

# Rotary International

Consolidated Financial Statements as of  
and for the Year Ended 30 June 2010,  
Additional Information as of  
and for the Year Ended 30 June 2010 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 financial statements of Rotary International as of 30 June 2010 and for the year then ended, as listed in the table of contents. These consolidated financial statements are the responsibility of Rotary International's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 International'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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rotary International at 30 June 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the financial statements include investments valued at \$78,898,000 (10.2% of net assets) as of 30 June 2010, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the external investment fund managers.

As discussed in Note 12 to the consolidated financial statements, the consolidated financial statements have been restated to correct the basis of presentation in 2009.

Our 2010 audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The additional information for the year ended 30 June 2010, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Rotary International's management. Such information has been subjected to the auditing procedures applied in our audit of the 2010 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2010 consolidated financial statements taken as a whole.

*Deloitte & Touche LLP*

9 November 2010

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2010

(In thousands of U.S. dollars)

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	<b>2010</b>
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 53,692
CLUB AND OTHER ACCOUNTS RECEIVABLE — Net	3,381
PLEDGES RECEIVABLE — Net	1,282
DEFERRED CHARGES, PREPAID EXPENSES, AND OTHER ASSETS	6,429
INVESTMENTS	753,242
DONOR-ADVISED FUNDS	9,098
SPLIT-INTEREST AGREEMENTS	24,429
PROPERTY AND EQUIPMENT — Net	<u>35,771</u>
TOTAL	<u>\$ 887,324</u>
<b>LIABILITIES AND NET ASSETS</b>	
LIABILITIES:	
Accounts payable, accrued expenses, and split interest agreements payable	\$ 45,512
Accrued program awards	51,479
Deferred revenue	1,858
Pension obligation	<u>12,962</u>
Total liabilities	<u>111,811</u>
NET ASSETS:	
Unrestricted:	
Undesignated	441,602
Board designated	<u>46,382</u>
Total unrestricted net assets	487,984
Temporarily restricted:	
PolioPlus	98,258
Permanent fund	8,181
Disaster recovery/named gifts	<u>2,059</u>
Total temporarily restricted net assets	108,498
Permanently restricted	<u>179,031</u>
Total net assets	<u>775,513</u>
TOTAL	<u>\$ 887,324</u>

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2010 (AS RESTATED, SEE NOTE 12) (In thousands of U.S. dollars)

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES:</b>				
Contributions	\$ 103,312	\$ 153,937	\$ 10,496	\$ 267,745
Dues	58,956			58,956
Net investment return	49,758	14,980	301	65,039
Services and other activities	25,915			25,915
Net assets released from restrictions	<u>105,692</u>	<u>(105,985)</u>	<u>293</u>	<u>-</u>
Total revenues	<u>343,633</u>	<u>62,932</u>	<u>11,090</u>	<u>417,655</u>
<b>EXPENSES:</b>				
Program awards and expenses	267,335			267,335
Development expenses	16,461			16,461
General administration	<u>24,556</u>			<u>24,556</u>
Total expenses	<u>308,352</u>	<u>-</u>	<u>-</u>	<u>308,352</u>
<b>CHANGE IN NET ASSETS:</b>				
Before pension-related changes	35,281	62,932	11,090	109,303
Pension-related changes	<u>(2,322)</u>			<u>(2,322)</u>
<b>CHANGE IN NET ASSETS</b>	32,959	62,932	11,090	106,981
<b>NET ASSETS — Beginning of year as restated (see Note 12)</b>	<u>455,025</u>	<u>45,566</u>	<u>167,941</u>	<u>668,532</u>
<b>NET ASSETS — End of year</b>	<u>\$ 487,984</u>	<u>\$ 108,498</u>	<u>\$ 179,031</u>	<u>\$ 775,513</u>

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2010 (In thousands of U.S. dollars)

Expense Type	Program Awards and Expenses					Supporting Services		
	Educational Programs	Humanitarian Programs	PolioPlus Programs	Other Programs	Total Programs	Development Expenses	General Administration	Total Expenses
EXPENSES BY NATURAL CLASSIFICATION:								
Program awards	\$ 23,501	\$ 44,215	\$ 118,071	\$ 1,183	\$ 186,970	\$ -	\$ -	\$ 186,970
Salaries and benefits	4,100	5,426	1,087	20,600	31,213	10,016	11,064	52,293
External services	241	291	404	1,560	2,496	456	1,120	4,072
Volunteer reimbursement				9,695	9,695		230	9,925
Travel	326	310	285	8,888	9,809	839	2,266	12,914
Assembly, convention, and meetings	42	54	23	5,907	6,026	892	263	7,181
Publications and printing	195	212	159	5,327	5,893	743	335	6,971
Postage, shipping, and freight	138	151	20	2,939	3,248	763	254	4,265
Recognition and promotion	16		3	1	20	976	20	1,016
Cost of sales	1	1		974	976	2	99	1,077
Occupancy	444	605	88	5,308	6,445	975	6,503	13,923
Other	333	441	87	3,683	4,544	799	2,402	7,745
<b>TOTAL EXPENSES</b>	<b>\$ 29,337</b>	<b>\$ 51,706</b>	<b>\$ 120,227</b>	<b>\$ 66,065</b>	<b>\$ 267,335</b>	<b>\$ 16,461</b>	<b>\$ 24,556</b>	<b>\$ 308,352</b>
EXPENSES BY ACTIVITY:								
Association activities	\$ -	\$ -	\$ -	\$ 62,436	\$ 62,436	\$ -	\$ 19,329	\$ 81,765
Foundation activities	29,337	51,706	120,227	3,629	204,899	16,461	5,227	226,587
<b>TOTAL EXPENSES</b>	<b>\$ 29,337</b>	<b>\$ 51,706</b>	<b>\$ 120,227</b>	<b>\$ 66,065</b>	<b>\$ 267,335</b>	<b>\$ 16,461</b>	<b>\$ 24,556</b>	<b>\$ 308,352</b>

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010 (AS RESTATED, SEE NOTE 12) (In thousands of U.S. dollars)

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	<b>2010</b>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Change in net assets	\$ 106,981
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:	
Permanent fund contributions	(10,204)
Contributed securities and split-interest agreements	(462)
Realized losses on sale of investments — net	2,293
Unrealized gains on investments — net	(58,548)
Gains on disposal of property and equipment — net	(118)
Depreciation and amortization	5,252
Pension obligation	2,322
Changes in assets and liabilities:	
Pledges receivable — net	101
Deferred charges, prepaid expenses, and other assets	(151)
Club and other accounts receivable — net	489
Accrued program awards	(23,961)
Accounts payable, accrued expenses, and split-interest agreements payable	5,000
Deferred revenue	(2,279)
	<hr/>
Net cash flows provided by operating activities	26,715
CASH FLOWS USED IN INVESTING ACTIVITIES:	
Purchase of investments	(1,381,598)
Proceeds from sale of investments	1,360,280
Proceeds from sale of property and equipment	133
Purchase of property and equipment	(3,674)
Change in short-term investments	2,250
	<hr/>
Net cash flows used in investing activities	(22,609)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:	
Proceeds from contributions restricted for investment in the Permanent Fund	<hr/> 10,204
Net cash flows provided by financing activities	<hr/> 10,204
INCREASE IN CASH AND CASH EQUIVALENTS	14,310
CASH AND CASH EQUIVALENTS — Beginning of year as restated (see Note 12)	<hr/> 39,382
CASH AND CASH EQUIVALENTS — End of year	<hr/> <hr/> \$ 53,692

See notes to consolidated financial statements.

# ROTARY INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 30 JUNE 2010 (In thousands of U.S. dollars)

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### 1. NATURE OF OPERATIONS

The consolidated financial statements consist of four affiliated entities: Rotary International, The Rotary Foundation of Rotary International (the “Foundation”), PPH National Insurance Co. (“PPH”), and Rotary International Infotech Pvt. Ltd. (“Infotech”), collectively, referred to as “Rotary”.

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

The Foundation, whose sole corporate member is Rotary International, is a corporation organized under the Illinois Not-for-Profit Corporation Act. The Foundation supports the efforts of Rotary International to achieve world understanding and peace through Polio eradication, international humanitarian, educational, and cultural exchange programs. The Foundation’s operations include educational, cultural exchange, and humanitarian programs; fund development and donor services; and investment of funds. Operating revenue is derived primarily from contributions and investment income.

PPH, a captive insurance company, is a wholly owned subsidiary of Rotary International incorporated under the laws of the State of Vermont. PPH provides general liability insurances to the U.S. Rotary clubs and districts and vicarious liability to Rotary International. Additionally, beginning January 2010, PPH also provides directors and officers/employment practices liability insurance to the U.S. Rotary clubs and districts.

Infotech, a wholly owned subsidiary of Rotary International in Pune, India, is incorporated under the laws of India and provides information service functions for Rotary.

The activities of Rotary International, PPH, and Infotech are referred to as the “Association.”

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** — The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant intercompany transactions have been eliminated in the consolidated financial statements.

**Use of Estimates** — The preparation of financial statements, in conformity with GAAP, 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.

**Associate Foundations** — The Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan, and the United Kingdom. The associate foundations provide local Rotarians and other donors with tax benefits under the laws in each country, except Japan and Brazil, where the laws do not allow for individuals to have tax benefits. The associate foundations accept contributions and make program disbursements on behalf of the Foundation. The financial activities conducted by the associate foundations on behalf of the Foundation are included in the Consolidated Statement of Financial Position and the related Consolidated Statement of Activities, of Functional Expenses and of Cash Flows.

**Cash and Cash Equivalents** — Cash and cash equivalents include operating cash and liquid investments with an initial maturity of three months or less, including interest bearing accounts, money market mutual funds, and fixed-term deposits, and are stated at cost, which approximates fair value. Cash and cash equivalents include \$26,111 at 30 June 2010, subject to certain repatriation restrictions imposed by local governments.

**Club and Other Accounts Receivable** — Accounts receivable are primarily amounts due from Rotary Clubs and royalties payments from Rotary International licensees. Management estimates the collectibility of the receivables and recognizes an allowance for doubtful accounts. As of 30 June 2010, the allowance for doubtful debts was \$135.

**Pledges Receivable** — The Foundation receives unconditional multiyear pledges ranging from one to five years. Management makes assumptions regarding the outstanding pledges and ultimate collectibility of these receivables. Pledges receivable are recorded net of discounting for the present value of the expected future cash flows using the U.S. Treasury's risk-free interest rate. As of 30 June 2010, the present value discount is \$57, and the allowance for uncollectible pledges is \$82.

**Investments** — Investments are carried at fair value and are primarily based on quoted market prices, except for certain alternative investments totaling \$78,898 at 30 June 2010. Alternative investments include private equity, real estate, and hedge funds, for which quoted market prices are not readily available. The estimated fair value of private equity and real estate investments is based on quarterly valuations and other data provided by external investment fund managers, updated for capital calls and distributions and other market activity for the most current fiscal quarter. Hedge funds are valued on a monthly basis. The valuations for these alternative investments involve appraisals, assumptions, and methods that are reviewed by management as well as the Investment Advisory Committee.

**Donor Advised Fund** — The Donor Advised Fund (DAF) accepts irrevocable contributions and offers individuals and Rotary-affiliated groups the flexibility to recommend grants to either the Foundation or other unaffiliated Internal Revenue Service-approved charities. Grants are subject to approval by the Foundation Trustees. Rotary recognizes revenue when assets are contributed to the DAF. Grants made to other organizations from the DAF are recorded as program awards.

**Split-Interest Agreements** — The Foundation is the trustee or custodian, beneficiary, and charitable remainderman of trusts and charitable annuities held for the benefit of others and the Foundation for various specified terms. These funds are held in charitable remainder unitrusts, a charitable gift annuity account, and a pooled income fund. Assets received under these agreements are recorded at fair value, and the contribution portion of these agreements is recognized as revenue when received. Liabilities incurred as a result of these agreements are measured based on the present value of the expected future payments to be made to the named beneficiaries, using various discount rates and actuarial assumptions reflecting the terms of the agreements and the estimated time of receipt. A valuation of the split-interest agreement liabilities is performed annually, and as of 30 June 2010, the valuation adjustment was \$2,330.

**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), building improvements (the lesser of 25 years or the useful life of the improvements), and furniture and equipment (three to 10 years). Significant renewals and replacements are capitalized. The cost of repairs and maintenance is expensed as incurred. Rotary retires and disposes of capital assets that are no longer held or used in operations.

**Financial Instruments** — Rotary, from time to time, enters into foreign exchange option and forward contracts for the purpose of managing foreign exchange risk. Gains and losses resulting from changes in fair value are recognized in net assets when the contracts expire. The fair value of unexpired contracts as of 30 June 2010 was negative \$89.

**Accrued Program Awards** — The Foundation records the full amount of program awards upon specific designation of award recipients in the year for which they are approved. Awards designated, but not yet paid, are included in accrued program awards in the accompanying Consolidated Statement of Financial Position.

**Net Assets** — Rotary classifies resources into three classes of net assets as follows:

- *Unrestricted* — Net assets that are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.

At 30 June 2010, the unrestricted undesignated net assets comprise unrestricted, undesignated net assets of the Foundation of \$338,248, and of the Association of \$103,354. Unrestricted Board-designated net assets comprise unrestricted Board-designated net assets of the Foundation of \$31,693 and of the Association of \$14,689.

The unrestricted, undesignated net assets of the Foundation comprise accumulated earnings primarily of the Annual Programs Fund and the DAF, which receive revenue primarily from contributions from Rotary districts, clubs, Rotarians, and others. The unrestricted undesignated net assets of the Association are accumulated earnings primarily from dues revenue and net investment returns, net of operating expenses.

Unrestricted net assets that are Board-designated represent amounts that have been designated for specific programs or uses. Accumulated investment earnings on donations to PolioPlus will be considered unrestricted and be utilized only in support of PolioPlus.

Board-designated net assets also include a convention expense reserve and an investment earnings reserve. The convention expense reserve was established to reduce the impact of conventions on the administrative reserve funds of Rotary, in the event of the convention expenses exceeding revenue in any given year. The investment earning reserve was established to mitigate the volatility of annual investment returns on the administrative reserve funds of the Association. The reserve is to provide for any shortfall in investment earnings and is not for the use of additional general operating expenses.

- *Temporarily Restricted* — Net assets whose use is limited by donor-imposed restrictions that either expire by the passage of time or can be removed by fulfillment of the stipulated purpose for which the donation was restricted. Revenues received from contributions that are restricted to PolioPlus, Disaster Recovery, and Named gifts are classified as temporarily restricted. Foundation policy stipulates that a portion of the Permanent Fund's net investment return will be used to support the programs of the Foundation, including reasonable administrative costs in accordance with the terms

agreed on or at the time of gift acceptance and in accordance with the spending policy approved by the Foundation Trustees. The unspent portion of the net investment return will be classified as temporarily restricted. Noncurrent pledges are also classified as temporarily restricted.

- *Permanently Restricted* — Net assets donated with stipulations that they be invested to provide a permanent source of income (endowment funds and split-interest agreements); such restrictions can neither expire with the passage of time, nor be removed by fulfillment of a stipulated purpose. Permanent Fund contributions are classified as permanently restricted.

**Revenue Recognition** — Contributions and unconditional pledges are recognized as revenue in the period received and recorded at estimated fair value. Conditional contributions are recognized in revenue when the conditions have been met. 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. Revenues from services and other activities are recognized when the services are rendered.

**Administration and General Expenses** — Administration and general expenses represent the expenses incurred to provide overall management and direction to all entities and are expensed in the period they are incurred.

**Tax Status** — Rotary International 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. The Foundation is a qualified not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, but is subject to U.S. tax on any unrelated business income. Infotech is a private limited company registered in India, and as such is a taxable corporation in India. Under U.S. tax regulations, Infotech is a foreign business entity classified as not separate from Rotary International, and as such is 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 liability for unrelated business income tax at 30 June 2010. PPH files a corporation income tax return, but is not treated as an insurance company for federal income tax purposes, as it is a captive insurance company. Accordingly, premiums (from Rotary) and losses and loss adjustment expenses are excluded from the calculation of taxable income. There was no liability for income tax as of 30 June 2010.

**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 the change in net assets.

**Risks and Uncertainties** — Rotary has investments in invested cash and short-term investments, debt and equity securities, and alternative investments that 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 financial statements.

**Subsequent Events** — These financial statements considered subsequent events through 9 November 2010, the date the financial statements were available to be issued.

**Recent Accounting Pronouncements Adopted** — In June 2006, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 740 (formerly FASB Interpretation (FIN) No. 48), *Accounting for Uncertainty in Income Taxes*. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC 740 (formerly 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. This standard was originally effective for nonpublic entities for fiscal years beginning after 15 December 2006. On 30 December 2008, the FASB issued ASC 740 (formerly FASB Staff Position (FSP) FIN No. 48-3), which defers the effective date of ASC 740 for nonpublic entities until years beginning after 15 December 2008. Rotary's management adopted ASC 740 in the consolidated financial statements for fiscal year 2010, and the impact of adoption was not material.

In March 2008, the FASB issued ASC 815-10-15-2 (formerly FASB Statement No. 161), *Disclosures about Derivative Instruments and Hedging Activities — an amendment of ASC 815 (formerly FASB Statement No. 133)*. ASC 815-10-15-2 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves transparency of financial reporting. Rotary's management adopted ASC 815-10-15-2 in the consolidated financial statements for fiscal year 2010. This adoption did not have a material impact to the financial statements.

In May 2008, the FASB issued ASC 958-810-15-3 (formerly Statement of Position (SOP) 94-3-1), *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*, which made several changes to the guidance on consolidation and the equity method of accounting in ASC 958-810 (formerly SOP 94-3), *Reporting of Related Entities by Not-for-Profit Organizations*. Rotary's management adopted ASC 958-810-15-3 in the consolidated financial statements for fiscal year 2010. Beginning in fiscal year 2010, Rotary will issue consolidated financial statements encompassing the activities of Rotary International, the Foundation, PPH, and Infotech.

In June 2009, the FASB issued ASC 105 (formerly FASB Statement No. 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of ASC 105 (formerly FASB Statement No. 162)*. The Accounting Standards Codification (the "Codification") will become the exclusive source of authoritative U.S. GAAP for all nongovernmental entities. All content in the Codification will carry the same level of authority, essentially modifying the GAAP hierarchy to include only two levels of GAAP: authoritative and nonauthoritative. Rotary's management adopted ASC 105 in the consolidated financial statements for fiscal year 2010.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), an amendment of Fair Value Measurements and Disclosure* (ASC 820) or (ASU 2009-12). This amendment provides additional guidance on using the net asset value per share, provided by an investee, when estimating the fair value on an alternative investment that does not have a readily determinable fair value and enhances the disclosures concerning these investments. Examples of alternative investments, within the scope of this amendment, include investments in hedge funds, private equity funds, real estate funds, and venture capital partnerships. Rotary's management adopted ASU 2009-12 in the consolidated financial statements for fiscal year 2010. The adoption of ASU 2009-12 had no impact on the net assets of Rotary, and the adoption did not impact the classification of the Rotary's investments in the fair value hierarchy.

**Recent Accounting Pronouncements Pending Adoption** — In April 2009, the FASB issued ASC 958-805 (formerly FASB Statement No. 164), *Not-for-Profit Entities: Mergers and Acquisitions — Including an amendment of ASC 350 (formerly FASB Statement No. 142)*. ASC 958-805 establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or an acquisition; (b) applies the carryover method in accounting for a merger; (c) applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and (d) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. Rotary's

management is in the process of evaluating the effect of this new standard which must be adopted in fiscal year 2011.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU 2010-06), *Improving Disclosures about Fair Value Measurements*, which, among other things, amends ASC 820 to require entities to separately present purchases, sales, issuances, and settlements in their reconciliation of Level 3 fair value measurements (i.e., to present such items on a gross basis rather than on a net basis), and which clarifies existing disclosure requirements provided by ASC 820 regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of the fair value hierarchy. ASU 2010-06 is effective for interim and annual periods beginning after 15 December 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements (which are effective for fiscal years beginning after 15 December 2010, and for interim periods within those fiscal years). Rotary's management is currently assessing the impact that the adoption of ASU 2010-06 will have on the financial statement disclosures.

### 3. INVESTMENTS

At 30 June 2010, Rotary has alternative investments composed of real estate funds of \$39,273, hedge funds of \$25,353, and private equity funds of \$14,272. In addition, it has investments in bonds in the amount of \$10,896 denominated in currencies other than the U.S. dollar. Accrued interest and dividends are included in total investments.

The components of net investment return as of 30 June 2010, are as follows:

	<b>2010</b>
Interest and dividends	\$ 15,761
Realized losses — net	(2,293)
Unrealized gains — net	58,548
Investment and banking fees	(2,744)
Change in value of split-interest agreements	(2,330)
Miscellaneous gains — net	957
Currency losses — net	<u>(2,860)</u>
Total	<u>\$ 65,039</u>

### 4. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The accounting guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels.

The fair values of Rotary's consolidated financial assets and liabilities that are measured on a recurring basis are as follows:

	Fair Value as of 30 June 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Invested cash and short-term investments	\$ 27,473	\$ 27,473	\$ -	\$ -
Bonds	311,852	166,328	145,524	
Stocks	335,019	112,576	222,443	
Alternative investments:				
Private equity	14,272	793		13,479
Real estate	39,273	12		39,261
Hedge funds	<u>25,353</u>	<u>          </u>	<u>          </u>	<u>25,353</u>
Subtotal	753,242	307,182	367,967	78,093
Donor advised funds:				
Invested cash and short-term investments	4,594	4,594		
Bonds	2,159	2,159		
Stocks	<u>2,345</u>	<u>2,345</u>	<u>          </u>	<u>          </u>
Subtotal	9,098	9,098	-	-
Split-interest agreements:				
Invested cash and short-term investments	2,222	2,222		
Bonds	6,174		6,174	
Stocks	<u>16,033</u>	<u>16,033</u>	<u>          </u>	<u>          </u>
Subtotal	<u>24,429</u>	<u>18,255</u>	<u>6,174</u>	<u>-</u>
Total assets	<u>\$ 786,769</u>	<u>\$ 334,535</u>	<u>\$ 374,141</u>	<u>\$ 78,093</u>
Liabilities:				
Split-interest agreements payable	<u>\$ 14,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,659</u>
Total liabilities	<u>\$ 14,659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,659</u>

*Level 1* — Inputs are quoted prices in active markets for identified assets or liabilities that Rotary has access to on the measurement date. The quoted prices provide the most reliable evidence, except when a significant event occurs that may affect the fair value measurement.

Rotary investments categorized as Level 1 include money market and fixed-term deposits with maturities of less than one year, U.S. government obligations, U.S. and non-U.S. equity securities, and exchange-traded funds, valued primarily based on quoted prices from an exchange.

*Level 2* — Inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly. Level 2 inputs include quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield; and inputs that are derived principally from observable market data by correlation or other means (market-corroborated inputs).

Rotary investments categorized as Level 2 include fixed-income instruments, primarily corporate bonds, international bonds, asset-backed securities, non-exchange traded funds, mutual funds, commingled funds, and U.S. agency bonds, valued primarily using market corroborated pricing.

*Level 3* — One or more unobservable inputs, which are deemed significant to the determination of the fair value, for which there is little or no market data available. Unobservable inputs reflect Rotary’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) and are developed based on the best information available.

Rotary investments categorized as Level 3 include hedge fund of funds, private equity fund of funds, and real estate funds (valued primarily based on net asset value per share).

<b>Alternative Investments Level 3 Assets</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
Private equity fund of funds (a)	\$ 13,479	\$ 23,341		
Real estate funds (b)	39,261		Quarterly	60–90 days
Hedge fund of funds (c)	<u>25,353</u>	<u>          </u>	Quarterly	30–90 days
Total	<u>\$ 78,093</u>	<u>\$ 23,341</u>		

- (a) Private equity fund of funds includes several private equity funds of funds that invest globally. Capital is committed to these investments and called as investments are made. Distributions are made only when the underlying investments of the funds undergo a significant market event, such as acquisition by another company or an initial public offering. The time horizon of a typical private equity fund of funds is approximately 10 to 15 years. The fair values of the investments in this category have been estimated based on Rotary’s ownership interest in partners’ capital.
- (b) Real estate funds include open-ended real estate funds that invest in U.S. real estate. The holdings in the real estate composite comprise a mix of apartments, offices, industrial, retail, and hotel properties. The fair values of the investments in this category have been estimated using the net asset value per share of the investments, based on an annual valuation by an independent third party appraiser.
- (c) Hedge fund of funds includes various hedge funds of funds that pursue multiple global strategies to diversify risks and reduce volatility. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. A full redemption has been requested from one of the fund of funds managers, and proceeds have been distributed as the underlying managers have been able to provide liquidity. As of 30 June 2010, 65% of the proceeds have been paid to Rotary. Another one of the fund of funds is in liquidation, with all assets in cash pending distribution to creditors and investors. Rotary previously recorded a valuation reserve of \$16 million and has not received any distributions from this fund of funds as of 30 June 2010.

For fair value measurements using significant unobservable inputs (Level 3), the changes are as follows:

	<b>Private Equity</b>	<b>Real Estate</b>	<b>Hedge Funds</b>	<b>Total</b>
Beginning balance (1 July 2009)	\$ 10,273	\$ 43,039	\$ 26,826	\$ 80,138
Realized and unrealized gains (losses) — net	1,257	(3,197)	1,202	(738)
(Sales) purchases — net	<u>1,949</u>	<u>(581)</u>	<u>(2,675)</u>	<u>(1,307)</u>
Ending balance (30 June 2010)	<u>\$ 13,479</u>	<u>\$ 39,261</u>	<u>\$ 25,353</u>	<u>\$ 78,093</u>

## 5. PROPERTY AND EQUIPMENT — NET

The components of property and equipment — net as of 30 June 2010, are as follows:

	<b>2010</b>
Property and equipment:	
Land	\$ 2,960
Building	63,253
Furniture and equipment	<u>22,846</u>
Total property and equipment	89,059
Accumulated depreciation	<u>(53,288)</u>
Property and equipment — net	<u>\$ 35,771</u>

Depreciation expense for the year ended 30 June 2010, was \$5,252.

## 6. 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 as of 30 June 2010, is as follows:

	<b>2010</b>
One Rotary Center operating expense	\$ 7,392
Less revenues from tenants	<u>5,313</u>
Net cost to Rotary	<u>\$ 2,079</u>
Association occupancy costs	1,483
Foundation occupancy costs	<u>596</u>
Net cost to Rotary	<u>\$ 2,079</u>

## 7. ENDOWMENTS

The Foundation's Permanent Fund is comprised of donor-restricted endowment funds. The primary objective of the Permanent Fund is to support the programs of the Foundation in perpetuity. The portion of a permanent endowment that must be maintained permanently — not expended or otherwise exhausted — is classified as permanently restricted net assets. The portion of the fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until it has been appropriated for expenditure by Rotary and has met any purpose restrictions. A portion of the Permanent Fund's investment earnings are used to finance the programs of the Foundation, based on the terms of the gift and the Foundation's spending policy. The Permanent Fund may make an annual distribution to the Annual Programs Fund and the Disaster Recovery/Named Gifts Fund for program awards and expenses. All spending is approved by the Foundation Trustees. At 30 June 2010, the balance of temporarily restricted net assets from Permanent Fund earnings is \$8,181.

The Foundation Trustees have responsibility for formulating the Permanent Fund investment policy. Funds are included in a consolidated endowment pool and invested in accordance with the investment policy approved by the Trustees and monitored by the Investment Advisory Committee. Assets of the Permanent Fund are invested to ensure that capital is preserved and enhanced over time, both in real and nominal terms. The investment policy for the Permanent Fund is to invest in a diversified asset portfolio that is expected to produce an average annual total return that at least equals inflation, plus endowment spending, without assuming undue risk.

In fiscal year 2010, the Permanent Fund's spending policy stipulated spending 5.0% of the average market value over the previous 12-quarter period. Since the aggregate market value of the fund was below the accumulated gift value when the spending calculation was made, no spending was approved, except when specifically required by the terms of the gift. In June 2010, the Trustees approved a new spending policy beginning in fiscal year 2011, in which annual spending will occur each year from endowed gifts whose market values exceed their accumulated gift values. The Trustees approved a spending rate for fiscal year 2011 is 4.5%.

Split-interest agreements and related activity are part of permanently restricted net assets but are managed separately from Permanent Fund endowments. Therefore, split-interest agreements are not included in the spending calculations for the Permanent Fund or in the endowment net assets reported.

Changes in endowment net assets for the fiscal year ended 30 June 2010, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$ (6,632)	\$ -	\$ 158,634	\$ 152,002
Contributions			10,204	10,204
Transfer of funds — net		27	431	458
Investment return:				
Interest, dividends, and investment fees — net		2,412		2,412
Realized and unrealized gains — net	<u>          </u>	<u>12,568</u>	<u>          </u>	<u>12,568</u>
Total investment return	-	14,980	-	14,980
Appropriation of endowment assets for expenditure		(194)		(194)
Other changes:				
Transfer of unrestricted net assets to temporarily restricted net assets	<u>6,632</u>	<u>(6,632)</u>	<u>          </u>	<u>          </u>
Endowment net assets — end of year	<u>\$ -</u>	<u>\$ 8,181</u>	<u>\$ 169,269</u>	<u>\$ 177,450</u>

**Funds with Deficiencies** — From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. The Foundation is required to transfer funds from prior investment earned income and/or unrestricted net assets to temporarily restricted net assets when the deficiencies resulted from unfavorable market fluctuations for which the aggregate amount of the fair value of the assets at fiscal year-end is less than the level required by donor stipulations in order to retain as a fund of perpetual duration. There was no deficiency as of 30 June 2010.

## 8. BENEFIT PLANS

**Pension Benefits** — The Rotary International Retirement Plan is a defined benefit pension plan covering substantially all Rotary International employees with a hire date before 1 January 2008. The plan was closed to employees hired on or after this date. 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 International's funding policy, subject to the minimum funding requirements under the Employee Retirement Income Security Act of 1974, is to contribute such amounts as determined on an actuarial basis to provide the assets sufficient to meet the benefit obligations. Rotary International uses a 30 June measurement date for its plan.

	<b>2010</b>
Plan summary information:	
Plan assets at fair value	\$ 36,314
Projected benefit obligation	<u>49,276</u>
Funded status	<u>(12,962)</u>
Amount recognized in unrestricted net assets	<u>\$ (12,962)</u>

The net actuarial loss recognized by Rotary was \$2,322 for fiscal year 2010.

The amounts recognized by the plan as of 30 June 2010, are as follows:

	<b>2010</b>
Benefits paid	\$ 1,315
Pension expense	2,598
Employer contribution	2,598

The weighted-average actuarial assumptions used to determine net periodic benefit cost for the year ended 30 June 2010, are as follows:

	<b>2010</b>
Discount rate	6.25 %
Expected long-term rate of return	7.30
Assumed rate of compensation increases	5.00

The weighted-average actuarial assumptions used to determine the benefit obligation as of 30 June 2010, are as follows:

	<b>2010</b>
Discount rate	5.42 %
Assumed rate of compensation increases	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 30 years. Amounts are reviewed for reasonableness against the historical averages.

**Pension Plan Assets** — There are two main investment goals of the pension plan. One is to provide a total return that, over the long term, increases the ratio of plan assets to liabilities subject to an acceptable level of risk. The other is to mitigate the volatility in funded status by investing in assets that hedge against the liability of the pension plan. This is accomplished through diversification of assets in

accordance with the investment policy. Periodic rebalancing occurs after the end of each calendar quarter, as required by the policy. The target allocations for plan assets are 50% bonds and U.S. Treasury or Agency securities and 50% stocks.

Fair value hierarchy table presents information about the Rotary International pension plan investments measured at fair value as of 30 June 2010, is as follows:

Description	Fair Value as of 30 June 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Invested cash and short-term investments	\$ 515	\$ 515	\$ -	\$ -
Bonds	20,013		20,013	
Stocks	<u>15,786</u>	_____	<u>15,786</u>	_____
Total	<u>\$ 36,314</u>	<u>\$ 515</u>	<u>\$ 35,799</u>	<u>\$ -</u>

Pension plan assets categorized as Level 1 include money market and fixed term deposits with maturities of less than one year, valued at book value which approximates market value.

Pension plan assets categorized as Level 2 include fixed-income instruments, primarily mutual funds and commingled funds. Mutual funds are valued using market corroborated pricing. Commingled funds are valued based on net asset values per share, derived from the quoted prices in active markets of the underlying equity securities.

**Estimated Future Contributions and Benefit Payments** — Rotary expects to contribute \$2,820 to its pension plan in fiscal year 2011. The following benefit payments, which reflect future services, as appropriate, are expected to be paid in the following fiscal years:

Years Ending 30 June	Amount
2011	\$ 1,597
2012	1,706
2013	1,803
2014	1,952
2015	2,118
2016–2020	<u>12,514</u>
Total	<u>\$ 21,690</u>

**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 50%, subject to limitations imposed by the Internal Revenue Service. Rotary International matches 100% of the first 1% and 50% of the next 5% contributed of the participant’s annual compensation. The expense to Rotary International was \$1,153 for the year ended 30 June 2010. For employees hired on or after 1 January 2008, Rotary International may also make further contributions to the plan via Rotary’s Points Based Contribution.

## 9. LEASING ARRANGEMENTS

As lessee, Rotary International leases certain office facilities and equipment. The future minimum lease commitments under these noncancelable operating leases as of 30 June 2010, are as follows:

<b>Years Ending 30 June</b>	<b>Amount</b>
2011	\$ 771
2012	403
2013	249
2014	5
2015	2
Thereafter	<u>2</u>
Total future minimum lease commitments	<u>\$1,432</u>

Rental expense was \$1,733 for the year ended 30 June 2010. At 30 June 2010, 50% (unaudited) of One Rotary Center space was available for lease to third parties. Of the available space for lease, 90% (unaudited) was leased to third parties with terms ranging from 1 to 15 years. Future minimum rental income to be received on these noncancelable operating leases is as follows:

<b>Years Ending 30 June</b>	<b>Amount</b>
2011	\$ 5,499
2012	4,351
2013	3,675
2014	3,441
2015	2,811
Thereafter	<u>5,898</u>
Total future minimum rental income	<u>\$25,675</u>

## 10. SERVICES AND OTHER ACTIVITIES

The Association has services and other activities which generate income to offset the expenses incurred for the activities described below (see Supplementary Schedule of Association Services and Other Activities).

The Council on Legislation (“Council”) meets triennially and has the authority to amend the constitutional documents of the organization. The 2010 Council was held in Chicago, Illinois, in April 2010. The International Convention is held annually to inspire and inform Rotarians of Rotary programs and activities during the past year and highlight upcoming activities. *The Rotarian* is an English language magazine subscribed to by Rotarians worldwide. One Rotary Center is Rotary’s world headquarters office building in Evanston, Illinois, USA. The U.S. Club insurance program provides liability insurances to U.S. Rotary clubs and districts.

## 11. BILL & MELINDA GATES FOUNDATION GRANT

Rotary entered into a grant agreement with the Bill & Melinda Gates Foundation (BMGF) for a total of \$355,000 to support the global polio eradication initiative. The intent of the grant agreement is to join with other organizations, such as the United Nations Children's Fund (UNICEF), the Center for Disease Control (CDC) and the World Health Organization (WHO) in pursuit of the eradication of polio throughout the world. In accordance with the grant agreement, Rotary recognizes revenue when funds from BMGF are received and committed or spent.

Through the three year period ended 30 June 2010, Rotary received a total of \$290,000 from BMGF recorded as temporarily restricted revenue. In September 2010, Rotary received an additional \$30,000 from BMGF. The agreements have provisions whereby Rotary is responsible for separately raising \$200,000 by 30 June 2012, which it is doing through Rotary's *\$200 Million Challenge*. Through 30 June 2010, the Challenge has reported \$135,000 toward this goal.

## 12. RESTATEMENT

As previously disclosed in Rotary International's combined financial statements for the year ended 30 June 2009, in May 2008 the FASB issued ASC 958-810-15-3 (formerly Statement of Position (SOP) 94-3-1), *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*, effective for fiscal years beginning after 15 June 2008. Among other things, ASC 958-810-15-3 amended SOP 94-3 and clarified the definition of control though a majority voting interest to explicitly include a sole corporate membership.

As a result of the change in GAAP resulting from ASC 958-810-15-3, and considering that Rotary International is the sole corporate member of the Foundation, beginning in fiscal year 2010, Rotary International has prepared its financial statements on a consolidated basis to include the activities, net assets and cash flows of the Foundation and the 2009 amounts included therein have been restated.

The effect of the restatement on net assets as of 30 June 2009, and change in net assets for the period then ended was an increase of \$561,900 and a decrease of \$129,822, respectively.

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# ROTARY INTERNATIONAL

## CONSOLIDATING SCHEDULE — STATEMENT OF FINANCIAL POSITION INFORMATION FOR THE YEAR ENDED 30 JUNE 2010 (In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Elimination Entries	Association Subtotal	The Foundation	Elimination Entries	Consolidated Total
<b>ASSETS</b>								
CASH AND CASH EQUIVALENTS	\$ 7,455	\$ 276	\$ 98	\$ -	\$ 7,829	\$ 45,863	\$ -	\$ 53,692
CLUB AND OTHER RECEIVABLES — Net	3,207		174		3,381			3,381
PLEDGES RECEIVABLE — Net						1,282		1,282
DEFERRED CHARGES, PREPAID EXPENSES, AND OTHER ASSETS	2,835	95	24	(171)	2,783	3,646		6,429
DUE FROM AFFILIATES	3,783			(481)	3,302		(3,302)	
INVESTMENTS:								
Invested cash and short-term investments	9,677	1,467			11,144	16,329		27,473
Bonds	40,528	2,742			43,270	268,582		311,852
Stocks	51,369	488			51,857	283,162		335,019
Alternative investments						78,898		78,898
Investment in subsidiaries	1,508			(1,508)				
Total investments	<u>103,082</u>	<u>4,697</u>	<u>-</u>	<u>(1,508)</u>	<u>106,271</u>	<u>646,971</u>	<u>-</u>	<u>753,242</u>
PROPERTY AND EQUIPMENT — Net	35,544		227		35,771			35,771
DONOR ADVISED FUNDS						9,098		9,098
SPLIT-INTEREST AGREEMENTS						24,429		24,429
<b>TOTAL</b>	<u>\$155,906</u>	<u>\$5,068</u>	<u>\$523</u>	<u>\$(2,160)</u>	<u>\$159,337</u>	<u>\$731,289</u>	<u>\$(3,302)</u>	<u>\$887,324</u>
<b>LIABILITIES AND NET ASSETS</b>								
LIABILITIES:								
Accounts payable, accrued expenses, and split-interest agreements payable	\$ 23,043	\$3,258	\$173	\$ -	\$ 26,474	\$ 19,038	\$ -	\$ 45,512
Accrued program awards						51,479		51,479
Deferred revenue	1,858	171		(171)	1,858			1,858
Pension obligation	12,962				12,962			12,962
Due to affiliates		309	172	(481)		3,302	(3,302)	
Total liabilities	<u>37,863</u>	<u>3,738</u>	<u>345</u>	<u>(652)</u>	<u>41,294</u>	<u>73,819</u>	<u>(3,302)</u>	<u>111,811</u>
NET ASSETS:								
Unrestricted:								
Undesignated	103,354	1,330	178	(1,508)	103,354	338,248		441,602
Board designated	14,689				14,689	31,693		46,382
Total unrestricted net assets	<u>118,043</u>	<u>1,330</u>	<u>178</u>	<u>(1,508)</u>	<u>118,043</u>	<u>369,941</u>	<u>-</u>	<u>487,984</u>
Temporarily restricted						108,498		108,498
Permanently restricted						179,031		179,031
Total net assets	<u>118,043</u>	<u>1,330</u>	<u>178</u>	<u>(1,508)</u>	<u>118,043</u>	<u>657,470</u>	<u>-</u>	<u>775,513</u>
<b>TOTAL</b>	<u>\$155,906</u>	<u>\$5,068</u>	<u>\$523</u>	<u>\$(2,160)</u>	<u>\$159,337</u>	<u>\$731,289</u>	<u>\$(3,302)</u>	<u>\$887,324</u>

# ROTARY INTERNATIONAL

## CONSOLIDATING SCHEDULE — STATEMENT OF ACTIVITIES INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

(In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Elimination Entries	Association Subtotal	The Foundation	Elimination Entries	Consolidated Total
REVENUES:								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 268,412	\$ (667)	\$ 267,745
Dues	58,956				58,956			58,956
Net investment return	10,362	329	(1)		10,690	54,349		65,039
Services and other activities	<u>26,030</u>	<u>704</u>	<u>1,747</u>	<u>(2,566)</u>	<u>25,915</u>			<u>25,915</u>
Total revenues	95,348	1,033	1,746	(2,566)	95,561	322,761	(667)	417,655
EXPENSES:								
Program awards and expenses								
Educational programs						29,337		29,337
Humanitarian programs						51,706		51,706
PolioPlus programs						120,227		120,227
Other programs	<u>62,567</u>	<u>543</u>	<u>805</u>	<u>(812)</u>	<u>63,103</u>	<u>3,629</u>	<u>(667)</u>	<u>66,065</u>
Total program awards and expenses	62,567	543	805	(812)	63,103	204,899	(667)	267,335
Development expenses						16,461		16,461
General administration	<u>20,278</u>		<u>805</u>	<u>(1,754)</u>	<u>19,329</u>	<u>5,227</u>		<u>24,556</u>
Total expenses	<u>82,845</u>	<u>543</u>	<u>1,610</u>	<u>(2,566)</u>	<u>82,432</u>	<u>226,587</u>	<u>(667)</u>	<u>308,352</u>
CHANGE IN NET ASSETS:								
Before pension-related changes	12,503	490	136		13,129	96,174		109,303
Pension-related changes	(1,718)				(1,718)	(604)		(2,322)
Equity investment in subsidiary	<u>626</u>			<u>(626)</u>				
CHANGE IN NET ASSETS	11,411	490	136	(626)	11,411	95,570	-	106,981
NET ASSETS — Beginning of year								
as restated (see Note 12)	<u>106,632</u>	<u>840</u>	<u>42</u>	<u>(882)</u>	<u>106,632</u>	<u>561,900</u>		<u>668,532</u>
NET ASSETS — End of year	<u>\$ 118,043</u>	<u>\$ 1,330</u>	<u>\$ 178</u>	<u>\$ (1,508)</u>	<u>\$ 118,043</u>	<u>\$ 657,470</u>	<u>\$ -</u>	<u>\$ 775,513</u>

# ROTARY INTERNATIONAL

## SUPPLEMENTAL SCHEDULE — ASSOCIATION EXPENSES INFORMATION FOR THE YEAR ENDED 30 JUNE 2010 (In thousands of U.S. dollars)

	Program Awards and Expenses	Supporting Services		Association Total
		Development Expenses	General Administration	
Administrative	\$ 652	\$ -	\$ 1,014	\$ 1,666
Board of directors activities	627		627	1,254
Board support services	468		468	936
Committees	772			772
Communications and public relations	7,666		368	8,034
District conference representatives	768			768
District governors	9,559			9,559
Finance and investment services	1,805		2,123	3,928
Human resources			1,728	1,728
Information services	4,468		4,467	8,935
International assembly	3,687			3,687
International offices	4,246		1,514	5,760
Membership services	3,331		613	3,944
Office support services	251		2,239	2,490
President's offices	717		785	1,502
Programs and meetings	3,122			3,122
<b>Total operating expenses</b>	<b>42,139</b>	<b>-</b>	<b>15,946</b>	<b>58,085</b>
Services and other activities	20,964		3,383	24,347
<b>Total Association activities</b>	<b>\$ 63,103</b>	<b>\$ -</b>	<b>\$ 19,329</b>	<b>\$ 82,432</b>

# ROTARY INTERNATIONAL

## SUPPLEMENTAL SCHEDULE — ASSOCIATION SERVICES AND OTHER ACTIVITIES INFORMATION FOR THE YEAR ENDED 30 JUNE 2010 (In thousands of U.S. dollars)

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Council on Legislation revenue	\$ 3,658
Council on Legislation expense	<u>3,658</u>
Excess revenue	<u>\$ -</u>
International convention revenue	\$ 6,094
International convention expense	<u>5,567</u>
Excess revenue	<u>\$ 527</u>
Magazine revenue	\$ 6,920
Magazine expense (direct cost only)	<u>5,174</u>
Excess revenue	<u>\$ 1,746</u>
One Rotary Center revenue	\$ 5,313
One Rotary Center expense — net	<u>6,796</u>
Excess expense	<u>\$ (1,483)</u>
Publications and supplies revenue	\$ 794
Cost of publications and supplies expense	<u>1,115</u>
Excess expense	<u>\$ (321)</u>
U.S. Club insurance assessment	\$ 989
U.S. Club insurance expense	<u>1,025</u>
Excess expense (excluding investment income)	<u>\$ (36)</u>
License fees and royalties revenue	\$ 1,557
Miscellaneous income	590
Miscellaneous expense	345
Contribution to The Rotary Foundation	<u>667</u>
Excess revenue	<u>\$ 1,135</u>
Services and other activities revenue	\$ 25,915
Services and other activities expense	<u>24,347</u>
Excess revenue	<u>\$ 1,568</u>