
MINUTES

of the

JUNE 2009 MEETING

of

THE TRUSTEES

of

THE ROTARY FOUNDATION

* * * * *

DATE AND PLACE

The Trustees of The Rotary Foundation of Rotary International met on 25-26 June 2009 in Birmingham, England.

ATTENDANCE

Present were Chairman Jonathan B. Majiyagbe; Chairman-elect Glenn E. Estess, S; Vice-Chairman Ron D. Burton; other Trustees Doh Bae, William B. Boyd, Peter Bundgaard, John F. Germ, Carolyn E. Jones, David D. Morgan, Samuel A. Okudzeto, Louis Piconi, José Antonio Salazar-Cruz, Carl-Wilhelm Stenhammar, Sakuji Tanaka, and General Secretary Ed Futa. Also present were Incoming Trustees Gustavo Gross C., Ashok M. Mahajan, and Wilfrid J. Wilkinson.

The Trustees regretted the inability of Trustee K.R. Ravindran and Incoming Trustee Lynn A. Hammond to attend the meeting.

Note: The meeting on 25 June was presided over by 2008-09 Chairman Jonathan B. Majiyagbe and the meeting on 26 June was presided over by 2009-10 Chairman Glenn E. Estess, Sr. Several decisions were taken by the 2009-10 Trustees and it is so noted.

Also present were RI Director Paul A. Netzel; RI Director Philip J. Silvers; Rotarian Coordinator for the 2010-11 RI President, Duane R. Sterling; Chief Financial Officer Peter DeBerge; Rotary Foundation General Manager John Osterlund; Associate Manager of Corporate Services Alice Baehler, who served as secretary of the meeting; Membership Services General Manager Theresa Nissen; Humanitarian Grants Program Manager James Robinson; PolioPlus Manager Carol Pandak; Fund Development Manager Eric Schmelling; Educational Programs Manager Harvey Newcomb III; Controller Geoff Woie.

AGENDA

The General Secretary had prepared a memorandum of items for consideration at this meeting. Items from that memorandum, as well as other items considered during the meeting that were acted upon, constituted the meeting's agenda as follows:

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* Decisions taken by 2009-10 Trustees, Chairman Glenn E. Estess, Sr. presiding.

+ Filed only with the official copy of these minutes.

141. Minutes of the April 2009 Meeting

Statement: Copies of the minutes of the April 2009 meeting were provided to each trustee in advance of the meeting.

DECISION: The Trustees approve the minutes of the April 2009 meeting and request the chairman to sign the official copy of these minutes.

142. Decisions Taken on Behalf of the Trustees

Statement: Section 5.9 of The Rotary Foundation by-laws states that any officer acting on behalf of the Trustees shall report such action to the Trustees at their next scheduled meeting.

DECISION: The Trustees ratify the decisions as summarized in Appendix A, the complete copy of which is filed only with the official copy of these minutes, taken on their behalf between 16 March and 31 May 2009 by those authorized to do so.

143. Report of the General Secretary

Statement: The general secretary presented a report to the Trustees on the work at the Secretariat during the fourth quarter of 2008-09.

DECISION: The Trustees receive the report of the general secretary on the activities of the Secretariat.

144. Report of The Rotary Foundation General Manager

Statement: The general manager presented a report to the Trustees on recent activities of The Rotary Foundation.

DECISION: The Trustees receive the report of the general manager on the activities of The Rotary Foundation.

145. Communications from the RI Directors

Statement: At its June 2009 meeting, the RI Board of Directors made a number of decisions of interest to the Trustees.

DECISION: The Trustees

1. note the following decisions from the June 2009 meeting of the RI Board of Directors:

213. Report of the General Secretary to the Board and to the Convention
 215. Communications from the Trustees
 236. Liaisons at Board and Trustee Meetings
 237. Secretariat Support at Rotary Institutes
 244. Participation of Minors at Official RI and TRF Meetings
 246. Joint Committee to Review Rotarian Action Groups Report
 249. Update on Rotary's US\$200 Million Challenge
 253. Site for 2015 RI Convention
 255. Update on 2010 Assembly and Future Vision Cost Sharing
 259. Proposed RI Membership Slogan
 272. Currency Policy Review
 274. Appointment of External Auditors for 2009-10
 275. Competitive Selection of External Auditor for 2010-11
 276. Reimbursement of Spouse Expenses
 278. Establishment of RI Operations in Canada
2. amend the foreign currency management policy as shown in Appendix B, and amend *The Rotary Foundation Code of Policies* section 18.100. accordingly;
 3. concur with the appointment of Deloitte & Touche to audit the books and records of The Rotary Foundation for 2009-10;
 4. request the TRF Finance Committee to study the role of Trustees' spouses at Rotary institutes and other meetings, and to consider appropriate amendments to *The Rotary Foundation Code of Policies*, for report to the Trustees at their October 2009 meeting;
 5. express their appreciation to the Board for allocating up to US\$170,000 to The Rotary Foundation to help offset the costs of the Future Vision Pilot training being held in conjunction with the 2010 International Assembly;
 6. in view of the invaluable benefit derived by assigning a trustee to attend RI Board meetings and a director to Trustee meetings, do not agree to amend *The Rotary Foundation Code of Policies* section 4.030.2., and request the Board to reconsider its decision on this matter;

7. express their thanks to Director Netzel for his report and for his service as liaison from the RI Board of Directors.

146. Tentative Future Agenda*

Statement: Trustee procedures require at each meeting the submission of a tentative agenda for the next Trustees meeting.

DECISION: The Trustees receive the tentative agenda for their October 2009 meeting.

147. Appreciation to RI Staff

Statement: The Trustees wished to record their thanks to the general secretary, general manager, and staff for their support during 2008-09.

DECISION: The Trustees express their sincere appreciation and gratitude to the general secretary, the general manager of The Rotary Foundation, and the professional staff of the Secretariat in the World Headquarters and the international offices around the world for their excellent assistance and support rendered to Rotarians, to the Trustees, and to The Rotary Foundation in 2008-09.

148. Election of Vice-Chairman*

Statement: Section 5.2 of The Rotary Foundation Bylaws states that the chairman-elect and vice-chairman shall be annually elected by the Trustees to serve one-year terms beginning on 1 July following the election. Section 2.100. of *The Rotary Foundation Code of Policies* states further that this election shall be by written ballot, and that the election of the chairman-elect shall precede the election of the vice-chairman. The Trustees considered formalizing the current practice of allowing the current chairman-elect to nominate the vice-chairman who would serve with him.

DECISION: The Trustees amend *The Rotary Foundation Code of Policies* as follows:

2.100. Election of Officers

The annual election of officers for the following year shall be conducted at the annual meeting of the Trustees in October. The election of officers shall be conducted by written ballots. The election of the chairman-elect shall precede the election of the vice-chairman. Following the election of the chairman-elect, the current chairman-elect may nominate a Trustee to serve as vice-

chairman. The election of each officer shall require a majority of votes cast.

149. Review of Joint Policy on Cooperative Relationships

Statement: In decision 157, June 2007, the Trustees agreed to review the joint policy on cooperative relationships that involve funding at this meeting. Since adopting the joint policy, only one new relationship including funding was developed – the RI/USAID International H2O Collaboration. The general secretary and Trustee Boyd provided a review of this relationship.

DECISION: The Trustees thank the general secretary for his report.

150. Report of the Joint Committee to Review Rotarian Action Groups

Statement: At their April 2009 meeting, the Trustees asked the Joint Committee to Review Rotarian Action Groups to study the relationship between Rotarian Action Groups (RAGS) and RI/TRF, and the solicitation of funds by RAGS. The committee met on 25 April, discussed both of these issues, and agreed they warranted further study in 2009-10. The committee also requested the RI Board, at its June 2009 meeting, to amend the policy on circularization by RAGS and to place a temporary moratorium on new RAGS.

DECISION: The Trustees thank the committee for its report.

151. 2010 Rotary Alumni Celebration*

Statement: In decision 158, April 2006, the Trustees approved a full-day pre-convention event for TRF program alumni to determine the effectiveness and interest in such an event over a three-year pilot. Successful Rotary alumni celebrations were held in Los Angeles in 2008 and in Birmingham in 2009. In decision 125, April 2009, the Trustees agreed to forego holding a full-day Rotary Alumni Celebration before the 2011 RI Convention in Montréal, due to the economic downturn. Chairman Estess felt that not holding a celebration at the 2010 convention might mean losing some of the momentum gained for TRF alumni relations after the first two successful events.

DECISION: The Trustees

1. agree to host a half-day unofficial ancillary pre-convention Rotary Alumni Celebration at the 2010 RI Convention in Montréal (Canada), request the RI Board to approve the addition of this event to the 2010 RI Convention schedule, pending space availability, and rescind accordingly point 4 of decision 125, April 2009;
 2. approve a 2009-10 budget variance not to exceed US\$8,000 to cover costs involved in holding the 2010 Rotary Alumni Celebration;
 3. request the Alumni Advisory Committee to provide a status report on plans for the 2010 Rotary Alumni Celebration, for consideration at the Trustees' October 2009 meeting;
 4. look forward to receiving the general secretary's evaluation of the pilot phase of the Rotary Alumni celebrations and recommendations for conducting Rotary Alumni celebrations in 2014 and beyond, for consideration at their October 2012 meeting.
- e. Bequest Society reception (by invitation only);
 - f. Six workshops, tentatively scheduled to include: TRF - An Update; PolioPlus Update; Fund Development; Humanitarian Grants Program; Rotary Centers for International Studies/Educational programs; and Future Vision Plan of TRF;
 - g. Alumni celebration (all-day event – tentative);
 - h. TRF exhibit booth space for programs and fund development;
 - i. TRF exhibit booth for PolioPlus;
 - j. TRF exhibit booth for Rotary Centers for International Studies;
 - k. TRF exhibit booth for Paul Harris Society;
 - l. Office space for TRF Trustee chairman and chairman-elect;

152. Foundation Events at the 2011 (New Orleans) Convention*

Statement: The Trustees annually identify which Foundation events should be held at or in conjunction with the RI Convention. Since the final authority regarding the convention program rests with the RI Board, the Trustees communicated to the Board of Directors their plan regarding Foundation events to be held at the 2011 RI Convention in New Orleans, Louisiana, USA.

DECISION: The Trustees

1. look with favor on The Rotary Foundation events listed below to take place in conjunction with the 2011 (New Orleans) Convention:
 - a. TRF plenary session to include the Trustee chairman's presentation and other elements to be determined;
 - b. Arch Klumph Society event (by invitation only);
 - c. Paul Harris Society thank you event;
 - d. Major donor thank you event (by invitation only);

2. request the RI Board to look with favor upon The Rotary Foundation's plans to include the foregoing events and/or space in conjunction with the 2011 Convention, and to incorporate appropriate costs for these activities and displays into the 2011 Convention budget;
3. request the general secretary to include funding for activities and displays not covered by the 2011 Convention budget in the 2010-11 TRF administrative budget, for review at the Trustees' April 2010 meeting.

153. Annual Programs Fund Goal*

Statement: The Rotary Foundation Code of Policies section 15.080.2. sets forth the process for establishing a worldwide Annual Programs Fund goal each year. Based upon the submission of club goals and club per capita goal projections, and in cooperation with the RI president and president-elect, the Trustee chairman-elect announced the worldwide Annual Programs Fund goal during the convention. He then sought the formal endorsement of the Trustees at this meeting.

DECISION: The Trustees

1. receive the chairman-elect's recommended 2009-10 worldwide Annual Programs Fund goal as

announced at the June 2009 International Convention;

2. endorse the 2009-10 worldwide Annual Programs Fund goal of US\$96,000,000.

154. Inappropriate Use of Foundation Recognition Points

Statement: In April 2009, the general secretary and the Stewardship Committee were notified that two individuals had allegedly forged signatures to authorize the transfer of Foundation recognition points. At a meeting held on 14 May 2009 with various district and club officials, the donors requested that the Foundation recognition points be immediately returned to the account holders and that action be taken against the persons responsible for false certification. The individual responsible for submitting the forms admitted to forging the account holders' names, and agreed that the points should be returned to the rightful owners. The Trustees considered steps that could be taken to resolve the current situation and prevent future occurrences associated with unauthorized points transfers.

DECISION: The Trustees

1. award Foundation recognition points to Rotarians who contribute to The Rotary Foundation through the Annual Programs Fund, the PolioPlus campaign, and as a sponsor contribution to a Matching Grant;
2. note that the Foundation recognition points belong to and are an asset of the original donor until his or her death, or until he or she transfers them to another (the surviving spouse of a major donor may also transfer them to another);
3. further note that the transfer of Foundation recognition points requires the signature of the authorized donor;
4. agree that the transfer of Foundation recognition points by any other Rotarian, regardless of the intent or purpose, is strongly condemned and prohibited, and may subject the individual to sanctions by The Rotary Foundation;
5. note that information provided to the Stewardship Committee established that one or more Rotarians of District 3291, during the raising of money for The Rotary Foundation, have improperly trans-

ferred Foundation recognition points belonging to other Rotarians;

6. agree, therefore, that any individual in District 3291 who has engaged in this improper transfer shall be prohibited from holding any appointed position within The Rotary Foundation for five years from the date of the determination by the Stewardship Committee;
7. request the general secretary, in consultation with the Stewardship Committee, to develop a proposed amendment to *The Rotary Foundation Code of Policies* with regard to the management and stewardship of Foundation recognition points, for review by the Trustees at their October 2009 meeting.

DECISIONS 155-160

International PolioPlus Committee Report

The International PolioPlus Committee met in Birmingham, England on 17-18 June 2009 and made several recommendations to the Trustees.

155. PolioPlus Partners Update

Statement: The PolioPlus Partners program no longer actively seeks contributions so that Rotarians can focus on meeting Rotary's US\$200 Million Challenge. In decision 89, January 2008, the Trustees agreed that, beginning 1 July 2008 through 30 June 2011, PolioPlus Partners projects would be funded from the PolioPlus Fund up to US\$5 million annually. Due to significant cash and District Designated Fund (DDF) contributions made to PolioPlus Partners in 2007-08, the program currently has unused cash and DDF balances that could be used for 2009-10 PolioPlus Partners project requests. Demand for funding to support social mobilization and surveillance activities was expected to remain relatively strong in the near future due to the emergence of new cases in previously polio-free countries.

DECISION: The Trustees agree that any unused cash and District Designated Funds remaining in the PolioPlus Partners program after 30 June 2009 shall be used to fund new projects submitted by the national PolioPlus committees for payment in 2009-10.

**156. Combined World Health Organization/
African Regional Office (WHO/AFRO)
and UNICEF Grant Request**

Statement: The World Health Organization/African Regional Office (WHO/AFRO) and UNICEF requested grants for operational and social mobilization support in several countries in Africa.

DECISION: The Trustees

1. approve a PolioPlus grant of up to US\$2,787,059 to WHO for operational support in the following countries:

- Chad US\$1,495,978
- Niger US\$1,291,081

this grant to be released in accordance with Trustee policies;

2. approve a PolioPlus grant of up to US\$466,366 to UNICEF for social mobilization support in Angola, this grant to be released in accordance with Trustee policies;
3. approve a PolioPlus grant of up to US\$4,181,117 to UNICEF for operational support in Nigeria, this grant to be released in accordance with Trustee policies;
4. authorize the general secretary to execute agreement letters with WHO and UNICEF to convey the funds on a scheduled basis. WHO and UNICEF will apply the funds to appropriate projects under such controls and conditions as the agreement specifies;
5. note that these are one-year grants which must be fully expended by 31 July 2010, or one year after the transfer of funds to the grantee, whichever comes later;
6. note that these grants, if fully expended, will increase total PolioPlus grants as follows:
 - Angola from US\$6,977,822 to US\$7,444,188
 - Chad from US\$4,936,452 to US\$6,432,430
 - Niger from US\$9,489,033 to US\$10,780,114
 - Nigeria from US\$75,657,859 to US\$79,838,976

**157. Combined World Health Organization/
Eastern Mediterranean Regional Office
(WHO/EMRO) and UNICEF Grant
Request**

Statement: The World Health Organization/Eastern Mediterranean Regional Office (WHO/EMRO) requested grants for operational support in Afghanistan, Pakistan, and the Sudan.

DECISION: The Trustees

1. approve a PolioPlus grant of up to US\$2,078,475 to UNICEF for operational support in the following countries:

- Northern Sudan US\$1,284,000
- Southern Sudan US\$794,475

this grant to be released in accordance with Trustee policies;

2. approve a PolioPlus grant of up to US\$5,786,838 to WHO for operational support in the following countries:

- Afghanistan US\$884,320
- Northern Sudan US\$1,188,540
- Pakistan US\$2,935,250
- Southern Sudan US\$778,728

this grant to be released in accordance with Trustee policies;

3. authorize the general secretary to execute agreement letters with WHO and UNICEF to convey the funds on a scheduled basis. WHO and UNICEF will apply the funds to appropriate projects under such controls and conditions as the agreement specifies;
4. note that these are one-year grants which must be fully expended by 31 July 2010, or one year after the transfer of funds to the grantee, whichever comes later;
5. note that these grants, if fully expended, will increase total PolioPlus grants as follows:
 - Afghanistan from US\$25,632,504 to US\$26,516,824

- Pakistan from US\$51,555,111 to US\$54,490,361
- Sudan from US\$16,728,355 to US\$20,774,098

158. Combined World Health Organization/Southeast Asia Regional Office (WHO/SEARO) and UNICEF Grant Request

Statement: The World Health Organization/Southeast Asia Regional Office (WHO/SEARO) and UNICEF requested grants for operational support and social mobilization activities in India.

DECISION: The Trustees

1. approve a PolioPlus grant of up to US\$1,200,000 to WHO for operational support in India, this grant to be released in accordance with Trustee policies;
2. approve a PolioPlus grant of up to US\$545,058 to UNICEF to support social mobilization activities in India, this grant to be released in accordance with Trustee policies;
3. authorize the general secretary to execute agreement letters with UNICEF and WHO to convey the funds on a scheduled basis. UNICEF and WHO will apply the funds to appropriate projects under such controls and conditions as the agreement specifies;
4. note that these are one-year grants which must be fully expended by 31 July 2010, or one year after the transfer of funds to the grantee, whichever comes later;
5. note that these grants, if fully expended, will increase total PolioPlus grants to India from US\$98,560,299 to US\$100,305,357.

159. World Health Organization Polio Research Committee Grant Request

Statement: The World Health Organization requested grants for polio eradication research activities proposed by the Polio Research Committee.

DECISION: The Trustees

1. approve a PolioPlus grant of up to US\$546,224 to WHO for the implementation of polio eradication research activities proposed by the Polio Research Committee;

2. authorize the general secretary to execute an agreement letter with WHO to convey the funds on a scheduled basis. WHO will apply the funds to appropriate projects under such controls and conditions as the agreement specifies;
3. note that this is a two year grant which must be fully expended by 31 July 2011;
4. note that this grant, if fully expended, will bring the total PolioPlus grants to WHO/Research from US\$8,244,893 to US\$8,791,117.

160. Extension of World Health Organization Core Grant

Statement: The World Health Organization (WHO) requested an extension of the core grant for a team of technical experts who will help all nations develop and strengthen those technical capacities required to achieve the goal of polio eradication.

DECISION: The Trustees

1. agree to provide funding for the period 1 July 2009–31 December 2011 for a team of polio eradication technical experts, three positions at the global level and one position in each of the Pakistan/Afghanistan, Indian and Nigerian endemic regions;
2. allocate US\$3,562,431 from the PolioPlus Fund and reallocate US\$635,000 from expired WHO grants for this purpose;
3. authorize the general secretary to execute an agreement letter with WHO to convey the funds on a scheduled basis. WHO will apply the funds to appropriate projects under such controls and conditions as the agreement specifies;
4. note that this is a two and a half year grant which must be fully expended by 31 December 2011;
5. note that this grant, if fully expended, will bring the total PolioPlus grants to WHO/CORE to US\$25,070,956.

161. Report of the Investment Advisory Committee

Statement: The Rotary Foundation Investment Advisory Committee met on 1-2 June 2009 in Evanston,

Illinois, USA. While the main purpose of the meeting was to discuss how the committee would operate in the future, several investment issues were also addressed.

DECISION: The Trustees

1. receive the report of the 1-2 June 2009 meeting of the Investment Advisory Committee;
2. authorize an additional meeting of the Investment Advisory Committee in 2009-10;
3. rescind decision 138, point 8, April 2009, to extend the investment consulting agreement with Hewitt Investment Group for another two years, from 1 January 2010 to 31 December 2011, and request the concurrence of the RI Board;
4. note decision 138, point 4, April 2009, to temporarily broaden the Annual Programs Fund asset allocation rebalancing ranges from +/- 5% to +/- 10% relative to target asset allocations for the U.S. equity, non-U.S. equity, and fixed income asset classes due to the extreme volatility in the financial markets;
5. recognize the need to re-evaluate the asset allocation policy for the Annual Programs Fund given the material change in circumstances resulting from the negative investment returns during the fiscal year;
6. approve being outside of the expanded rebalancing ranges for the Annual Programs Fund until after receiving the Investment Advisory Committee's recommendation on the appropriate asset allocation for the Annual Programs Fund at their October 2009 meeting.

162. Review of Conflicts of Interest Policy*

Statement: Section 2.060. of *The Rotary Foundation Code of Policies* calls for the Trustees to review their Conflicts of Interest policy annually at their first meeting of the year. The *Foundation Code* also requires the Trustees to submit an annual report disclosing all potential conflicts of interest.

DECISION: The Trustees have reviewed their current Conflicts of Interest policy and signed the "Potential Conflicts of Interest Statement" in accordance with *The Rotary Foundation Code of Policies* section 2.060.

163. Compensation to "Disqualified Persons"*

Statement: In accordance with section 2.020.1. of *The Rotary Foundation Code of Policies*, the Executive Committee annually reviews the amounts to be paid to Rotary International for the services of the general secretary and general manager of The Rotary Foundation so as to assure that such payments are "reasonable" as the term is defined under US tax law. US tax law provides that sanctions may be imposed on tax-exempt companies that pay unreasonably high levels of compensation to certain senior officers and executives. These persons are referred to as "disqualified persons."

DECISION: The Trustees

1. thank their Executive Committee for its report on this matter;
2. note that the Executive Committee has determined that the amounts to be paid in 2009-10 to Rotary International for the services of the general secretary and general manager of The Rotary Foundation are reasonable under US tax law.

Note: General Secretary Futa and General Manager Osterlund were not present during the discussion and vote on this matter.

164. Modification to the Budget in 2009-10*

Statement: The Trustees approved a variance to the 2009-10 budget during the course of this meeting.

DECISION: The Trustees

1. note no modifications to the 2009-10 budget as approved in April 2009:

Revenues	US\$248,865,000
Program Awards	153,263,000
Program Operations	19,373,000
Fund Development	17,295,000
General Administration	6,477,000
Total expenses	196,408,000
Change in net assets	US\$52,457,000

APPENDIX A

Summary of Decisions Taken on Behalf of the Trustees (Decision 142)

- Exhibit a – Citation for Meritorious Service Awards
Forty-four recipients in 18 countries.
- Exhibit b – PolioPlus Grants Approved by the Trustee Chairman
Three PolioPlus Rapid Response grants for a total of US\$870,974.
- Exhibit c – Ambassadorial Scholarships, Rotary Peace and Conflict Studies Program and Group Study Exchanges
Four additional Ambassadorial Scholarships and one Rotary Grant for University Teachers were awarded for a total of US\$96,000. One Regional Scholar Orientation Seminar Grant was awarded for US\$5,000. Three policy exceptions, eight petitions for waiver of age range, sixteen requests for four-member teams and two miscellaneous requests were approved by the general secretary.
- Exhibit d – District Simplified Grants
Two hundred twenty-four grants for a total of US\$5,075,310.
- Exhibit e – Matching Grants
One hundred forty-two grants for a total of US\$562,612.
- Exhibit f – Humanitarian Grants Cadre
Twenty-eight grants reviewed by the Cadre.
- Exhibit g – Humanitarian Grants administration
One Special Initiative Grant approved by the Chairman for a total cost of US\$12,000, and nine decisions made by the general secretary.

APPENDIX B

Foreign Currency Management Policy (Decision 145)

(Adopted by the Board of Directors and the Trustees in June 1998, amended October 2004, and June 2009)

1.0 Purpose

1.1 To mitigate foreign exchange exposure wherever possible in order to reduce the unexpected increases and decreases to ~~budgeted~~ earnings that are caused by significant fluctuations in currency rates.

2.0 Definition of Exposures

2.1 *Transaction* - transaction exposure is the exposure of balance sheet accounts such as accounts receivable or accounts payable to a change in foreign exchange rates between the time a transaction is booked and the time it is paid. An example of a transaction exposure are is grant payments that ~~are~~ is booked at the time of the commitment and paid in local currency at future dates.

2.2 *Translation* - exposure that arises due to the need to translate foreign financial statements into U.S. dollars.

Currency exchange rates from the prior quarter are compared to those of the current quarter and the change in value is applied to the balances held at quarterend. Month-end non-U.S. investment balances and bank balances are translated.

2.3 *Economic exposure - anticipated* - exposure of anticipated cash flows to unexpected rate changes in the future. An example would be the transfer of funds between the ~~service centers~~ international offices and World Headquarters.

2.4 *Internal exposure* - an intra-company exposure resulting from the use of the RI exchange rate instead of the actual exchange rate. Examples are dues paid in local currency at the prior month's RI rate but booked at the current month's RI rate, or program-related expenses paid in local currency and booked at the budgeted RI rate, but paid at the prevailing market rate.

3.0 Goals

3.1 Minimize the need to enter into foreign exchange contracts by effectively managing cash on a global basis.

3.2 Minimize the risk of loss rather than maximizing opportunities for gain that arise from foreign exchange exposures.

3.3 Minimize the transaction costs associated with a foreign exchange risk management program.

4.0 Responsibility

4.1 Centralized control and direction of foreign exchange activities are necessary to ensure an ~~rational~~ efficient approach to controlling Rotary's worldwide exposures in various foreign currencies. Accordingly, overall responsibility for management of Rotary's exposures ~~should~~ will be maintained reside at in the Treasury Cash Management

Department at World Headquarters.

5.0 Authority to Hedge Foreign Currency Exposure

5.1 ~~The Chief Financial Officer or the Manager, Investments and Treasury Division or the Treasury Manager, with the approval of the General Secretary, are~~ Manager, Cash Management, acting in concert with either the Chief Financial Officer or the Manager, Investment and Treasury Division, is authorized to enter into contracts in accordance with this policy to hedge Rotary's foreign currency exposure.

6.0 Policy

6.1 All local currency inflows will be netted against expected local currency outflows. Any net excess currency will be transferred from the local bank account into another currency that is needed. Currency should be maintained in local bank accounts only if: (1) required to meet near-term local Foundation program expenses or operational expenses of the international offices, or (2) ~~there exists~~ currency restrictions ~~that~~ prohibit the transfer of funds.

6.2 Due to the risks associated with using forecasted numbers, anticipated exposures such as expected transfers from the international offices, will not be hedged 100% unless hedged through the use of foreign currency options. In general, Rotary will attempt to hedge up to 75% of an identified foreign exchange exposure, any particular transaction, or a series of related transactions, which have an impact on the Statement of Activities, or cash flow.

6.3 Translation exposure ~~will~~ may be hedged, but only if the funds will not be utilized locally and currency restrictions prohibit the transfer of funds.

6.4 Any action taken to protect against foreign exchange risk must be economically justified.

6.5 Hedging techniques will be applied only to offset or eliminate an actual or anticipated exposure, and not to create a speculative exposure, ~~which that~~ did not previously exist.

6.6 Foreign exchange instruments that can be used to hedge Rotary's currency exposure include forward contracts, ~~and~~ foreign currency options, and combinations thereof.

6.7 To control counter-party risk, Rotary can enter into foreign exchange contracts to hedge Rotary's currency exposure only with financial institutions having a public debt rating of A or better from either Moody's or Standard and Poor's.

6.8 Financial instruments may be used to cover future periods of 1 to 365 days (12 months). Any use of financial instruments beyond 12 months from the date of execution of the financial instrument must have prior approval from the Chief Financial Officer.

6.9 It is the responsibility of the ~~Manager, Investments and Treasury Division, and the Treasury Manager, Cash Management,~~ to maintain exact records of all foreign exchange transactions. Further, it is ~~their~~ his/her responsibility to document all transactions and to inform all departments that have a requirement to record or need to know of such transactions.

7.0 Procedures:

Global Cash Management:

7.1 ~~Any payments due Rotary International from RIBI will be made in Pound Sterling to Rotary's interest bearing Pound Sterling bank account.~~ Excess Pounds Sterling received from RIBI or the Rotary Foundation of the United Kingdom will be transferred to World Headquarters at least quarterly.

7.2 Excess Japanese Yen will be transferred to World Headquarters at least monthly.

7.3 Excess Korean Won ~~for the Foundation will be transferred to World Headquarters at least quarterly.~~ Excess Korean Won for RI will be transferred at least bi-annually monthly.

7.4 Excess Euros will be transferred to World Headquarters at least quarterly.

7.5 Excess Canadian Dollars will be transferred to World Headquarters at least quarterly.

7.46 ~~Other local currency balances will be monitored on a regular basis. The Treasury~~ Cash Management Department will instruct international offices and fiscal agents to transfer excess funds.

7.57 ~~The above cash management procedures can be modified as needed.~~

Foreign Exchange hedging:

7.98 ~~In executing this policy, the Manager, Investments and Treasury Division, and the Treasury Manager,~~ Cash Management, will analyze each exposure to be hedged and will utilize their technical expertise and prudent judgment in determining the following:

- when to place the hedge
- what percentage of the exposure to hedge
- whether the entire desired hedge percentage should be placed at one time, or over a period of time
- what type of hedging vehicle to utilize
- when to unwind the hedge, if appropriate
- how far into the future the hedge should be placed

7.109 ~~The appropriate hedging strategy will be based on:~~

- time horizon until exposure is recognized
- volatility of the currency
- expectation of future exchange rates
- acceptance range for currency fluctuations
- Rotary's aversion to risk
- reliability of the data used
- cost

7.110 ~~In contemplating the placement of a hedge, Treasury will review the accounting treatment with the Finance~~ Controller Division prior to entering into a hedging contract. This will assure that there are no unfavorable accounting impacts encountered with the hedge.

7.121 Treasury may seek bids for any hedging contract where the U.S. Dollar equivalent is less than \$1,000,000. All contracts where the U.S. Dollar equivalent is \$1,000,000 or more must be competitively bid. In so doing, the lowest cost option for Rotary will be selected.

~~7.13 As the value date for an exercised option or for a forward contract approaches, Treasury will determine if the contract should be extended, swapped out or utilized for the actual delivery of currency. If the latter is the case, Treasury will provide the appropriate delivery instructions to the financial institution with whom the contract resides.~~
7.14~~2~~ On an ongoing basis, the Manager, Investment and Treasury Division, and the ~~Treasury~~ Manager, Cash Management, will continue to review Rotary's business operations with the goal of identifying foreign exchange exposures. From there, a hedging strategy, if appropriate, will be formulated.

GLOSSARY

Economic exposure - This exposure refers to potential real economic loss due to currency rate fluctuations. It includes translation exposure and transaction exposures in a pure accounting sense, as defined by FASB #52, as well as exposures not highlighted in the financial statements. This would include commitments of Rotary not yet recognized as transactions under FASB #52. Also, economic exposure includes future anticipated cash flows such as contributions and dues. Such exposures may be subjected to real economic loss should foreign currency values decline. However, because these exposures are projected, traditional accounting statements do not recognize their existence. Hedges of economic exposure are typically recognized on accounting statements and therefore may impact the Statement of Activity while not being offset by underlying exposures.

Foreign exchange rates - the equivalent number of units of one currency per unit of a different currency. There are two ways to quote foreign exchange rates: the U.S. dollar equivalent of a unit of the foreign currency, or the amount of the foreign currency per U.S. dollar.

Hedging - refers to the reduction or elimination of risk through the use of forwards, futures or options. Hedging may entail giving up some opportunity gain in order to reduce risk.

Hedging vehicles:

- *forward contracts* - A forward contract is a contractual obligation to buy or sell a specific amount of foreign currency at a specific price for delivery at a future date. The forward contract price (rate) is determined by the interest rate differential between the two currencies involved. Forward rates are quoted at a premium or discount to the spot or current rate depending on the interest differential rate between the currencies involved.
- *options* - A currency option is the right, but not the obligation, to buy or sell a predetermined amount of currency, at a specific exchange rate for a specific date. An up-front fee, the premium, is paid for this right. A PUT is the right, but not the obligation, to SELL a currency at a predetermined rate. A CALL is the right, but not the obligation, to BUY a currency at a predetermined rate.

Spot rate - current market rate of currency.

Transaction exposure - arises whenever a company commits to pay or receive funds in a currency other than its functional currency.

Translation exposure - the risk that financial statements of overseas units will gain or lose value because of exchange rate movements when translated into the currency of the parent company upon consolidation.

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