

## **RI Treasurer's Report to the Convention**

New Orleans, Louisiana, USA

May 2011

It has been a great honor for me to serve Rotary International and you as treasurer this year, and it becomes incumbent upon me, under our bylaws, to submit to you a report on the current status of our organizations' finances. I do so with great pleasure, and remind you that all figures are in U.S. dollars.

### **RI's 2010 Audited Financial Results**

I am pleased to tell you that RI's financial statements for fiscal 2010 received a clean, unqualified opinion from our auditor, Deloitte & Touche. The audited financial statements were approved by the Board of Directors in October 2010.

As the whole world comes out of the recession this year, I am very happy to report that Rotary's prudent policies in curtailing spending in the early stages of the recession greatly reduced the overall adverse impact to our organization. You must note that during fiscal 2010, there were no reductions to RI's programs, thanks to the Board and Secretariat management operating with an austere budget, which included salary freezes, minimal travel, reduced meetings, and only mandatory 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 considered it prudent to approve, at its June 2010 meeting, changes to RI's investment policies that will further diversify the portfolio and reduce its risk profile. These changes have all been put in place during fiscal 2011.

Overall, RI's investments for fiscal 2010 had a positive return of \$11 million. This compares with investment losses of \$12 million in fiscal 2009 and \$5 million in fiscal 2008. As the markets have continued to recover during the current fiscal year, it is with great pleasure that I inform you that Rotary International has completely recovered from these two years of investment losses. To illustrate, at 30 June 2007, RI's investments totaled \$103 million. At the lowest point of the economic crisis, investment balances fell to \$78 million. At 31 March 2011, our investments had more than bounced back to \$132 million.

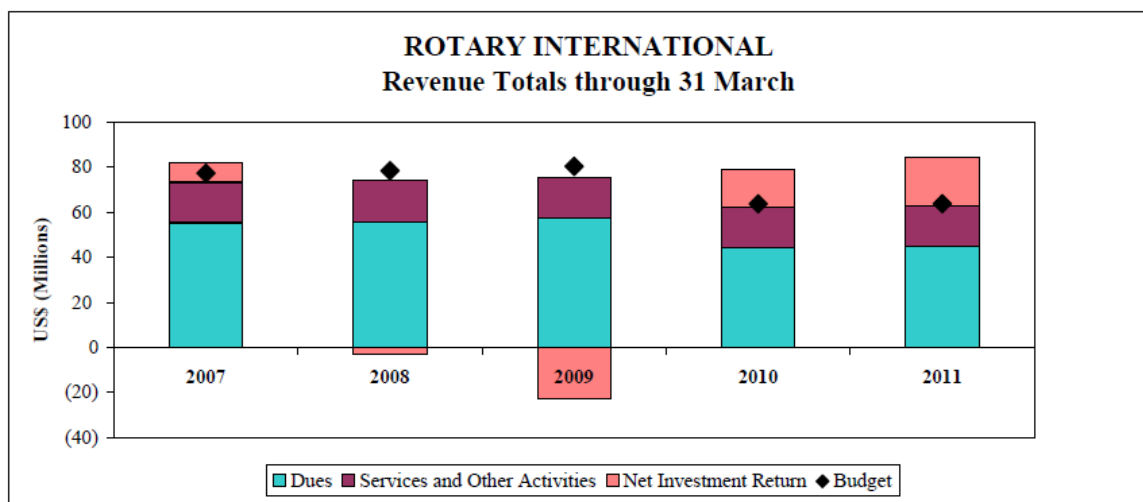
At this point, it would be appropriate for me to comment on RI's reserve, called the General Surplus Fund (GSF), which is an operating reserve mandated by the Council on Legislation that we are bound to maintain to see us through bad times. There is an old adage that says, "The proof of the pudding is in the eating," and when the recession did hit us, our policy on reserves saw us through. This reserve is targeted to be at least 85 percent of the highest annual expenses in the three prior years (after adjusting for the international convention and Council expenses, which are mainly self-funded). At 30 June 2010, this target was \$67 million. Due to the strong investment returns and aggressive spending controls, the value of the GSF at 30 June 2010 was \$107 million — \$40 million over the bylaws target, which is an indication that we are back to near-top financial health. In fact, at no time during the recession did our reserve fund fall below

its targeted amount, and it has continued to grow throughout fiscal 2011, finishing the nine-month period through 31 March at \$134 million.

### Current Fiscal Year’s Financial Performance

Throughout fiscal 2009 and 2010, and into 2011, 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 to you additional details on RI’s financial performance through the nine months ended 31 March, recognizing that these interim results are unaudited.

Please note that fiscal 2010 financial statements incorporated some 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 revenue, magazine subscription revenue, district governor expenses and public relations grant expenses are all being recognized on a monthly basis throughout the year instead of as lump-sum amounts at the beginning and end of the year. Although fiscal 2010 and 2011 actual and budget figures are presented comparably, the previous year’s figures are not restated.

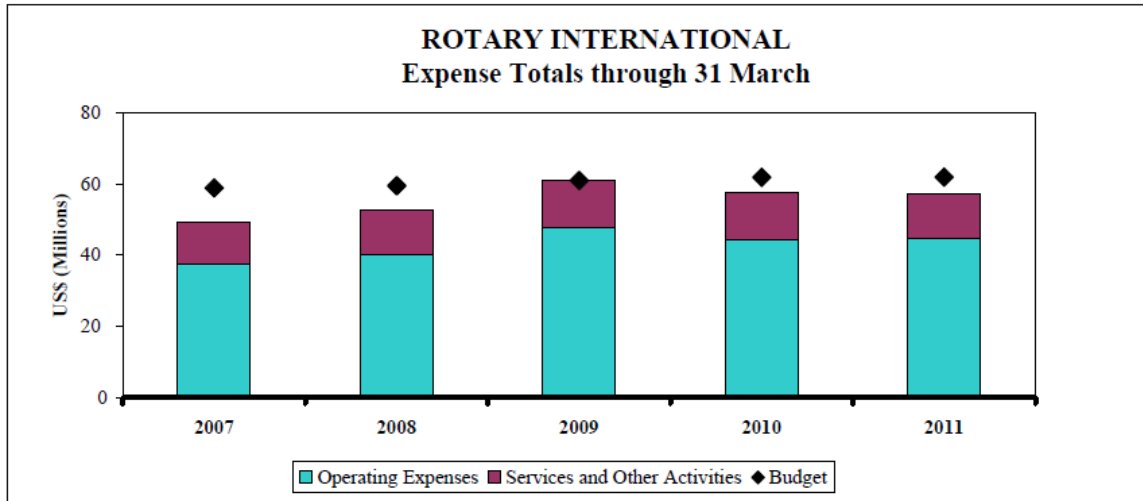


Rotary’s fiscal 2011 total revenue through 31 March comprises three main categories:

- *Dues revenue.* For the nine months ended 31 March, dues revenue totaled \$45 million, which is 1 percent ahead of the current-year budget. Even with uncertainty in the economies and markets throughout the world, Rotarians and clubs continue to pay club dues on time, enabling Rotary to maintain a strong financial base to support operations.
- *Net investment return.* Net investment gains are \$22 million year-to-date. This compares with \$17 million in the comparable nine months of the prior fiscal year. The nine-month rate of return on our investments is 22 percent, compared with 21 percent in the prior year.

Despite recent events such as the disaster in Japan, conflicts in the Middle East, and fluctuating oil prices, our investment advisers remain optimistic about continued global economic growth, albeit at a slower rate than recently experienced.

- *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 RI Convention registrations and subscriptions to *The Rotarian* magazine). For the nine months ended 31 March, revenues for services and other activities were \$18 million, which is 6 percent better than budget, and associated expenses were \$13 million, which is 8 percent under budget.



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 \$45 million, which is \$4 million under budget. Based on current forecasts, this positive variance is expected to continue through the end of the fiscal year. In fact, it must be noted that our total expenses were lower than the previous year, after adjusting for the cost of the 2010 Council on Legislation.

- *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 \$1 million under budget.

## **RI's Financial Outlook**

While Rotary International has experienced significant economic challenges over the last few years, as stated above, our organization has maintained an appropriate and solid General Surplus Fund, which provides for our long-term financial security. We have continued to secure our future with sound investment policies coupled with prudent financial management and stewardship from the Board of Directors.

On the basis of our results up to 31 March, we expect to close the year ahead of budget.

What does next year look like? We expect sound financial results to continue in fiscal 2012. For your information, RI will double its outlay for Public Relations Grants, from \$2 million to \$4 million, and will fund an additional \$1.5 million for major branding, communication, and social networking initiatives. Clubs and districts will be happy to know that these public relation grants will reach them directly and support their efforts to enhance Rotary's image in their local communities. RI will also absorb additional costs of approximately \$2.5 million that were traditionally paid for by The Rotary Foundation.

To finance these strategic investments, our Board at its May 2011 meeting approved using a portion of the General Surplus Fund over the next three years. For fiscal 2012, the Board approved the use of up to \$3.5 million from our reserves and designated an additional \$6.4 million for future Boards to use in fiscals 2013 and 2014 to continue the above initiatives.

These investments will undoubtedly pay dividends in the form of membership gains, additional contributions to the Foundation, and enhanced confidence in Rotary by donors and strategic partners.

Beyond 2012, the General Surplus Fund is forecast to remain above the bylaws targeted amount for at least the next five years.

### **Why have Rotary's expenses risen while membership remained static?**

This is a question that we are frequently asked — and for good reason.

It is true that, over the past 15 years, Secretariat staffing and Rotary's expenses have risen while our membership figures have essentially remained static. At first glance, this situation might appear to be an anomaly, and certainly warrants a comment.

Notwithstanding the static membership, please consider just a few of the new and/or expanded activities that Rotary has undertaken:

- Supporting an additional 16 districts and 6,000 clubs in almost 50 new Rotary countries and geographical areas
- Developing and maintaining an extensive, nine-language website that offers news and information, timely updates, videos, and functionality for doing Rotary business online, and that attracts about 725,000 visits each month resulting in about 4.5 million page views

- Coordinating RI awards, which have experienced a 350 percent increase in participation. For example, the number of clubs participating in the Presidential Citation went from 5,259 in 1996 to 12,511 in 2010
- Supporting the various RI programs, some of which have grown by as much as 200 percent. For example, the number of Rotaract clubs jumped from 6,000 to 8,400, Interact clubs from 5,400 to 13,000, and Rotary Community Corps from 2,300 to 7,000.
- Managing an escalating influx of correspondence — from about 10 letters per week to as many as 100 e-mails a day to Membership Services staff alone — with expectations for an immediate response
- Responding to the increase in contributions to the Foundation — for example, up more than \$57 million to the Annual Programs Fund in 15 years — which currently requires processing 700,000 transactions annually, an increase of more than 40 percent over the last five years. In addition, staff is recording, managing, and transferring the resulting recognition points as well as coordinating new donor recognition programs developed over the past 10 years
- Managing the selection of Public Relations Grant projects and the distribution of grant funds
- Providing increased training opportunities for members through webinars and e-learning modules

At the same time, RI and the Foundation have aggressively pursued cost efficiencies and reductions. Some recent examples include:

- Expanded outsourced services for global mail, facilities, office services, and printing, achieving an annual savings of more than \$1 million
- Converted print publications, i.e. *Rotary World* and *Reconnections*, to digital format, saving over \$0.3 million annually
- Transferred systems development and data processing functions to Pune, India, for an annual savings of more than \$1 million
- Expanded video production and editing in-house, saving \$0.1 million on convention plenary session videos alone
- Initiated a stewardship function, which has already resulted in the recovery of approximately \$1 million in misused Foundation funds in the past five years

Additionally, when the Future Vision Plan is rolled out to all Rotary districts, we expect the Foundation's program operations costs to be reduced by approximately \$1.2 million annually.

The complexity of our organization and our operational methods has grown tremendously in 15 years. Today, we operate in nine languages, 26 currencies, and over 200 countries and geographical regions. In addition, we continue to expand our reach to a younger audience through social media sites such as Facebook — where the number of people who “like” us is almost at 120,000 — LinkedIn, and Twitter.

With the adoption of the RI Strategic Plan and the Foundation's Future Vision Plan, the organization has become more focused on its strategic priorities. Achieving the ambitious goals set down in these plans necessarily means employing sufficient resources, both human and technology-related. As we come closer to achieving our paramount goal of global polio eradication, and as Rotary's stature continues to grow internationally, even more will be

expected of our organization — from our members, our partners, and the public at large. We must be prepared to deliver.

### **Update on The Rotary Foundation's Finances**

Rotary's top priority — eradicating polio — continues to see outstanding progress. As of early May, more than \$170 million had been raised in support of Rotary's US\$200 Million Challenge, illustrating Rotarians' unwavering commitment to achieving a polio-free world. It is because of this overwhelming support that we are clear in our minds that we will indeed meet our challenge goal developed in concert with the Bill & Melinda Gates Foundation in conjunction with its gift of \$355 million toward polio eradication efforts. The resulting \$555 million directly supports immunization campaigns in developing countries where polio continues to paralyze children, robbing them of their futures and compounding the hardships faced by their families. The PolioPlus investment fund remains highly secure, and Rotary will be able to fund its part in the global effort to eradicate polio.

Rotarians are continuing to contribute generously to all areas of the Foundation. Through 31 March, contributions totaled \$69 million to the Annual Programs Fund and \$11 million to the Permanent Fund, representing increases of \$6 million and \$3 million, respectively, over the previous year.

The Foundation's investment returns have done very well this fiscal year, with returns through 31 March of \$109 million. With the Foundation's investment performance exceeding market performance this year, the Foundation has recovered about 80 percent of its fiscal 2008 and 2009 losses.

In conclusion, may I submit that I have indeed been fortunate to work with one of the finest groups of directors, ably supported by General Secretary Ed Futa. Our financial services staff, headed by Chief Financial Officer Pete DeBerge, is truly outstanding. I thank all the staff members for their unrelenting pursuit of excellence, and I can steadfastly vouch that they are indeed an asset to RI. The RI Finance Committee, headed by PRID Ian Riseley, has been dedicated. The committee members' advice and counsel have proven invaluable in assisting the Board to fulfill its obligations.

May I also take this opportunity to express my sincere gratitude to President Ray Klinginsmith for the trust he placed in me by asking me to serve as treasurer.

I wish my successor, Director Elio Cerini, every success as he serves as treasurer through fiscal 2011-12.

*K.R. Ravindran*  
*RI Treasurer, 2010-11*

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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. See [www.rotary.org/financials](http://www.rotary.org/financials).