

Treasurer's Report to the Convention

Montréal, Québec, Canada

June 2010

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 2008-09 Financial Results

As with many organizations, the extremely volatile financial markets affected Rotary's operations during fiscal 2008-09. However, I am pleased to report that Rotary International has weathered the financial crisis better than we had initially anticipated. The financial markets rebounded strongly in the fourth quarter of the fiscal year, which helped reverse some of the steep investment losses from earlier in the year.

Overall, RI's investment losses dropped from more than \$26 million through February 2009 to \$12 million for the fiscal year ended 30 June 2009. This compares to investment losses of \$5 million during fiscal year 2007-08. As the markets have continued to recover during the current fiscal year, we have seen remarkable reversals.

Note that, due to strong cash flows and stringent cost controls, RI did not need to sell investments to sustain operations. RI's General Surplus Fund, which principally consists of unrestricted cash and investments, ended fiscal year 2008-09 at \$90 million, which was \$23 million above the minimum RI Bylaws requirement.

RI's financial statements for 2008-09 received a clean, unqualified opinion from our auditors, and the audited financial statements were approved by the Board of Directors in November 2009. This report and other financial information are available at www.rotary.org/financials.

Current Fiscal Year's Financial Performance

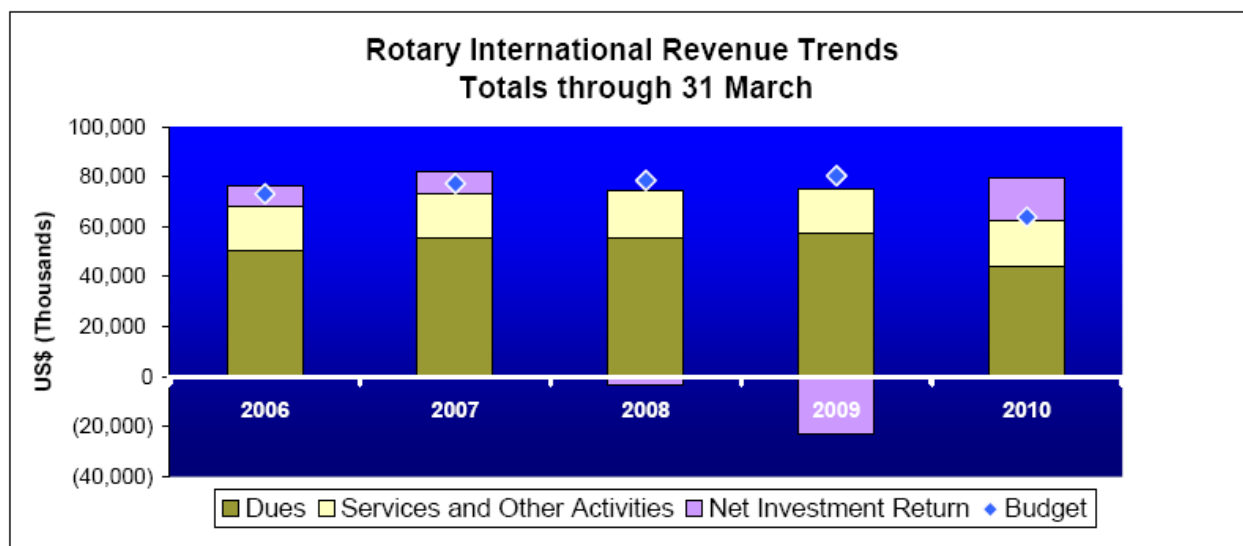
Rotary's prudent spending policies and curtailed spending in the early stages of the recession greatly reduced the overall impact to our organization. Continuing throughout fiscal 2009-10, there have been no reductions to RI's programs, thanks to the Board and Secretariat management operating with an austere budget that included staff salary freezes, minimal travel, reduced meetings, and only essential spending.

During the recession, Rotary maintained its conservative and diversified investment policies. However, as a result of the turmoil in the financial markets, the Board approved, at its June 2010 meeting, changes to RI's investment policies that will further diversify the portfolio and reduce its risk profile.

Throughout fiscal year 2009-10, General Secretary Ed Futa continued to post regular updates on Rotary.org to keep all Rotarians apprised of the economy's impact on Rotary's finances and

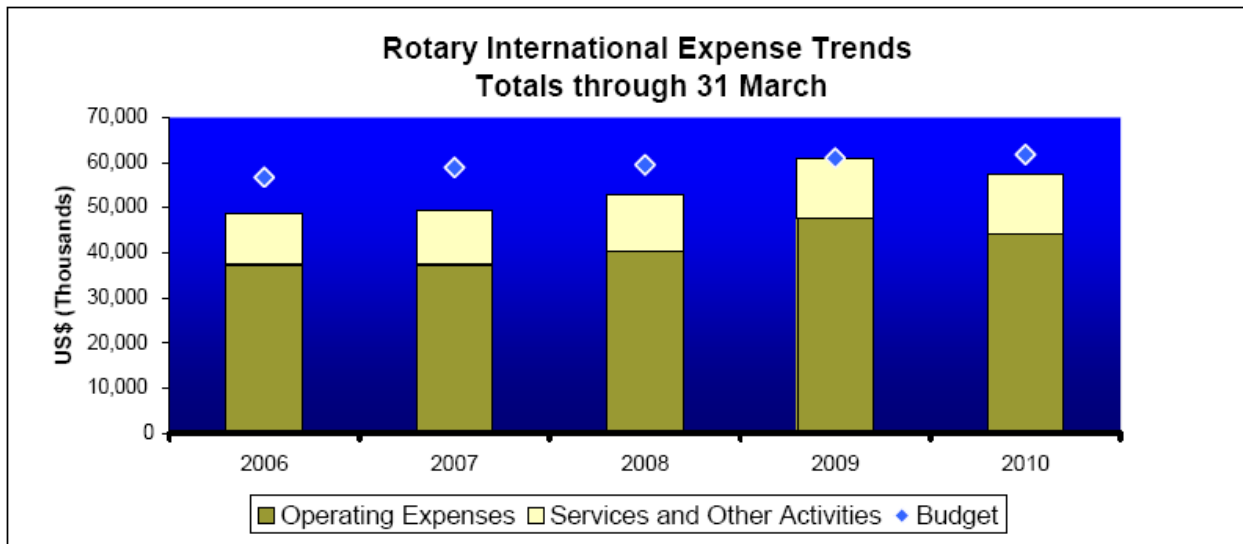
programs. I now present additional details on RI's financial performance through the nine months ended 31 March 2010.

It should be noted that fiscal year 2009-10 financial statements incorporate a number of presentation changes in order to better match revenues and expenses throughout the year. This provides a more accurate presentation of RI's financial position during interim periods. Dues and magazine subscription revenues are being recognized ratably throughout each semiannual billing period, as are district governor expenses and public relations grant expenses. Although current year actual and budget figures are presented comparably, the previous year's figures are not restated. In addition to these changes, currency net gains and losses are included within net investment return, rather than as a component of operating expenses.



Rotary's total revenue comprises three main categories:

- *Dues revenue.* For the nine months ended 31 March, dues revenue totaled \$44 million, which is 1% ahead of the current year budget. Despite the downturn in the world economy, Rotarians and clubs continued to pay dues on time, enabling Rotary to maintain a strong financial base to support operations.
- *Net investment return.* Through 31 March 2010, RI recovered all of the 2007-08 and 2008-09 investment losses. Positive market performance through March resulted in year-to-date net returns of \$17 million, which is \$16 million ahead of budget. The nine-month rate of return for the General Fund is 20.6% compared to the prior year return of negative 25.3% and a budgeted return of 3.0% (4.0% per annum).
- *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 (such as the Council on Legislation levy, RI Convention registrations, and subscriptions to *The Rotarian* magazine). For the nine months ended 31 March, revenues for services and other activities were under budget by \$1 million (4%) and associated expenses were under budget by \$2 million (13%).



Rotary's expenses fall into two main categories:

- *Operating expenses.* These expenses, supported principally by dues revenue and supplemented with 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 nine months ended 31 March, operating expenses totaled \$44 million, which is \$2 million under budget. Based on current forecasts, this positive variance is expected to continue through the end of the fiscal year. Expenses in almost all areas of operations remain under budget, and RI is estimating full fiscal year net savings due to lower staffing, reduced volunteer travel, and less use of consulting as compared to budget.

- *Expenses for services and other activities.* These expenses are the costs associated with activities that generate income to offset expenses incurred. For the nine months ended 31 March, expenses from services and other activities totaled \$13 million, which is \$2 million under budget.

RI's Financial Outlook

The past couple of years have presented significant economic challenges for RI. However, the organization has been able to retain a solid General Surplus Fund, which provides for our long-term financial security, thanks to prudent financial and investment policies and the ongoing financial stewardship of the Board.

Based on Rotary's current five-year financial forecast, the General Surplus Fund is projected to remain above the minimum level required in RI's bylaws through fiscal year 2014-15. The forecast indicates that in fiscal year 2013-14, expenses may exceed revenues by \$2 million,

which consequently will require the Board to reduce costs and services or increase revenues to balance budgets going forward.

Although the financial markets remain volatile, and May 2010 results reversed some of the gains of the first nine months, investment performance for fiscal year 2009-10 is expected to remain positive. Additionally, cash flows are projected to remain positive.

Spending reductions in many areas continued through fiscal year 2009-10 and have been maintained for 2010-11, as reflected in the balanced budget that your Board approved at its June 2010 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, continue public relations and communications activities, and absorb expected inflationary increases. Concurrently, the Secretariat will continue implementing business process improvements to help minimize the impact of these anticipated increases, and will pursue the expansion of offshore operations and outsourcing.

I am pleased to report that even in these challenging economic times, and with rather unstable financial markets around the world, Rotary International's overall 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.

2010 Council on Legislation Dues Increase

Representatives at the 2010 Council on Legislation in Chicago approved a \$1 per year increase in per capita dues, starting in fiscal year 2011-12.

This increase is half the amount that the RI Board of Directors had initially proposed. The original proposal of a \$2 annual increase was based on financial forecasts projecting deficits for RI in coming years without a dues increase. Your Board of Directors lowered their recommendation when the current financial forecasts showed a more positive economic outlook due to improved financial markets and a strong General Surplus Fund.

The Council action means that Rotary clubs will pay per capita dues to RI of \$51 per year in 2011-12, \$52 in 2012-13, and \$53 in 2013-14. Per capita dues are currently established at \$50 for 2010-11.

Update on The Rotary Foundation's Finances

Information on the economy's impact on the Foundation is available online in letters from General Secretary Ed Futa, including the [most recent update, posted on 20 May](#).

Rotary's top priority — eradicating polio — continues to see outstanding progress. Through 15 June, Rotarians have raised about \$131.5 million for Rotary's US\$200 Million Challenge. These contributions will help Rotary raise \$200 million to match \$355 million in challenge grants received from the Bill & Melinda Gates Foundation. The resulting \$555 million will directly support immunization campaigns in developing countries, where polio continues to infect and paralyze children, robbing them of their futures and compounding the hardships faced

by their families. With this progress continuing, the Foundation is well ahead of schedule toward meeting the challenge goal before the deadline of 30 June 2012. The PolioPlus investment fund remains highly secure, and Rotary will finance its part in the global effort to eradicate polio.

Rotarians are continuing to contribute generously to the Foundation. Through 31 March, excluding the Gates Foundation grant, total contributions in fiscal year 2009-10 are nearly \$5 million over the previous year. While contributions to PolioPlus have increased over last year by \$6 million, contributions to the Annual Programs Fund have declined by \$2 million.

With investment returns of \$92 million, the Foundation recouped more than half of its 2009 losses; its operating reserve is now positive at \$3 million, up from negative \$41 million at the end of June 2009.

Similar to Rotary International's financial outlook, the improved financial situation of the Foundation has allowed the Trustees to approve a 2010-11 budget in which the World Fund will support Matching Grants at the previous high 2007-08 district levels and fund Future Vision global grants.

In closing, I would like 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 also wish to express my sincerest appreciation to President John Kenny, in giving me the opportunity and having the trust in me to serve as your treasurer. Furthermore, I have the highest confidence in and respect for my successor, Director K.R. Ravindran, who will serve Rotary extremely well as your treasurer throughout fiscal year 2010-11.

Michael Colasurdo Sr.
RI Treasurer, 2009-10

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Rotary.org contains a wealth of financial information for both Rotary International and The Rotary Foundation, including audited 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.