

Treasurer's Report to the Convention

Birmingham, England

June 2009

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

RI's 2007-08 Financial Results

The Treasurer's Report to the RI Convention in Los Angeles in June 2008 was prepared before the final weeks of negative market returns that closed out fiscal year 2007-08. The 10-month investment returns through April 2008 reflected a loss of only \$0.5 million, but the final investment losses of 2007-08 totaled \$4.8 million, primarily due to exceptionally volatile markets in the last two weeks of the fiscal year. Despite this volatility, projections relating to dues, operating expenses, and services and other activities remained on target.

RI's financial statements received a clean, unqualified opinion from our auditors, and the audited financial statements were approved by the Board of Directors in November 2008. This report and other financial information are available at www.rotary.org/financials.

Current Fiscal Year's Financial Performance

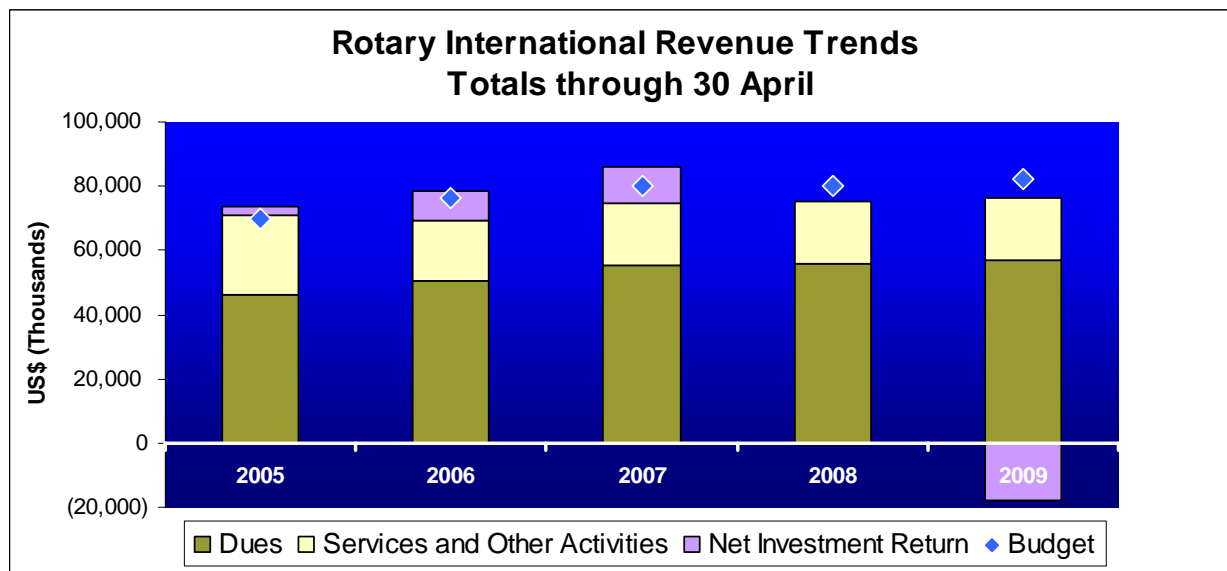
Coming into this economic environment as your treasurer for fiscal year 2008-09 was indeed challenging, but I believe that RI's future remains strong. Rotary's prudent spending policies and curtailing of spending early in the fiscal year reduced the impact of the recession. There have been no reductions to RI's programs thanks to our Secretariat staff closely monitoring the timing and/or allocation of nonessential and discretionary spending. This will continue in 2009-10 to minimize any impact on services to clubs around the world and to preclude the need to reduce RI's programs.

The General Surplus Fund, which provides for RI's long-term financial security, has been and is projected at 30 June to remain above the minimum targeted goal established in the RI Bylaws. Also, the Board-designated reserves for investment earnings effectively absorbed the investment losses compared to budget during the last fiscal year. Recognizing the severity of the economic decline, your Board restored the investment earnings reserve at its November 2008 meeting. While this reserve was below the expected 2008-09 investment losses as of 30 April, it will certainly reduce the negative impact that the financial markets could cause to RI's normal operations.

The difficult investment climate has had an extraordinary impact on investment portfolios worldwide. Through the good work of the Investment Advisory Committee, mentioned below, Rotary has historically maintained conservative, prudent, and strong investment policies. However, the commonly accepted practice of diversifying investments across many asset classes failed to curtail the effects of the collapse in the credit markets, creating a dysfunctional market the likes of which have not been seen since the 1930s. Typically, with a diversified portfolio, the declines experienced in one market segment are at least partially offset by growth in another. In the current environment, however, there was no growth in any asset classes to offset losses in others.

As a result, Rotary, like many other organizations, is re-examining its investment policies relative to diversification, exposure, and risk. Additional details on RI and The Rotary Foundation investment policies are available at www.rotary.org/financials.

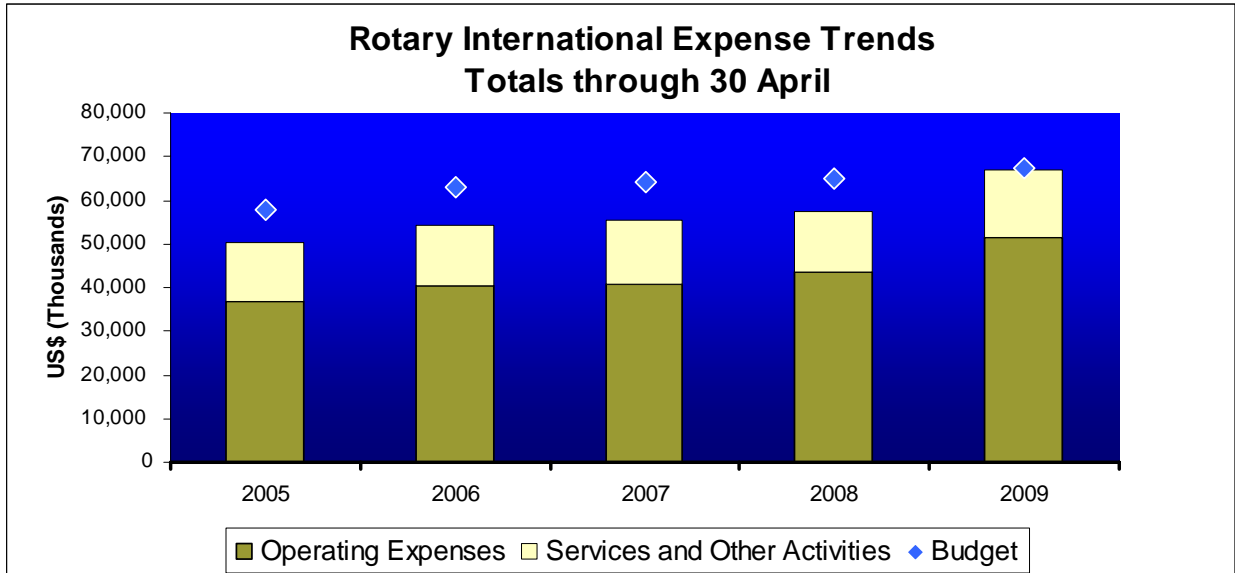
Throughout fiscal year 2008-09, General Secretary Ed Futa made regular updates on Rotary.org to keep all Rotarians apprised of the economy's impact on Rotary's finances. Here, I shall present additional details on RI's financial performance through the 10 months ended 30 April 2009.



Rotary's total revenue comprises three main categories:

- *Dues revenue.* For the 10 months ended 30 April, dues revenue totaled \$57 million, which is \$1 million ahead of the current year budget and \$2 million ahead of last year. The increase over last year is mainly due to the \$1 increase in Rotary's per capita dues in fiscal year 2008-09. Despite the downturn in the world economy, Rotarians and clubs have continued to pay their dues on time, enabling Rotary to maintain a strong financial base to support operations.
- *Net investment return.* April was only the second consecutive month of investment gains this fiscal year, decreasing the year-to-date investment losses to \$17 million from a peak of \$26 million year-to-date through February. The majority of the net investment losses, \$20 million, are unrealized losses that are partially offset by interest and dividend earnings of \$3 million. Net investment return was budgeted at \$6 million through 30 April.
- *Revenues from services and other activities.* The revenues generated by services and other activities are expected to be broadly in line with associated expenses incurred for those functions (e.g., RI Convention registrations, *The Rotarian* magazine subscriptions). For the 10 months ended 30 April, revenues from services and other activities totaled \$19 million. For the same period, registration revenue for the Birmingham convention totaled \$4 million, which is \$1 million (22 percent) below the previous year and

\$1 million (18 percent) under budget. The shortfall in registration numbers compared to budget is largely attributed to the downturn in the world economy.



Rotary’s expenses fall into two main categories:

- *Operating expenses.* These expenses, which are supported principally by dues revenue and investment returns, include the cost of governance (including the president, president-elect, directors, district governors, and committees), communications, membership services, programs and meetings (including the International Assembly), information services, international offices, financial services, and RI World Headquarters administration.

For the 10 months ended 30 April, operating expenses, excluding currency translation losses, totaled \$48 million, which is \$3 million under budget. Based on current forecasts, this positive variance is expected to continue through the end of the fiscal year. Expenses in many areas of operations remain under budget, notably information services, communications and public relations, international offices, committees, and district conference representatives.

Currency translation losses have had a negative impact this year due to the strengthening of the U.S. dollar since 30 June 2008. Translation losses of \$3 million have been recorded year-to-date through April 2009.

- *Expenses for services and other activities.* These are the costs associated with activities that generate income to offset expenses incurred. For the 10 months ended 30 April, expenses from services and other activities totaled \$16 million, which is \$1 million under budget and \$1 million higher than the previous year.

Due mainly to unrealized losses for the first 10 months, Rotary is showing a decrease in net assets of \$8 million compared to a budgeted increase of \$15 million through 30 April 2009. Financial market stability remains uncertain for the remainder of this fiscal year.

RI's Financial Outlook

The current economic conditions have produced challenges for RI. However, the organization has been able to maintain a General Surplus Fund to provide for long-term financial security, thanks to prudent financial and investment policies and the ongoing financial stewardship of the Board. If further actions are not taken to reduce expenses and/or increase revenues, however, this fund is expected to fall below its 85 percent target by fiscal year 2013-14.

Based on Rotary's current five-year financial forecast, dues revenues are expected to increase through fiscal year 2010-11 and then remain stable. This assumes a stable membership coupled with the annual \$1 increase in per capita dues through fiscal year 2010-11 as enacted at the 2007 Council on Legislation. Revenues from services and other activities are expected to be slightly below their related expenses.

Reductions in spending made in 2008-09 will be maintained for fiscal year 2009-10 as reflected in the balanced budget that your Board approved at its June 2009 meeting. Rotary's current five-year financial forecast indicates that expenses will increase in fiscal years 2010-11 through 2014-15 to support information technology initiatives, continuing public relations and communications activities, and expected inflationary increases. Concurrently, the Secretariat will implement 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.

Update on The Rotary Foundation's Finances

The size and scope of The Rotary Foundation's financial position is approximately five times that of RI. Comparatively, the investment losses in fiscal year 2008-09 through 30 April have been \$17 million for RI and \$187 million for the Foundation. Most of these losses remain unrealized and should reverse as the markets recover.

While difficult decisions on future program spending for the Foundation have been and continue to be made, we can anticipate many positive outcomes. Rotary's top priority — the eradication of polio — is moving forward at an ever-faster pace, especially with the support of the Bill & Melinda Gates Foundation grants and Rotary's \$200 Million Challenge. As previously reported, the PolioPlus Fund is secure, and Rotary can finance its part in the global effort to eradicate polio.

Rotarians are continuing to contribute generously to the Foundation. Through 30 April, excluding the Gates and Google grants, total contributions in fiscal year 2008-09 are comparable to the previous year. While contributions to PolioPlus have increased over last year by \$14 million, contributions to the Annual Programs Fund have declined by \$11 million. As a result, the Foundation does not have sufficient cash to pay for its operating expenses and is selling some investments to cover these expenses.

Additional information on the economy's impact on the Foundation is available in recent letters from Foundation Trustee Chair Jonathan Majiyagbe and General Secretary Ed Futa, available at www.rotary.org.

Duties and Governance

I would like to take this opportunity to explain the financial governance structures of RI and The Rotary Foundation. Although they are distinct and separate entities, these two organizations both serve Rotarians and share many of the same resources (e.g., staff, offices), which makes shared communication and liaison relationships especially important.

As your treasurer, I am required to report RI's financial condition to the Board at each meeting and provide monthly updates, report on RI's financial standing to the convention, and assist in establishing the five-year financial forecast. I am also one of the two directors who are nonvoting members on the RI Finance Committee. This committee advises the Board on financial matters and recommends to the Board the annual budget and the five-year financial forecast. It also reviews all financial statement activities and monitors revenues and expenses throughout the year.

The chair of The Rotary Foundation Finance Committee has similar responsibilities. This committee makes recommendations to the Trustees on all matters related to finance, including the annual budget of The Rotary Foundation and the funds needed to support Foundation programs; reviews the financial performance of the Foundation compared to budget at each meeting and reports to the Trustees as necessary; and serves as the audit committee of the Foundation, annually receiving the report of the external auditors and copies of all internal audit reports on matters that would have a material effect on the Foundation's resources or operations.

The chair is liaison to the RI Finance Committee and attends all meetings to ensure effective coordination and communication of shared financial activities, such as cost allocations, investment activities, and various accounting and financial matters.

We report the financial condition of each entity to our respective boards. To accomplish all this, we work closely and collaboratively with each other and with the professional Financial Services staff at RI World Headquarters.

Over the past few years, the financial governance of both RI and the Foundation has grown stronger. The Board Audit Committee has enjoyed the active presence of a liaison from the TRF Finance Committee at its meetings for the last two years. Consequently, the Board, with support of the Trustees, will request that the 2010 Council on Legislation agree to combine the audit governance responsibilities of these two committees to further strengthen the financial oversight of Rotary's finances.

Two members of the RI Finance Committee attend the meetings of the Investment Advisory Committee. This Foundation committee reviews and monitors investment results, reviews and recommends changes to investment policy and structure, hires and terminates investment managers, advises the Trustees on various investment issues, and actively participates in the selection of investment managers and in any meetings with them. Because the investments of RI's General Fund are combined with those of the Foundation's Annual Programs Fund and

Permanent Fund for investment purposes, RI is able to benefit from greater diversification and lower fees.

Together, these committees form the foundation of our financial governance, oversight, and stewardship for Rotary's financial resources. The dedication of our volunteer committee members, who are capable and willing to make tough decisions and recommendations to the Board and Trustees in these challenging economic times, helps ensure that this governance is strong and effective.

In closing, 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.

I would also like to express my sincere appreciation to Carl-Wilhelm Stenhammar, chair of The Rotary Foundation Finance Committee, for engaging in proactive, open, and collaborative discussions with me in my role as your RI treasurer. Together, we have continued to strengthen financial communication and transparency between RI and The Rotary Foundation.

Bernard L. Rosen
RI Treasurer, 2008-09

* * * * *

Rotary.org contains a wealth of financial information for both Rotary International and The Rotary Foundation, including financial statements, annual reports, and government filings, as well as a list of frequently asked questions and letters from the general secretary. Access these resources at www.rotary.org/financials.