

Treasurer's Report to the RI Convention Los Angeles, California, USA June 2008

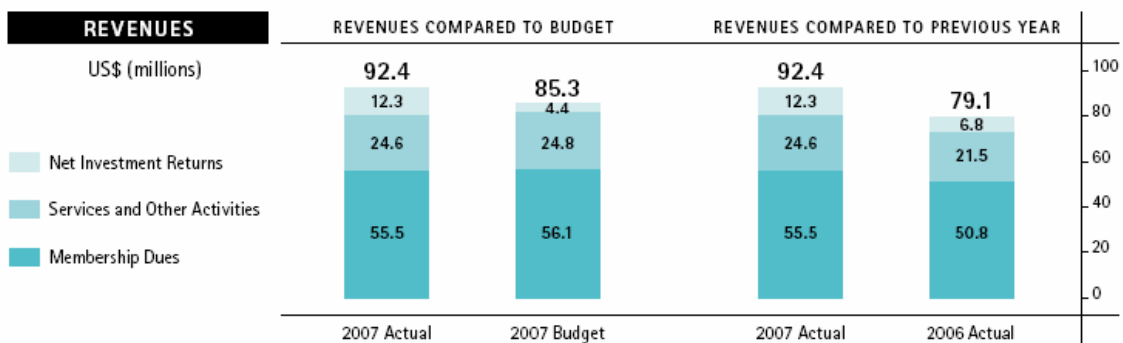
It has been my honor to serve as your treasurer this Rotary year, and it is my duty, in accordance with the RI Bylaws, to report to you on the current state of Rotary International finances.

My report will be in three parts: the audited results of the previous fiscal year ended 30 June 2007; the financial performance for the current fiscal year, which will end 30 June 2008; and the financial outlook for the coming years.

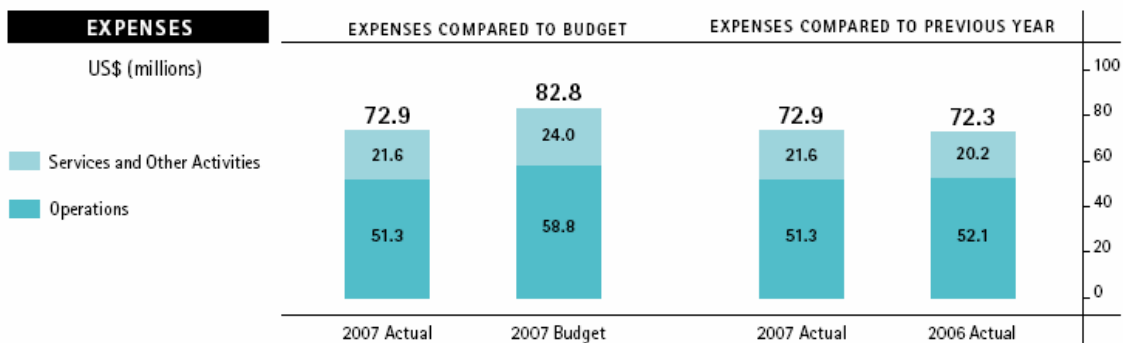
All dollar references are in U.S. currency.

Rotary International's 2006-07 Financial Results

Rotary had a remarkable year in financial terms in 2006-07, supported by exceptional investment returns as well as controlled spending at all levels. As shown in the graph below, revenues totaled \$92.4 million, which were \$7.1 million greater than budgeted, primarily as a result of strong investment returns of 14.3 percent for the fiscal year. Revenues from dues and from services and other activities (i.e., activities that generate income to offset expenses incurred, such as the international convention and *The Rotarian* magazine) were both within 1 percent of budget. Compared with the previous year, revenues from dues increased \$4.7 million, due to the increase to annual dues of \$4 per Rotarian. Additionally, revenue from services and other activities increased \$3.1 million, reflecting revenues recognized from the 2007 Council on Legislation.

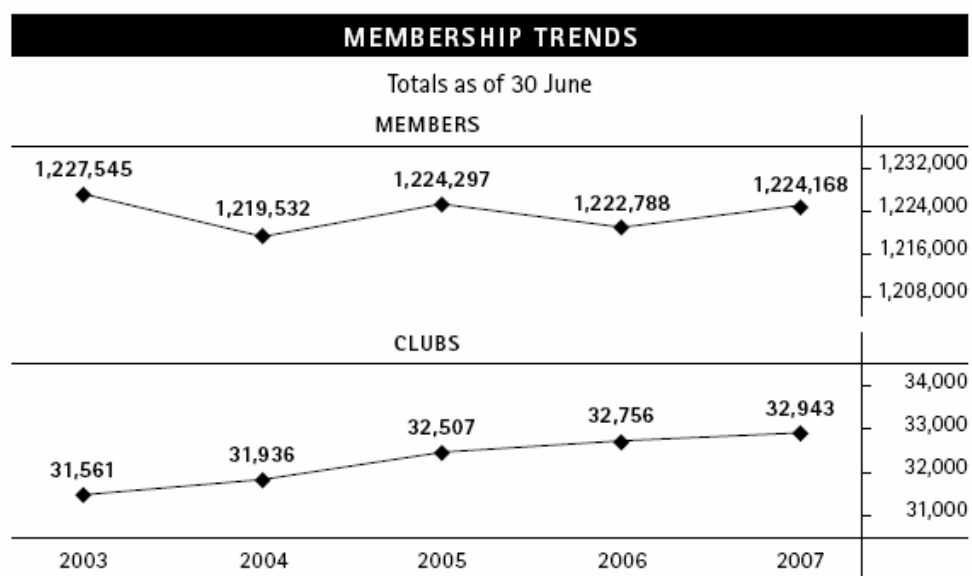


Total expenses for fiscal year 2006-07 were \$72.9 million, of which \$51.3 million related to operations and \$21.6 million related to services and other activities. Expenses were \$9.9 million less than budgeted, primarily due to deferred information services spending as well as the continued efforts of senior leaders, volunteers, management, and staff to control spending in all areas.



Rotary's total net assets increased by \$18.0 million over the previous year as a result of revenues exceeding expenses by \$19.5 million, which was offset by a \$1.5 million charge to record RI's pension obligation in accordance with new accounting rules effective in fiscal year 2006-07.

Rotary's stable worldwide membership is one of the major contributing factors to its solid financial position. As the graph below shows, membership has remained steady and strong, with increases in the number of active clubs in each of the past four years.



Rotary's strength in both its membership and its financial position provided the foundation upon which Rotarians were able to *Lead the Way* in service to humanity during fiscal year 2006-07. Clubs and districts throughout the world were focused on the year's service emphases of water, literacy, health and hunger, and the family of Rotary, through which Rotarians brought real, positive, and permanent change to their communities.

Current Fiscal Year's Financial Performance

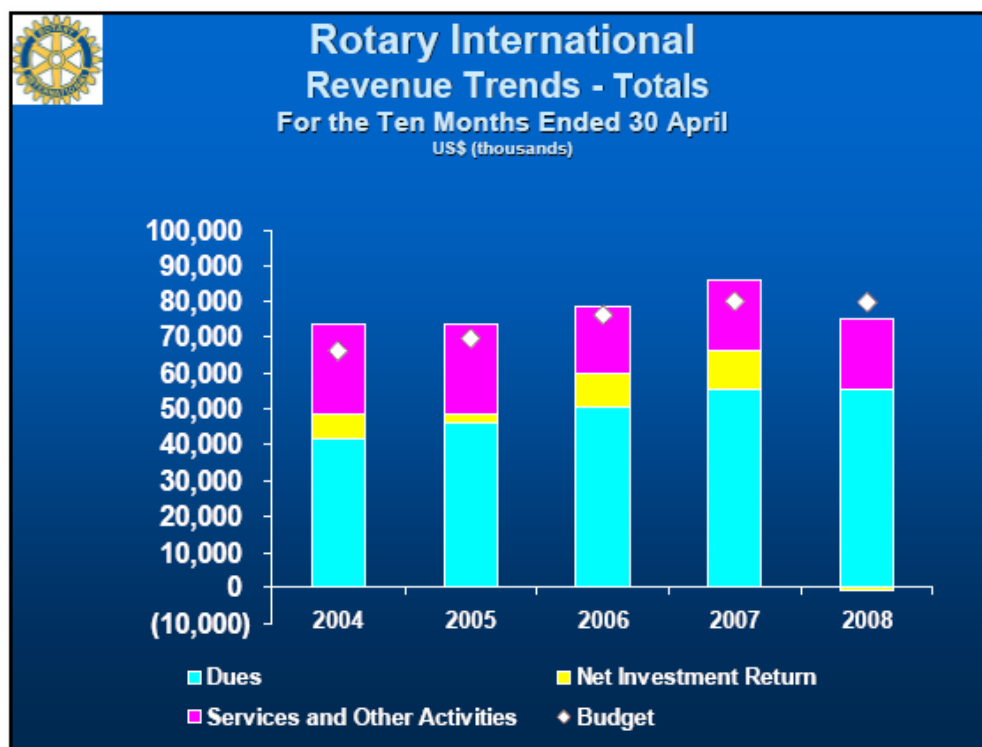
Fiscal year 2007-08 is coming to a close, and the overall financial performance of Rotary through 30 April 2008 has been positive. Projections indicate that RI should meet or exceed budget expectations for the current fiscal year.

Rotary's total revenue comprises three main categories:

- Dues revenue, which for the 10 months ended 30 April 2008 is \$55.6 million, which is \$0.6 million ahead of the current year budget and \$0.5 million ahead of the prior year. It should be noted that after three years of dues increases, per capita dues remained constant at \$47 per Rotarian for fiscal year 2007-08.
- Net investment returns, which through April 2008 reflect a loss of \$0.5 million, which is \$4.3 million below budget and \$11.7 million below the prior fiscal year's exceptional performance, noted above. The current unfavorable results reflect this year's volatile financial market. However, these losses are unrealized because Rotary has not had to liquidate any of its investments. Additionally, Rotary's

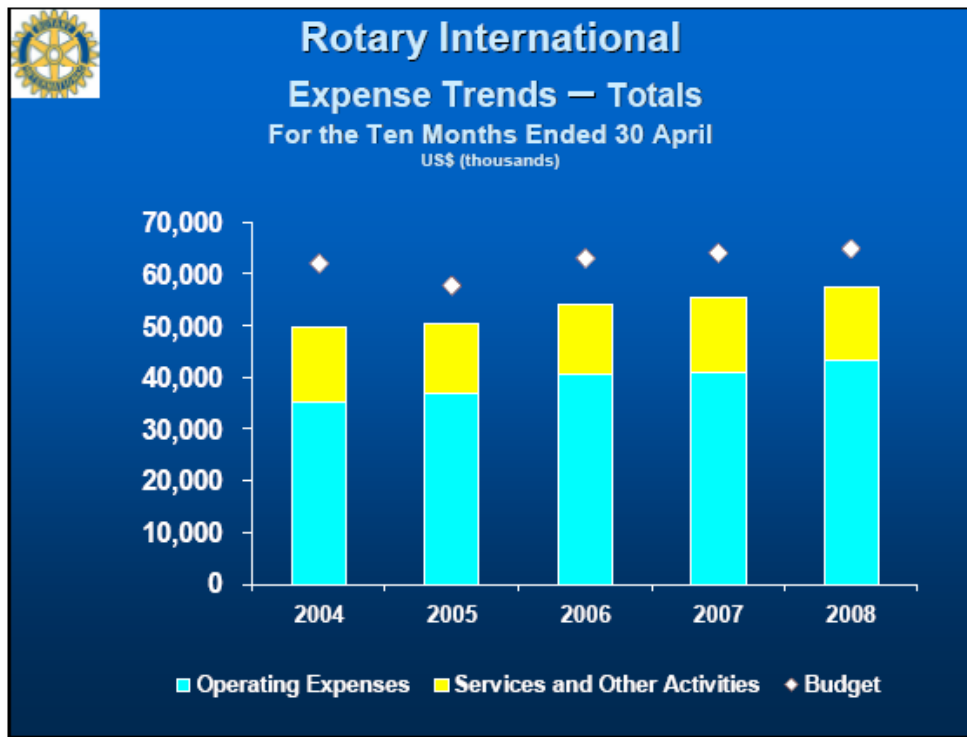
investment earnings reserve of \$12.0 million more than adequately covers this budget variance.

- Revenues from services and other activities, which are in line with the associated expenses incurred for those functions.



Regarding Rotary's expenses, the Secretariat continues to realize positive budget variances while maintaining high levels of support and services for Rotarians around the world as *Rotary Shares* during fiscal year 2007-08 and beyond. Rotary's expenses comprise two main categories:

- Operating expenses, which are supported principally by dues revenue and investment returns and include the cost of governance (including directors, district governors, and committees), communications, membership services, programs and meetings (including the International Assembly), information services, international offices, financial services, and world headquarters administration. For the 10 months ended 30 April 2008, operating expenses total \$43.4 million, which are \$5.1 million below current year budget. Nearly all areas of operations are contributing to the favorable spending performance, with communications and public relations, information services, and membership services accounting for the majority of this difference. Operating expenses are \$2.8 million higher than the prior year, mainly due to increased public relations grants and increased information services activities focused on previously deferred projects.
- Expenses for services and other activities, which are the costs associated with those activities that generate income to offset expenses incurred (examples include the international convention and *The Rotarian* magazine). Expenses for these activities are lower than budgeted by more than \$1 million and are comparable to prior year costs.



Despite the poor investment returns for the first 10 months, Rotary's increase in net assets is \$2.5 million ahead of budget as of 30 April 2008. Assuming relative stability in the financial markets for the remainder of this fiscal year, current projections indicate that RI will retain this increase through 30 June 2008.

Rotary International's Financial Outlook

The financial future for Rotary International remains strong. Prudent financial and investment policies supported by 2007 Council on Legislation enactments and the ongoing financial stewardship of the Board of Directors contribute to the ability of our world-class organization to maintain an appropriate General Surplus Fund that provides for RI's long-term financial security.

Based on Rotary's current five-year financial forecast, revenues from dues are expected to continue their steady growth, assuming a stable membership coupled with the \$1 per Rotarian dues increase adopted by the 2007 Council on Legislation. Revenues from services and other activities should be sufficient to offset their related expenses. RI's diversified investment portfolio is expected to produce returns in excess of 7 percent, which is based on the expected long-term rate of return as annually calculated by RI's General Fund investment consultant.

This forecast also indicates that expenses will increase to support information technology initiatives, continuing public relations and communications activities, and expected inflationary increases in most expense areas, particularly airfare and other travel-related costs throughout the organization. However, the general secretary is taking aggressive action to focus the Secretariat on customer service, operational efficiencies, and business process improvements that are expected to provide sufficient cost reductions to minimize the future impact of these anticipated increases without adversely affecting service to Rotarians.

I am pleased to report that even in these challenging economic times and with rather unstable financial markets around the world, Rotary International's financial position is strong. It is through the combined efforts of your Board of Directors, our volunteer committees, the general secretary, and the professional Secretariat staff that RI's operations and related spending levels are consistently and conscientiously monitored throughout each year. In this stewardship role, your volunteer leadership and staff work diligently to maintain the most efficient and effective governance and service levels.

I wish to thank my fellow RI Board members, the general secretary, the financial services staff, and all others involved in RI financial matters for their support. I also thank the members of the RI Finance Committee for their invaluable dedication, advice, and support. Their collective efforts assist the Board in fulfilling its financial responsibilities.

Ian H.S. Riseley
RI Treasurer, 2007-08

The 2006-07 Rotary International Annual Report; audited financial statements for fiscal year 2006-07, including the auditor's report; and other financial information are available at www.rotary.org. Click "About Us," then "Financials."