

A ROTARY PRIMER

# GLOBAL OUTLOOK

A ROTARIAN'S GUIDE TO THE ROTARY FOUNDATION FUNDING MODEL



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# OUR FOUNDATION'S FUNDING MODEL

**T**he Rotary Foundation has traditionally paid most of its operating expenses with investment earnings. Because we rely on the financial markets, a down year can mean we are unable to cover our expenses through investment earnings alone. When this has happened in the past, the Foundation borrowed money from its World Fund, which was repaid when market conditions improved.

To ensure that our Foundation has sufficient and reliable resources in the future, the Trustees have approved a funding model, effective 1 July 2015. The changes are small but will have a big impact on the Foundation's ability to support large-scale, sustainable projects for years to come.

Read on to learn more.



# HOW THE MODEL WORKS

**T**he Foundation's basic funding model will remain the same. All Annual Fund-SHARE contributions will be invested for three years, at which time 50 percent will be available for the District Designated Fund (DDF) and 50 percent will go into the World Fund. (The World Fund supports grants and programs available to all districts.) Earnings from the invested funds will continue to pay many of our operating expenses, which include fundraising and general administration. A portion of investment earnings from the Endowment Fund also pays operating expenses. The change to our existing model will diversify our income so we are not reliant solely on the financial markets to cover expenses.

## WHAT'S CHANGING

### 5 PERCENT OF ANNUAL FUND CONTRIBUTIONS

In years when investment earnings are not enough to pay operating expenses and fully fund the operating reserve, the Foundation will use 5 percent of Annual Fund contributions to cover the shortfall. The money will come out of the portion designated for the World Fund; **the District Designated Fund (DDF) will not be affected.**

Here is an example: If you contribute \$100 to the Annual Fund-SHARE, \$50 ends up as District Designated Funds and \$50 goes into the World Fund. Five percent of the original contribution, or \$5, will be used only when needed to pay operating expenses and fund the operating reserve. In years when that \$5 is used, all \$50 would stay in DDF, \$45 would go to the World Fund, and \$5 would be used to pay expenses and be paid back over time. When investment earnings are sufficient to cover operating expenses and fund the operating reserve, the full \$50 would stay in the World Fund.

### 5 PERCENT OF GLOBAL GRANT CASH CONTRIBUTIONS

Cash contributions to support global grants require more processing than Annual Fund contributions. 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. Some clubs send one payment as a contribution, while other clubs remit multiple payments from club 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 cover the cost of processing the cash. Under the updated funding model, clubs and districts will need to add 5 percent to their global grant cash contributions to pay the expenses associated with processing those donations.



## WHAT'S CHANGING IN JULY?

Five percent of contributions to the Annual Fund will be earmarked for operating expenses or for building the Foundation's operating reserve. These funds will be used only when net investment returns are not sufficient to cover operating expenses. In past years, the Trustees have relied on the World Fund when investment returns did not cover operating expenses. The 5 percent limits the amount that can be used from the World Fund in any individual year.

Sponsors will need to add 5 percent to global grant cash contributions, which will be used to help cover the costs associated with processing them.

**WHY?** By implementing these changes, the Foundation will diversify its sources of funding, making it less reliant on net investment returns.

# FREQUENTLY ASKED QUESTIONS

### **Is this a big change to the way the Foundation has funded its operations in the past?**

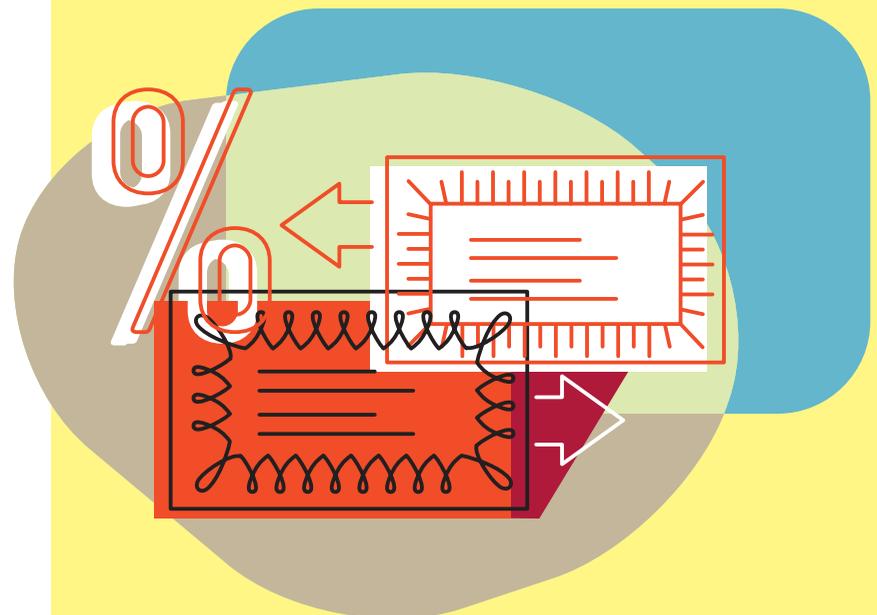
No. Much of the model presents no significant change from previous practices. Perhaps most important, there is no change to District Designated Funds.

### **What does it mean to fully fund the operating reserve?**

The Foundation should have a reserve equal to three years of operating expenses. Due to strong investment returns in 2014-15, the reserve is currently fully funded.

### **How will this affect global grant funding?**

The change means an extra 5 percent is necessary to cover the processing costs of cash contributions funding a global grant. A system change will be made to the global grant funding page in the online application that shows the 5 percent added, and the required total for the project to be fully funded.



**If cash is contributed toward a global grant, do the sponsors need to remit an additional 5 percent to the Foundation?**

Yes. The grant will not be fully funded until all cash, including the 5 percent, is received. However, when cash is sent directly to the project bank account rather than to the Foundation, there is no 5 percent added, because the Foundation is not processing it. In addition, using District Designated Funds eliminates the need to pay the additional 5 percent. Grant sponsors can use the calculation tool in the online application to determine the best fit for their project.

**How will Foundation recognition points be determined for cash contributions to global grants? Will they be calculated on the full amount, or on the full amount minus the 5 percent?**

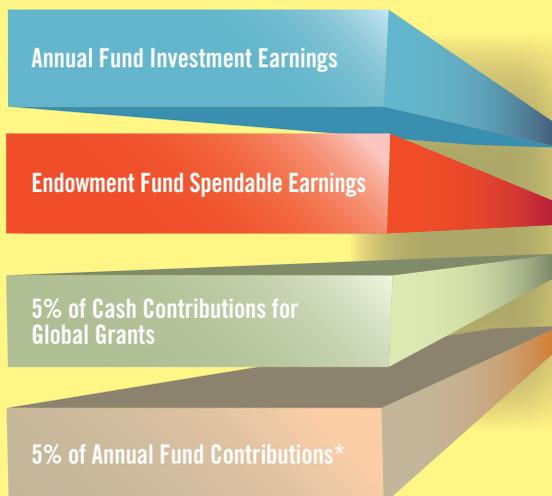
Points for Paul Harris Fellow recognition will be awarded on the full cash contribution. Tax receipts, where applicable, will also be provided for the total amount of the cash contribution.

**Will this affect our reputation as a leading charity?**

Our stewardship of contributions has made The Rotary Foundation one of the most highly rated nonprofits reviewed by several independent charity rating agencies. In October, we again earned a four-star rating, the highest possible, from Charity Navigator. In fact, the three leading agencies that provide information about nonprofits – the BBB Wise Giving Alliance, Charity Navigator, and GuideStar – have changed their model of reviewing nonprofits to emphasize impact. While it is still important to keep overhead costs reasonable, the agencies say that investments in training, planning, evaluation, internal systems, and operations are also critical. You can read the joint letter at [www.overheadmyth.com](http://www.overheadmyth.com). We will continue to be a distinguished and trustworthy charity through continued transparency, good stewardship, and the impact and sustainability of our programs.

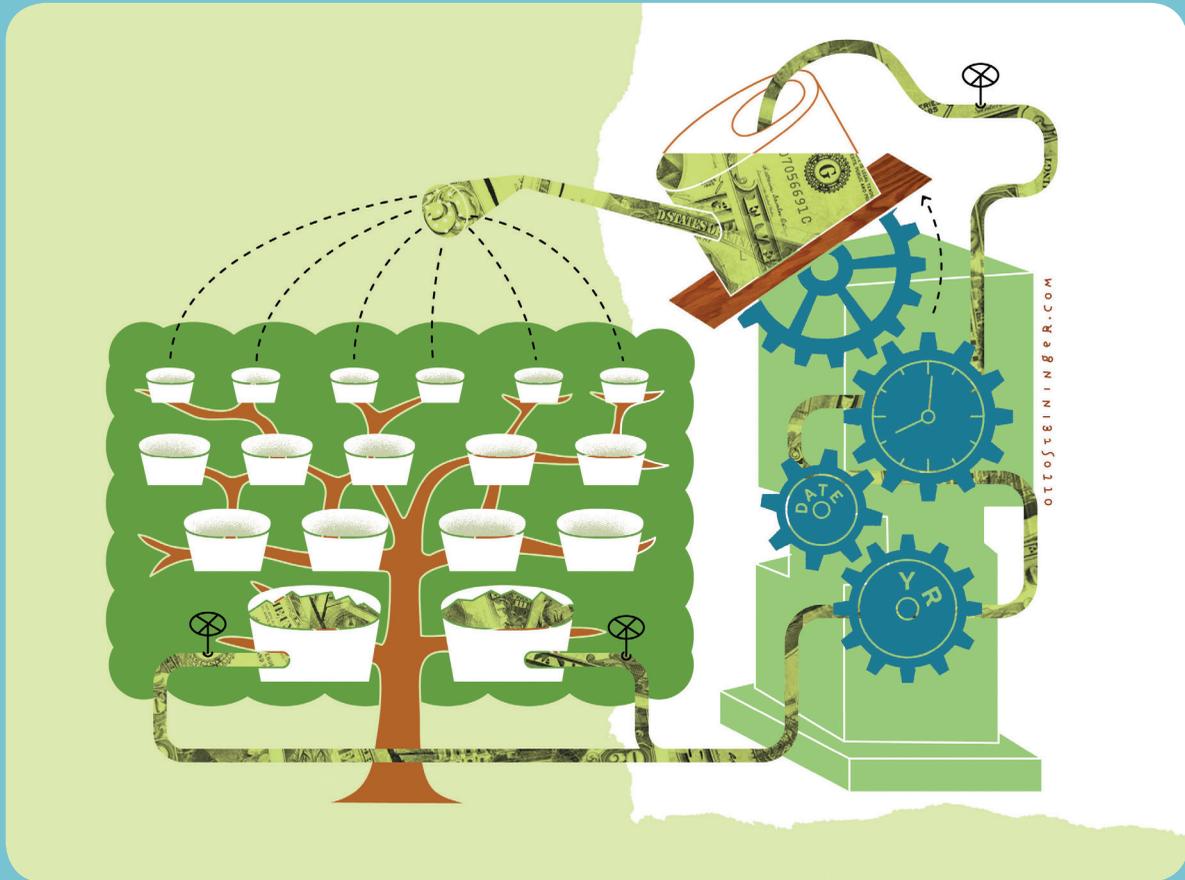
**WHAT WILL THE SOURCES BE FOR FUNDING OPERATING EXPENSES AFTER 1 JULY 2015?**

**FUNDING OUR OPERATING EXPENSES =  
Fund Development  
&  
General Administration**



*\* Only when net investment returns are not sufficient to cover operating expenses*

# HOW TO USE THE UPDATED FUNDING MODEL FOR A GLOBAL GRANT



Let's say your district wants to use a \$45,000 global grant to implement a water project serving rural villages in Uganda. If only District Designated Funds (DDF) will be used, your district can plan the grant the same way it has in the past.

If your project will be funded with cash contributions flowing through the Foundation, you will need to contribute another 5 percent. So, for

a \$45,000 global grant, if your district provides \$30,000 in cash contributions and receives a \$15,000 World Fund match, the additional amount of cash required is \$1,500 (5 percent of \$30,000), for a total of \$46,500.

The online grant system will calculate and display the total amount of cash required when you enter cash contributions.

# A CONVERSATION with TRUSTEE IAN RISELEY

## What is the most important thing for Rotarians to know about the Foundation's funding model?

The model will diversify the Foundation's sources of income to provide greater financial stability for years to come.

## What concerns have you heard from members about the modified funding model?

Some members fear this is a big change from current practices, but in fact the changes are quite minor. Others have asked about the impact on District Designated Funds (DDF). It is important to note that there will be no change to District Designated Funds. The changes to our funding model simply provide a set of procedures for processes that are already happening, and also address the need to pay for processing contributions that flow through the Foundation for global grants.

## How have you addressed those concerns?

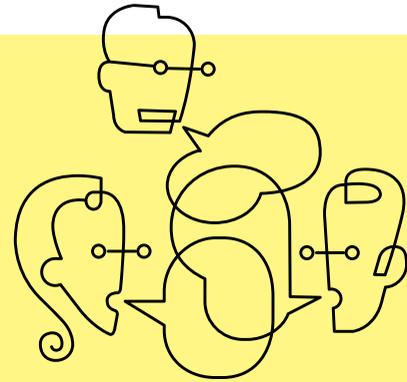
I encourage all members to read the official communications about the funding model. The Trustees recognize that open, clear communication fosters Rotarians' continued support of, and active involvement in, Foundation programs. There is an announcement on Rotary.org with a link to a document that details the changes, called "Our Foundation's Funding Model." Training manuals for officers and committees at the district and club levels are also being updated. We have set up an email address to answer questions that Rotarians still have, so please send any questions to [fundingmodel@rotary.org](mailto:fundingmodel@rotary.org).

## GOOD TO KNOW

Global grants funded with District Designated Funds (DDF) are matched 100 percent by the World Fund, but cash contributions are matched at 50 percent. Also, the processing time for grants funded with DDF is shorter than for grants involving cash. So, your project will be able to install more water wells more quickly if it's funded entirely with DDF.



# OUR FUNDS



## WHAT IS THE ANNUAL FUND-SHARE?

The Annual Fund-SHARE is the primary source of funding for a broad range of local and international Rotary Foundation activities. Every Rotarian, Every Year (EREY) is the initiative to encourage support for the Foundation's Annual Fund. EREY encourages every Rotarian to contribute to the Annual Fund every year. Contributions to the Annual Fund-SHARE from all Rotary clubs in a district are directed into two sub-funds: the World Fund and the District Designated Fund. Through the SHARE system, contributions to The Rotary Foundation are transformed into grants.

## WHAT IS THE WORLD FUND?

The World Fund provides funding for our highest-priority activities around the globe. Fifty percent of SHARE-designated contributions are applied to the World Fund. The Foundation uses the World Fund to pay for grant and program opportunities available to all Rotary districts.

## WHAT IS DDF?

The District Designated Fund (DDF) pays for Foundation, club, and district projects that your club and others in the district choose. Districts may use up to half of their DDF to fund district grants. The remaining DDF may be used for global grants or donated to PolioPlus, the Rotary Peace Centers, or another district.

## WHAT IS THE ENDOWMENT FUND?

The Endowment Fund ensures the long-term viability of the Foundation and its grants and programs. Spendable earnings from this endowed fund enable the Foundation to expand existing activities and underwrite new ones. Contributions are invested in perpetuity – a percentage of the total value of the fund is directed annually to Foundation grants and programs.



## QUESTIONS?

We encourage you to share this information with others who have questions about The Rotary Foundation's funding model. You can also direct funding model questions to [fundingmodel@rotary.org](mailto:fundingmodel@rotary.org).