? | To fundingmodel@rotary.org. |
| **30.** Is more information on the funding model available? | Yes, in [A Rotarian’s Guide to The Rotary Foundation Funding Model](https://www.rotary.org/myrotary/en/document/global-outlook-rotarians-guide-rotary-foundation-funding-model) in Global Outlook and [Our Foundation’s Funding Model Presentation](https://www.rotary.org/myrotary/en/document/our-foundations-funding-model-presentation-slide-notes). |