

# Rotary International

Consolidated Financial Statements as of and for the  
Years Ended 30 June 2007 and 2006, and  
Independent Auditors' Report

# ROTARY INTERNATIONAL

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Rotary International:

We have audited the accompanying consolidated statements of financial position of Rotary International and subsidiaries (collectively, "Rotary") as of 30 June 2007 and 2006, and the related consolidated statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of Rotary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rotary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rotary at 30 June 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



28 September 2007  
(7 November 2007 as to Note 2)

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2007 AND 2006 (Thousands of dollars)

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	2007	2006
<b>ASSETS</b>		
CASH	\$ 7,941	\$ 8,725
CLUB AND OTHER ACCOUNTS RECEIVABLE — Net of allowance for doubtful accounts of \$171 and \$198 in 2007 and 2006, respectively	5,309	5,044
DEFERRED CHARGES, PREPAID EXPENSES, AND OTHER ASSETS	3,446	1,957
DUE FROM THE ROTARY FOUNDATION	2,152	308
INVESTMENTS:		
Cash and short-term investments	8,635	5,374
Bonds	35,479	31,484
Stocks	<u>59,185</u>	<u>47,961</u>
Total investments	<u>103,299</u>	<u>84,819</u>
PROPERTY AND EQUIPMENT:		
Land	2,960	2,960
Building	56,348	53,436
Furniture and equipment	<u>19,183</u>	<u>17,954</u>
	78,491	74,350
Accumulated depreciation	<u>40,942</u>	<u>37,134</u>
Property and equipment — net	<u>37,549</u>	<u>37,216</u>
TOTAL	<u>\$159,696</u>	<u>\$138,069</u>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
LIABILITIES:		
Accounts payable	\$ 6,659	\$ 6,363
Accrued expenses	17,184	13,428
Deferred revenue	2,942	5,371
Pension obligation	<u>1,980</u>	<u>        </u>
Total liabilities	<u>28,765</u>	<u>25,162</u>
UNRESTRICTED NET ASSETS:		
Undesignated	116,958	99,507
Board designated:		
Convention expense reserve	1,973	1,400
Investment earnings reserve	<u>12,000</u>	<u>12,000</u>
Total unrestricted net assets	<u>130,931</u>	<u>112,907</u>
TOTAL	<u>\$159,696</u>	<u>\$138,069</u>

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED 30 JUNE 2007 AND 2006 (Thousands of dollars)

	2006-2007	2005-2006
REVENUES:		
Dues	\$ 55,542	\$ 50,841
Net investment return	12,329	6,753
Services and other activities	<u>24,565</u>	<u>21,533</u>
Total revenues	<u>92,436</u>	<u>79,127</u>
EXPENSES:		
Administrative	1,515	1,326
Board of Director activities	1,112	1,216
Board support services	973	1,109
Committees	698	772
Communications and public relations	6,452	5,754
Currency exchange gains — net	(746)	(445)
District conference representatives	1,016	916
District governors	8,072	7,898
Finance and investment services	4,478	4,672
Human resources	1,511	1,410
Information services	6,239	6,682
International assembly	3,476	3,722
International offices	5,364	5,676
Membership services	4,313	4,112
Office support services	2,075	2,245
President and president-elect offices	1,586	1,784
Programs and meetings	3,223	3,197
Services and other activities	<u>21,570</u>	<u>20,227</u>
Total expenses	<u>72,927</u>	<u>72,273</u>
CHANGE IN NET ASSETS:		
Before effect of adoption of SFAS 158 and minimum pension liability recovery	19,509	6,854
Effect of adoption of SFAS 158 — net	(1,485)	-
Minimum pension liability recovery	<u>-</u>	<u>2,012</u>
CHANGE IN NET ASSETS	18,024	8,866
UNRESTRICTED NET ASSETS — Beginning of year	<u>112,907</u>	<u>104,041</u>
UNRESTRICTED NET ASSETS — End of year	<u>\$ 130,931</u>	<u>\$ 112,907</u>

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2007 AND 2006 (Thousands of dollars)

	2006–2007	2005–2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 18,024	\$ 8,866
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized gains on sale of investments — net	(4,629)	(4,421)
Unrealized (gains) losses on investments — net	(3,557)	42
Depreciation and amortization	5,233	5,224
Non-cash charge for adoption of SFAS 158 — prior to allocation to The Rotary Foundation	1,980	-
Changes in assets and liabilities:		
Club and other accounts receivable	(265)	(1,770)
Deferred charges, prepaid expenses, and other assets	(1,489)	777
Due from The Rotary Foundation	(1,844)	2,128
Accounts payable	296	2,574
Accrued expenses	3,756	(5,270)
Deferred revenue	<u>(2,429)</u>	<u>3,331</u>
Net cash flows from operating activities	<u>15,076</u>	<u>11,481</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(251,807)	(295,015)
Proceeds from sale of investments	244,774	293,098
Change in investment cash and short-term investments	(3,261)	(1,058)
Capital expenditures	<u>(5,566)</u>	<u>(8,609)</u>
Net cash flows from investing activities	<u>(15,860)</u>	<u>(11,584)</u>
DECREASE IN CASH	(784)	(103)
CASH — Beginning of year	<u>8,725</u>	<u>8,828</u>
CASH — End of year	<u>\$ 7,941</u>	<u>\$ 8,725</u>

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 30 JUNE 2007 AND 2006 (THOUSANDS OF DOLLARS)

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### 1. NATURE OF OPERATIONS

Rotary International (“Rotary”) is a corporation organized under the Illinois Not-for-Profit Corporation Act. Rotary is an organization of business and professional leaders united worldwide, who provide humanitarian service, encourage high ethical standards in all vocations, and help build goodwill and peace in the world. Rotary’s fiscal operations include vocational, community, and international service programs; international meetings and conventions; publishing; and investment of funds. Operating revenue is derived principally from membership dues, publication activities, investment income, tenant rent, international meetings and conventions, and license fees and royalties.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** — The accompanying consolidated financial statements include the accounts of Rotary and its wholly owned subsidiaries (collectively referred to as Rotary). All significant intercompany transactions have been eliminated (see Notes 10 and 11).

**Use of Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash** — Cash includes \$5,648 and \$4,697 at 30 June 2007 and 2006, respectively, subject to certain repatriation restrictions imposed by local governments.

**Due From The Rotary Foundation** — Rotary and The Rotary Foundation handle certain fiscal matters on behalf of each other, including transfers of funds within countries, payment of general and administrative expenses, and payment of employee salaries and benefits. The balances resulting from these transactions are settled on a periodic basis.

**Investments** — Investments are carried at fair value based on quoted market prices (see Note 4). Cash and short-term investments are primarily money market investments held by Rotary’s custodian bank during the process of settling investment transactions.

**Property and Equipment** — Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets: building (31.5 years); furniture and equipment (3 to 10 years).

**Financial Instruments** — Rotary, from time to time, enters into futures, options, forward, swap, and foreign exchange options and forward contracts. All financial instruments are recorded at fair value with gains and losses resulting from changes in fair value recognized in net assets in the period of change. There were no options or contracts outstanding as of 30 June 2007 and 2006.

**Dues** — Dues are recognized as revenue in the membership year to which they relate. Prepaid dues, as well as the Council on Legislation per capita levy in noncouncil years, are reported as deferred revenue.

**Tax Status** — Rotary is a qualified not-for-profit organization exempt from income tax under Section 501(c)(4) of the Internal Revenue Code, but is subject to U.S. tax on any unrelated business income. There was no recorded liability for unrelated business income at 30 June 2007 or 2006.

**Translation of Currency Other Than the U.S. Dollar** — The U.S. dollar is the reporting currency for Rotary. Rotary has operations in countries other than the U.S. that are translated to Rotary's reporting currency. Translation and transaction gains or losses are reflected in currency exchange gains — net on the Consolidated Statements of Activities.

**Risks and Uncertainties** — Rotary has investments in cash and short-term investments, debt, and equity securities. Investment securities are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Consolidated Statements of Financial Position and the Consolidated Statements of Activities.

**Recent Accounting Pronouncements** — Effective 30 June 2007, Rotary implemented Statement of Financial Accounting Standard (“SFAS”) No. 158, *Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (“SFAS 158”). This standard requires Rotary to recognize the overfunded or underfunded status of its defined benefit pension plan as an asset or liability in the consolidated statements of financial position. Rotary is also required to recognize as a separate line item within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, *Employers’ Accounting for Pensions*. Rotary adopted SFAS 158 as of 30 June 2007, which resulted in a charge of \$1,980. Of this \$1,980 charge, \$495 was allocated to The Rotary Foundation based upon its proportionate share of payroll expense.

The Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), in June 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Rotary management is in the process of evaluating the effect of this new interpretation on Rotary’s consolidated financial statements. This standard was originally effective for nonpublic entities for fiscal years beginning after 15 December 2006. On 7 November 2007, the FASB decided to issue a proposed FASB Staff Position which, if finalized, may defer the effective date of FIN 48 for nonpublic entities until years beginning after 15 December 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. Rotary management is in the process of evaluating the effect of this new interpretation, which must be adopted in fiscal year 2009, on Rotary’s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Rotary management is in the process of evaluating the effect of this new interpretation, which must be adopted in fiscal year 2009, on Rotary’s consolidated financial statements.

### 3. SERVICES AND OTHER ACTIVITIES

Services and other activities are those activities that generate income to offset the expenses incurred.

	<b>2006–2007</b>	<b>2005–2006</b>
Council on legislation revenue	\$ 3,285	\$ -
Council on legislation expense	<u>3,285</u>	<u>-</u>
Excess revenue (expense)	<u>-</u>	<u>-</u>
International convention revenue	4,804	5,613
International convention expense	<u>4,256</u>	<u>6,993</u>
Excess revenue (expense)	548	(1,380)
Magazine revenue	6,639	6,538
Magazine expense (direct cost only)	<u>4,693</u>	<u>4,817</u>
Excess revenue	<u>1,946</u>	<u>1,721</u>
One Rotary Center revenue	5,259	4,865
One Rotary Center expense	<u>6,162</u>	<u>5,671</u>
Excess expense	<u>(903)</u>	<u>(806)</u>
Publications and supplies revenue	614	659
Cost of publications and supplies expense	<u>1,711</u>	<u>1,488</u>
Excess expense	<u>(1,097)</u>	<u>(829)</u>
Captive insurance assessment revenue	748	670
Captive insurance expense	<u>803</u>	<u>673</u>
Excess expense (excluding investment income)	<u>(55)</u>	<u>(3)</u>
License fees and royalties revenue	2,089	1,628
Miscellaneous income	1,127	1,560
Contribution to The Rotary Foundation	<u>660</u>	<u>585</u>
Excess revenue	<u>2,556</u>	<u>2,603</u>
Services and other activities revenue	24,565	21,533
Services and other activities expense	<u>21,570</u>	<u>20,227</u>
Excess revenue	<u>\$ 2,995</u>	<u>\$ 1,306</u>

#### 4. INVESTMENTS

At 30 June 2007, Rotary had investments in bonds in the amount of \$699 denominated in currencies other than the U.S. dollar, and at 30 June 2006, Rotary did not have any investments in bonds denominated in currencies other than the U.S. dollar. In addition, Rotary held investments in certain AAA-rated sub-prime mortgage backed securities totaling \$3,200 (or 3.0% of Rotary's total investments) at 30 June 2007. Accrued interest and dividends are included in total investments.

The components of net investment return are as follows:

	<b>2006–2007</b>	<b>2005–2006</b>
Interest and dividends	\$ 4,792	\$ 2,963
Realized gains — net	4,629	4,421
Unrealized gains (losses) — net	3,557	(42)
Investment and banking fees	<u>(649)</u>	<u>(589)</u>
Total	<u>\$ 12,329</u>	<u>\$ 6,753</u>

#### 5. ONE ROTARY CENTER

The revenue for One Rotary Center, Rotary's world headquarters office building, reflects rental income from non-Rotary tenants. The expense reported for One Rotary Center reflects the total costs of building operations. Building operating expense is as follows:

	<b>2006–2007</b>	<b>2005–2006</b>
One Rotary Center operating expense	\$ 6,863	\$ 6,310
Less revenues from tenants	<u>(5,259)</u>	<u>(4,865)</u>
Net cost to Rotary	<u>\$ 1,604</u>	<u>\$ 1,445</u>
Allocated as follows:		
Rotary occupancy costs	\$ 903	\$ 806
The Rotary Foundation occupancy costs	<u>701</u>	<u>639</u>
Total	<u>\$ 1,604</u>	<u>\$ 1,445</u>

#### 6. BENEFIT PLANS

**Pension Benefits** — The Rotary International Retirement Plan, covering substantially all Rotary and The Rotary Foundation employees, is a defined benefit pension plan. The benefits are determined by application of a benefit ratio to the employee's highest average annual earnings for five consecutive plan years. The pension plan assets are invested in certain fixed income and equity funds.

Rotary's funding policy, subject to the minimum funding requirements under the Employee Retirement Income Security Act of 1974, is to contribute such amounts as are determined on an actuarial basis to provide the assets sufficient to meet the benefit obligations. Rotary uses a 30 June measurement date for its plan.

	<b>2007</b>	<b>2006</b>
Summary information:		
Projected benefit obligation	\$ 36,050	\$ 34,212
Plan assets at fair value	<u>34,070</u>	<u>29,492</u>
Funded status	<u>\$ (1,980)</u>	<u>\$ (4,720)</u>
Amounts recognized in the consolidated statements of financial position:		
Pension obligation	\$ (1,980)	\$ -
Accrued benefit cost	<u>-</u>	<u>(13)</u>
Net amount recognized	<u>\$ (1,980)</u>	<u>\$ (13)</u>
Amounts recognized in unrestricted net assets — net actuarial loss	<u>\$ 1,980</u>	<u>\$ -</u>
Incremental effect of adoption of SFAS 158:		
Unrestricted net assets at year end prior to adoption of SFAS 158	\$ 132,911	\$ -
Unrestricted net assets at year end after adoption of SFAS 158	<u>130,931</u>	<u>-</u>
Effect of SFAS 158 on unrestricted net assets prior to allocation	1,980	-
Less amounts allocated to The Rotary Foundation	<u>(495)</u>	<u>-</u>
Effect of SFAS 158 on unrestricted net assets — net	<u>\$ 1,485</u>	<u>\$ -</u>
Balance sheet liability year end prior to adoption of SFAS 158	\$ 26,785	\$ -
Balance sheet liability year end after adoption of SFAS 158	<u>28,765</u>	<u>-</u>
Effect of SFAS 158 on balance sheet liability	<u>\$ (1,980)</u>	<u>\$ -</u>

The net actuarial loss recognized by Rotary based upon its proportionate share of payroll expense for 2007 was \$1,485.

The accumulated benefit obligation at the end of 2007 and 2006 was \$29,292 and \$27,955, respectively. A minimum pension liability recovery was recorded by Rotary and The Rotary Foundation at the end of 2006 of \$2,012 and \$707, respectively.

The following table sets forth amounts recognized by the plan as of 30 June 2007 and 2006:

	<b>2006–2007</b>	<b>2005–2006</b>
Benefits paid	\$ 1,278	\$ 1,255
Pension expense	1,522	2,035
Employer contribution	1,535	2,035

The net periodic pension expense recognized by Rotary based upon its proportionate share of payroll expense for 2007 and 2006 was \$1,141 and \$1,529, respectively.

The weighted-average actuarial assumptions used to determine net periodic benefit cost for the years ended 30 June 2007 and 2006, respectively, were:

	<b>2007</b>	<b>2006</b>
Discount rate	6.25 %	5.25 %
Expected long-term rate of return	7.75	8.00
Assumed rate of compensation increases	5.00	5.00

The weighted-average actuarial assumptions used to determine the benefit obligation for the years ended 30 June 2007 and 2006, respectively, were:

	<b>2007</b>	<b>2006</b>
Discount rate	6.25 %	6.25 %
Assumed rate of compensation increases	5.00	5.00

In developing the expected long-term rate of return on assets, the plan Trustees considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the future obligation of this pension plan. This included considering the trust's targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years. Amounts are tested for reasonableness against the historical averages.

The following table sets forth the allocation of plan assets:

	<b>Target</b>		<b>Actual</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Equity securities	60 %	70 %	62 %	71 %
Debt securities	<u>40</u>	<u>30</u>	<u>38</u>	<u>29</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The plan assets are managed solely in the interest of the participants and their beneficiaries. Based on the plan's objectives, the Trustees have developed the target asset allocations shown above, as well as re-balancing ranges. The investment objective is to achieve a rate of return consistent with the above target allocations and is designed to generate returns that will enable the plan to meet its future

obligations. The investment performance is monitored on a regular basis to ensure that managers are meeting expectations. The plan is to be broadly diversified so as to limit the impact of large losses in individual investments on the total portfolio. Consideration is also given to the proper long-term level of risk for the plan.

Rotary expects to contribute \$1,340 to its pension plan in fiscal year 2008. The following benefit payments, which reflect future services, as appropriate, are expected to be paid in the following fiscal years:

<b>Years Ending 30 June</b>	<b>Amount</b>
2008	\$ 1,432
2009	1,520
2010	1,573
2011	1,629
2012	1,716
2013–2017	<u>10,343</u>
Total	<u>\$ 18,213</u>

In fiscal year 2007, the Board of Directors approved terminating admission into the Rotary International Retirement Plan for employees with a hire date after 31 December 2007. Current Plan participants will not be affected by the decision.

**401(k) Plan** — The Rotary International 401(k) Plan (the “Plan”) is a defined contribution plan. Employees voluntarily make contributions to the Plan in amounts based upon a percentage of their total compensation, up to a maximum of 15%, subject to limitations imposed by the Internal Revenue Service. Rotary matches 50% of the first 6% contributed of the participant’s annual compensation. The expense to Rotary for the years ended 30 June 2007 and 2006, was \$444 and \$393, respectively. The Plan’s assets are invested in certain fixed income, money market, and equity funds.

## 7. LEASING ARRANGEMENTS

As lessee, Rotary leases certain office facilities and equipment. At 30 June 2007, the future minimum lease commitments under these noncancellable operating leases are as follows:

<b>Years Ending 30 June</b>	<b>Amount</b>
2008	\$ 935
2009	836
2010	592
2011	351
2012	288
Thereafter	<u>179</u>
Total future minimum lease commitments	<u>\$ 3,181</u>

Rental expense was \$1,310 and \$1,058 for the years ended 30 June 2007 and 2006, respectively.

At 30 June 2007, 51.1% (unaudited) of One Rotary Center space was available for lease. Of the available space for lease, 99.3% (unaudited) was leased to third parties with terms ranging from 3 to 15 years. Future minimum rental income to be received on these leases is as follows:

<b>Years Ending 30 June</b>	<b>Amount</b>
2008	\$ 5,460
2009	5,536
2010	5,386
2011	5,070
2012	3,482
Thereafter	<u>6,190</u>
Total future minimum rental income	<u>\$31,124</u>

## **8. THE ROTARY FOUNDATION EXPENSE**

In accordance with an administrative services agreement dated 28 June 2006, Rotary charges The Rotary Foundation for expenses incurred on its behalf. Both boards meet annually to adjust the agreement as needed. These expense allocations flow through intercompany accounts of the two entities and are as follows:

	<b>2006–2007</b>	<b>2005–2006</b>
General administration	\$ 10,104	\$ 9,034
Information services	5,056	7,071
International assembly	1,146	1,063
International offices	3,640	3,217
One Rotary Center net occupancy costs	<u>701</u>	<u>639</u>
Total	<u>\$ 20,647</u>	<u>\$ 21,024</u>

## **9. FUNCTIONAL EXPENSES**

Rotary classifies expenses functionally as follows:

	<b>2006–2007</b>	<b>2005–2006</b>
Meetings and conventions	\$ 14,240	\$ 13,912
Governance	13,457	13,695
Publications	12,856	12,059
Membership programs and services	10,886	10,789
Building operations	6,162	5,671
Management and general	<u>15,326</u>	<u>16,147</u>
Total	<u>\$ 72,927</u>	<u>\$ 72,273</u>

## 10. CAPTIVE INSURANCE COMPANY

During fiscal year 2001, the Board of Directors of Rotary approved the implementation of a blanket general liability insurance program to provide coverage for Rotary and all clubs in the U.S. and its territories through a captive insurance company. PPH National Insurance Co. (“PPH”), a wholly owned subsidiary of Rotary, was incorporated under the laws of the State of Vermont on 24 April 2001, and became fully operational 1 July 2001. The following is a summarization of PPH’s financial activity found in Rotary’s Consolidated Statements of Financial Position and Consolidated Statements of Activities.

	<b>2007</b>	<b>2006</b>
<b>Balance Sheets</b>		
Cash and other	\$ 333	\$ 403
Mutual funds	<u>3,362</u>	<u>2,786</u>
Total assets	<u>\$ 3,695</u>	<u>\$ 3,189</u>
Accrued expenses	\$ 2,651	\$ 2,168
Accounts payable and other	<u>271</u>	<u>343</u>
Total liabilities	2,922	2,511
Undesignated net assets	<u>773</u>	<u>678</u>
Total liabilities and unrestricted net assets	<u>\$ 3,695</u>	<u>\$ 3,189</u>
	<b>2006–2007</b>	<b>2005–2006</b>
<b>Statements of Income</b>		
Direct assessment income	\$ 748	\$ 670
Investment income	<u>116</u>	<u>104</u>
Total revenue	864	774
Captive insurance expense	<u>803</u>	<u>673</u>
Net income	<u>\$ 61</u>	<u>\$ 101</u>

## 11. ROTARY INTERNATIONAL ADMINISTRATIVE SERVICES OFFICE, PVT. LTD.

During fiscal year 2007, the Board of Directors of Rotary approved the separation of Information Services functions at the South Asia International Office in New Delhi, India, and the transfer of these functions to a newly formed company in Pune, India. Rotary International Administrative Services Office, Pvt. Ltd. (“RIASO”), a wholly owned subsidiary of Rotary, was incorporated under the laws of India on 25 August 2006, and became fully operational 1 June 2007. The following is a summarization of RIASO’s financial activity, denominated in U.S. dollars, included in Rotary’s Consolidated Statements of Financial Position and Consolidated Statements of Activities.

### Balance Sheet

Cash	\$ 222
Accounts receivable and deposits	125
Net fixed assets	<u>761</u>
Total assets	<u>\$ 1,108</u>
Accounts payable, accrued expenses, and other liabilities	\$ 145
Due to Rotary International	<u>1,396</u>
Total liabilities	<u>1,541</u>
Capital stock	2
Retained earnings (deficit)	<u>(435)</u>
Total equity (deficit)	<u>(433)</u>
Total liabilities and equity (deficit)	<u>\$ 1,108</u>

### Statement of Income

Income	\$ -
Expenses	<u>435</u>
Net loss	<u>\$ (435)</u>

## 12. AFFINITY CARD PROGRAM

The Board of Directors of Rotary, in consultation with the Trustees of The Rotary Foundation, renewed the U.S. affinity credit card program with a financial institution during fiscal year 2006. As of 30 June 2007, the affinity card program operates in Brazil, Canada, India, Ireland, Italy, Japan, Mexico, Philippines, South Korea, Spain, Taiwan, Thailand, United Kingdom, and the United States. Rotary recognized affinity card royalty revenue of \$676 and \$605 in fiscal years 2007 and 2006, respectively.

### **13. COUNCIL ON LEGISLATION**

The Council on Legislation (the “Council”), the legislative body of Rotary, meets triennially and has the authority to amend the constitutional documents of the organization. In accordance with its Bylaws, Rotary assessed \$3,559 to Rotarians via the annual per capita levy of \$1.00, per Rotarian, per year, during the fiscal years 2005 through 2007. The 2007 Council was held in Chicago, Illinois in April 2007 at a cost of \$3,285. As of 30 June 2007, \$910 of the per capita levy has been deferred to cover expenses of the next Council scheduled for April 2010.

### **14. DESIGNATION OF NET ASSETS**

In fiscal year 2002, the Board of Directors approved a Convention Expense Reserve to reduce the impact of Conventions on the administrative reserve funds of Rotary in the event of the Convention expenses exceeding revenues in any given year. The Board amended the Convention expense reserve to include the net operating gains and losses of future conventions subject to a floor of \$500.

In fiscal year 2003, the Board of Directors approved the establishment of an Investment Earnings Reserve to mitigate the volatility of annual investment returns on the administrative reserve funds of Rotary. The reserve is increased by the amount that investment earnings exceeds budgeted investment earnings, limited to \$12,000. Alternatively, the reserve will be reduced by the amount that investment earnings falls short of budgeted investment earnings. The reserve is to provide for any shortfall in investment earnings and is not for the use of additional general operating expenses.

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