

SECURING OUR FOUNDATION'S FUTURE

Our Foundation has been **Doing Good in the World** for almost a century, thanks to the generosity and hard work of Rotarians. While contributions have primarily funded programs, strong investment returns over the years have been used to fund operating costs. This strategy of funding operating expenses from investment returns, year after year, was not sustainable throughout the recent financial crisis, mostly because we did not use all the returns from the good years to build up our reserves.

Our Foundation weathered the storm better than many nonprofits, but those “tough times” caused Rotary to consider what actions might be needed to ensure another century of strong programs. Recognizing financial markets will continue to be volatile, the Trustees have developed an enhanced strategy to achieve long-term financial sustainability.

OUR LONG-TERM STRATEGY

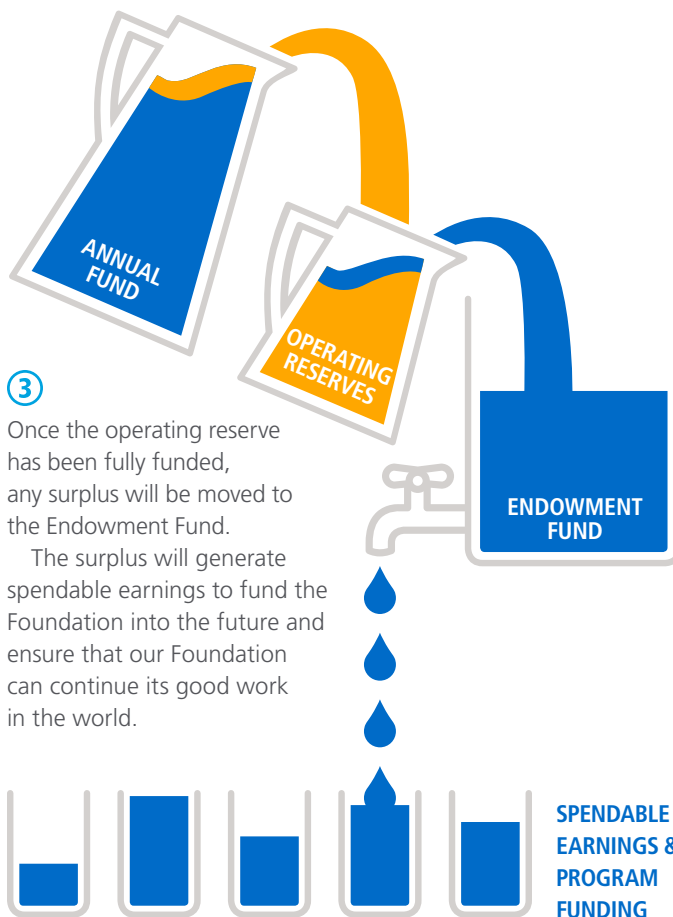
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The Trustees have agreed that our first priority must be to ensure that we have sufficient resources to operate our Foundation. Given the current environment of volatile investment markets, we need additional sources to provide sufficient and more reliable funding.

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Our second priority is to build a reserve to keep our organization operating if annual funding sources are not sufficient. Therefore, effective 1 July 2015, we will draw on the following new sources of funds to help operate our Foundation and build a strong reserve:

- 5% OF ANNUAL FUND CONTRIBUTIONS*
- 5% OF CASH CONTRIBUTIONS TO FUND GLOBAL GRANTS**
- 10% OR LESS OF SELECT CORPORATE GIFTS



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Once the operating reserve has been fully funded, any surplus will be moved to the Endowment Fund. The surplus will generate spendable earnings to fund the Foundation into the future and ensure that our Foundation can continue its good work in the world.

OUR CURRENT FUNDING MODEL

ANNUAL FUND INVESTMENT EARNINGS

ENDOWMENT FUND SPENDABLE EARNINGS

OPERATING EXPENSES = FUND DEVELOPMENT & GENERAL ADMINISTRATION

OUR NEW FUNDING MODEL EFFECTIVE 1 JULY 2015

ANNUAL FUND INVESTMENT EARNINGS

ENDOWMENT FUND SPENDABLE EARNINGS

5% OF ANNUAL FUND CONTRIBUTIONS*

5% CASH CONTRIBUTIONS FOR GLOBAL GRANTS**

UP TO 10% ON SELECT CORPORATE GIFTS

OPERATING EXPENSES = FUND DEVELOPMENT & GENERAL ADMINISTRATION

This new funding model will have no impact on District Designated Funds or the 3-year investment cycle.

* This 5% will not affect District Designated Funds (DDF).

** Formerly known as “flow-through cash”

FAQ

What will happen if we don't change the funding model?

In today's volatile investment environment, we can't rely on investment earnings to cover all of our operating costs and instead run the risk of depleting our reserves. In years when earnings were negative, we have had to pay for fund development and administrative expenses from the World Fund, reducing the amount available for grants. Our projections show that continuing our current model will keep us on this downhill path and prevent us from building our reserves to the targeted goal of 2.5 times the annual operating expense budget.

What about expenses?

Keeping expenses down is always top priority for The Rotary Foundation. But simply reducing costs won't help us reach our long-term goals for growth and greater impact. If, like most nonprofits, we subscribe to the theory that you have to make strategic investments to grow, we need to invest more in our fundraising activities. The number of Rotarians who support their Foundation has grown in recent years because of concerted action to encourage giving. We still have many other members to reach, in addition to corporate and private foundations and other non-Rotarian prospective donors. To do that, we need to direct more, rather than fewer, resources to these efforts.

Rotary's new grant model, formerly known as Future Vision, was supposed to cut costs. What happened?

The new grant model has greatly streamlined our processes and reduced program operation costs. Once all of the legacy grants have ended, we expect to enjoy an even greater savings. However, those savings are being applied to support program

operations — not fundraising and administrative costs — so that more contribution dollars can go directly to grants.

I thought that every dollar contributed to the Foundation went directly to support our program awards. Isn't that the case?

That statement was true until 2002, when steep market drops resulted in negative earnings for the first time. The Foundation then began to follow the example of almost every other nonprofit and also use contributions to cover program operating costs. Operating costs for administration and fundraising, however, continue to be covered by Annual Fund investment earnings and a portion of Endowment Fund spendable earnings. In years when these are not sufficient, we use money from the operating reserves or the World Fund.

How does the new funding model compare with that of other nonprofits?

Most nonprofits allocate a certain percent of their contributions to support future fundraising efforts. Our current funding model severely limits fundraising resources and keeps the Foundation from competing on equal ground for the charitable dollar. Under our new model, the Foundation will direct 5% of Annual Fund donations toward fund development activities that will ultimately enlarge the financial resources available for district, global, and packaged grants.

Nonprofits commonly apply an overhead fee for fixed or indirect costs from large corporate gifts — a practice that corporate donors generally expect and accept. We plan to have a flexible policy that will allow Rotary to adjust the fee up to 10% as appropriate on select corporate gifts.

Cash contributions for global grants, formerly known

as "flow-through cash," are a unique feature of our Foundation and thus can't be compared with policies for other nonprofits. Such contributions are not invested, so processing costs are not offset by the benefit of returns. The new funding model will include a 5% fee to cover administrative costs for handling these funds.

How will the new model affect Rotary's standing with charity rating agencies?

Currently, The Rotary Foundation far exceeds the benchmarks that independent charity watchdogs view as a measure of high efficiency:

- **A+ from the American Institute of Philanthropy**
- **Full accreditation from the BBB Wise Giving Alliance**
- **4 Stars from Charity Navigator**

Recently, the three major charity rating groups have publicly agreed that many charities should spend more on overhead and avoid what has been called "the nonprofit starvation cycle." Instead of judging an organization's worth primarily on its frugality, they recommend assessing its impact and its success in achieving its mission and may change their criteria. Our new grant model's emphasis on evaluation and measurability will help us to better document the true level of our impact. We expect that independent rating agencies will continue to give us high marks.

Will the new model discourage giving?

Currently, most contributions come from Rotarians. The Annual Fund broke new records in 2012-13, with over \$115 million in contributions. Giving to the Endowment Fund was also up, and the number of bequests and Arch C. Klumph Society members continues to rise at a gratifying level.

Spending more on fundraising will allow us to expand our donor base and be more

competitive in the market for corporate and foundation support. Our partnership with the Bill & Melinda Gates Foundation offers a successful model to follow moving forward.

But we know that Rotarian support and participation is essential to our Foundation's future success. We also know that our Foundation provides true value to Rotarians. Many appreciate the fact that they can personally participate in using Foundation funds to improve the quality of life both locally and abroad. Few other charities offer that opportunity. Similarly, it would be hard to find other charities that do not spend as much or more than The Rotary Foundation on overhead costs.

We don't take that loyalty for granted, however. Charitable giving is a highly personal decision, one that each Rotarian must make individually. We expect that some Rotarians will be upset by the new funding model, while others will understand the need for it and appreciate the farsightedness of the plan.

What happens next?

The new funding model takes effect on 1 July 2015, allowing time for the Foundation to communicate information about the new model, update the online grant application, and provide necessary training.



The Rotary Foundation strives to make its finances highly transparent. We invite you to explore the wealth of financial information available to you on www.rotary.org/myrotary.