CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ROTARY INTERNATIONAL
30 JUNE 2012 AND 2011

C O N T E N T S

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
CONSOLIDATED FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF FUNCTIONAL EXPENSES	7
STATEMENTS OF CASH FLOWS	9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10
SUPPLEMENTARY INFORMATION	
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION	33
CONSOLIDATING STATEMENTS OF ACTIVITIES	35
ASSOCIATION ACTIVITIES	37

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Rotary International

We have audited the accompanying consolidated statements of financial position of Rotary International as of 30 June 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Rotary International'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 as established by the American Institute of Certified Public Accountants. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rotary International as of 30 June 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Chicago, Illinois
2 November 2012

Rotary International
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
30 June 2012 and 2011
(In thousands of U.S. dollars)

ASSETS	2012	2011
ASSETS		
Cash and cash equivalents	$ 54,891	$ 64,944
Club and other accounts receivable, net	3,446	3,412
Pledges receivable, net	5,365	2,541
Deferred charges, prepaid expenses and other assets	7,101	7,699
Investments	846,541	891,008
Split-interest agreements	28,508	28,781
Property and equipment, net	36,094	35,591
TOTAL ASSETS	$ 981,946	$ 1,033,976
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued expenses and split-interest agreements payable	$ 45,364	$ 43,613
Accrued program awards	57,187	37,261
Deferred revenue	3,664	2,646
Pension obligation	16,970	6,510
Total liabilities	123,185	90,030
NET ASSETS		
Unrestricted	610,229	645,409
Temporarily restricted	34,404	101,818
Permanently restricted	214,128	196,719
Total net assets	858,761	943,946
TOTAL LIABILITIES AND NET ASSETS	$ 981,946	$ 1,033,976

The accompanying notes are an integral part of these statements.

Rotary International
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended 30 June 2012
(In thousands of U.S. dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	$ 112,418	$ 50,181	$ 18,084	$ 180,683
Dues	61,387	-	-	61,387
Investment return, net	(17,846)	(3,507)	-	(21,353)
Services and other activities	27,560	-	-	27,560
Grants and other activities, net	1,002	-	(675)	327
Net assets released from restrictions	114,088	(114,088)	-	-
Total revenues	298,609	(67,414)	17,409	248,604
Expenses				
Program awards and expenses	277,986	-	-	277,986
Development expenses	18,254	-	-	18,254
General administration	27,089	-	-	27,089
Total expenses	323,329	-	-	323,329
Change in net assets before pension-related changes other than net periodic benefit cost	(24,720)	(67,414)	17,409	(74,725)
Pension-related changes other than net periodic benefit cost	(10,460)	-	-	(10,460)
Change in net assets	(35,180)	(67,414)	17,409	(85,185)
Net assets				
Beginning of year	645,409	101,818	196,719	943,946
End of year	$ 610,229	$ 34,404	$ 214,128	$ 858,761

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended 30 June 2011
(In thousands of U.S. dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	$ 108,882	$ 82,942	$ 16,289	$ 208,113
Dues	60,252	-	-	60,252
Investment return, net	106,458	32,104	-	138,562
Services and other activities	23,851	-	-	23,851
Grants and other activities, net	313	-	2,408	2,721
Net assets released from restrictions	83,931	(83,931)	-	-
Total revenues	383,687	31,115	18,697	433,499
Expenses				
Program awards and expenses	227,836	-	-	227,836
Development expenses	17,499	-	-	17,499
General administration	26,183	-	-	26,183
Total expenses	271,518	-	-	271,518
Change in net assets before pension-related changes other than net periodic benefit cost	112,169	31,115	18,697	161,981
Pension-related changes other than net periodic benefit cost	6,452	-	-	6,452
Change in net assets	118,621	31,115	18,697	168,433
Net assets				
Beginning of year, as previously reported	487,984	108,498	179,031	775,513
Restatement (see note L)	38,804	(37,795)	(1,009)	-
Beginning of year, as restated	526,788	70,703	178,022	775,513
End of year	$ 645,409	$ 101,818	$ 196,719	$ 943,946

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended 30 June 2012
(In thousands of U.S. dollars)

	Program awards and expenses							Supporting services		
	Educational programs	Humanitarian programs	PolioPlus programs	Global grants	District grants	Other programs	Total program awards and expenses	Development expenses	General administration	Total expenses
Expenses by natural classification										
Program awards	$ 16,904	$ 48,415	$ 102,774	$ 10,580	$ 5,094	$ 1,924	$ 185,691	$ -	$ -	$ 185,691
Salaries, benefits and payroll taxes	3,679	5,102	1,131	2,882	-	22,080	34,874	11,305	10,400	56,579
External services	297	461	368	416	-	3,596	5,138	924	4,008	10,070
Volunteer reimbursement	-	-	-	-	-	9,744	9,744	-	167	9,911
Travel	347	107	326	46	-	9,185	10,011	632	3,629	14,272
Conferences, conventions and meetings	151	12	12	5	-	10,791	10,971	276	271	11,518
Media and public relations	3	11	201	2	-	4,797	5,014	469	43	5,526
Information technology and communications	227	340	81	220	-	1,482	2,350	638	1,607	4,595
Publications and printing	57	18	14	19	-	2,257	2,365	367	182	2,914
Postage, shipping and freight	103	136	16	20	-	2,774	3,049	999	245	4,293
Recognition	-	-	-	-	-	-	-	1,002	3	1,005
Cost of sales	-	-	-	-	-	1,234	1,234	-	80	1,314
Occupancy	290	430	46	130	-	3,967	4,863	807	4,889	10,559
Insurance, finance fees and taxes	41	61	11	32	-	1,725	1,870	613	1,082	3,565
General office and miscellaneous	70	94	21	44	-	583	812	222	483	1,517
Total expenses by natural classification	$ 22,169	$ 55,187	$ 105,001	$ 14,396	$ 5,094	$ 76,139	$ 277,986	$ 18,254	$ 27,089	$ 323,329
Expenses by activity										
Association activities	$ -	$ -	$ -	$ -	$ -	$ 73,947	$ 73,947	$ -	$ 21,946	$ 95,893
Foundation activities	22,169	55,187	105,001	14,396	5,094	2,192	204,039	18,254	5,143	227,436
	$ 22,169	$ 55,187	$ 105,001	$ 14,396	$ 5,094	$ 76,139	$ 277,986	$ 18,254	$ 27,089	$ 323,329

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended 30 June 2011
(In thousands of U.S. dollars)

	Program awards and expenses							Supporting services		
	Educational programs	Humanitarian programs	PolioPlus programs	Global grants	District grants	Other programs	Total program awards and expenses	Development expenses	General administration	Total expenses
Expenses by natural classification										
Program awards	$ 16,592	$ 40,547	$ 75,620	$ 9,310	$ 6,064	$ 2,114	$ 150,247	$ -	$ -	$ 150,247
Salaries, benefits and payroll taxes	3,766	5,266	1,130	2,631	231	20,073	33,097	10,861	10,973	54,931
External services	249	355	341	229	-	1,610	2,784	695	2,830	6,309
Volunteer reimbursement	-	-	-	-	-	9,274	9,274	-	114	9,388
Travel	351	238	420	166	-	6,785	7,960	879	3,217	12,056
Conferences, conventions and meetings	29	34	14	21	-	4,963	5,061	589	134	5,784
Media and public relations	112	160	198	112	-	2,401	2,983	410	129	3,522
Information technology and communications	174	247	61	166	-	1,455	2,103	474	1,539	4,116
Publications and printing	71	25	14	22	-	576	708	327	203	1,238
Postage, shipping and freight	122	146	19	30	-	2,663	2,980	904	252	4,136
Recognition	-	-	-	-	-	-	-	1,062	9	1,071
Cost of sales	-	-	-	-	-	2,952	2,952	-	69	3,021
Occupancy	215	302	21	60	-	4,183	4,781	565	5,204	10,550
Insurance, finance fees and taxes	18	26	4	10	-	1,644	1,702	480	712	2,894
General office and miscellaneous	95	126	28	69	-	886	1,204	253	798	2,255
Total expenses by natural classification	$ 21,794	$ 47,472	$ 77,870	$ 12,826	$ 6,295	$ 61,579	$ 227,836	$ 17,499	$ 26,183	$ 271,518
Expenses by activity										
Association activities	$ -	$ -	$ -	$ -	$ -	$ 59,195	$ 59,195	$ -	$ 20,489	$ 79,684
Foundation activities	21,794	47,472	77,870	12,826	6,295	2,384	168,641	17,499	5,694	191,834
	$ 21,794	$ 47,472	$ 77,870	$ 12,826	$ 6,295	$ 61,579	$ 227,836	$ 17,499	$ 26,183	$ 271,518

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended 30 June 2012 and 2011
(In thousands of U.S. dollars)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (85,185)	$ 168,433
Adjustments to reconcile change in net assets to net cash flows (used in) provided by operating activities		
Permanent Fund contributions	(17,356)	(15,427)
Contributed securities	(1,068)	(548)
Foreign currency translation losses (gains)	10,328	(6,705)
Realized gains on sale of investments, net	(50,255)	(16,336)
Unrealized losses (gains) on investments, net	74,091	(105,547)
Gains on disposal of property and equipment, net	(38)	-
Depreciation and amortization	5,905	5,365
Pension benefit (obligation)	10,460	(6,452)
Changes in operating assets and liabilities		
Pledges receivable, net	(124)	309
Deferred charges, prepaid expenses and other assets	972	(1,270)
Split-interest agreements	273	(4,352)
Club and other accounts receivable, net	(34)	(31)
Accrued program awards	19,926	(14,218)
Accounts payable, accrued expenses and split-interest agreements payable	1,377	(1,899)
Deferred revenue	1,018	788
Net cash (used in) provided by operating activities	(29,710)	2,110
Cash flows from investing activities		
Purchase of investments	(1,380,347)	(1,007,773)
Proceeds from sale of investments	1,399,257	1,018,555
Purchase of property and equipment	(6,648)	(5,185)
Proceeds from sale of property and equipment	278	-
Change in short-term investments	2,789	(17,019)
Net cash provided by (used in) investing activities	15,329	(11,422)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in Permanent Fund	14,656	13,859
Net cash provided by financing activities	14,656	13,859
Effect of exchange rate changes on cash	(10,328)	6,705
(Decrease) increase in cash and cash equivalents	(10,053)	11,252
Cash and cash equivalents, beginning of year	64,944	53,692
Cash and cash equivalents, end of year	$ 54,891	$ 64,944

The accompanying notes are an integral part of these statements.

NOTE A - 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. The activities of Rotary International, PPH and Infotech are referred to as the Association.

Rotary International is a corporation organized under the Illinois Not-for-Profit Corporation Act. Rotary International is an organization of business and professional leaders, known as Rotarians, 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, license fees and royalties.

The Foundation is a corporation organized under the Illinois Not-for-Profit Corporation Act, of which Rotary International is the sole corporate member. The Foundation supports the efforts of Rotary International to achieve world understanding and peace through polio eradication and 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 subsidiary of Rotary International incorporated under the laws of the state of Vermont. PPH provides general liability, directors and officers, and employment practices liability insurances to U.S. Rotary clubs and districts as well as vicarious liability insurance to Rotary International.

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

NOTE B - 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 (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 for charitable contributions under the laws in each country, except Brazil where the laws do not allow for individuals to have charitable deductions. 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 statements of activities, functional expenses and 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. Rotary maintains foreign and domestic cash accounts, including cash and cash equivalents of $27,695 and $31,734 as of 30 June 2012 and 2011, respectively, subject to certain repatriation restrictions imposed by local governments. Rotary had domestic balances exceeding the Federal Deposit Insurance Corporation's insured limitations at 30 June 2012 and 2011. Rotary believes it is not exposed to significant credit risk on cash and cash equivalents.

Club and Other Accounts Receivable

Accounts receivable are primarily collectible from member clubs for association membership dues. Membership dues are payable at the beginning of each six-month period. Accounts receivable are stated at amounts due, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. Rotary determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, its previous loss history, and the individual or group's current ability to pay the obligation. Rotary writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Pledges Receivable

The Foundation receives unconditional multi-year pledges ranging from one to 10 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 a risk adjusted rate. As of 30 June 2012 and 2011 the present value discount is $119 and $110, respectively, and the allowance for uncollectible pledges is $194 and $113, respectively.

Investments

Investments are carried at fair value, primarily based on quoted market prices, except for certain equity and alternative investments totaling $133,246 and $106,603 at 30 June 2012 and 2011, respectively. 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. The estimates are 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. Rotary maintains foreign and domestic investment accounts, including investments of $2,702 as of 30 June 2012, subject to certain repatriation restrictions imposed by local governments. There were no investment accounts subject to repatriation restrictions imposed by local governments as of 30 June 2011.

Investments include assets of the Donor Advised Fund (DAF), which 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 (IRS)-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.

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.

Level 1 - Inputs are quoted prices in active markets for identical 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.

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 from principally observable market data by correlation or other means (market-corroborated inputs). Included in Level 2 are investments measured using a net asset value (NAV) per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 90 days.

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. Included in Level 3 are investments measured using NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

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. The Foundation's policy is to perform a valuation of the split-interest agreement liabilities annually. The valuation adjustment for these liabilities as of 30 June 2012 and 2011 resulted in an expense of $206 and $1,128, respectively.

Endowments

The Foundation's endowment (known as the Permanent Fund) comprises donor-restricted and trustee-designated endowment funds. The primary objective of the Permanent Fund is to support the programs of the Foundation in perpetuity. Endowment funds are recorded in accordance with the Illinois-approved Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation interprets UPMIFA as requiring that the historic value of the original donor-restricted endowment gift be preserved as of the gift date unless there are explicit donor stipulations to the contrary. The portion of the endowment that must be maintained permanently, not expended or otherwise exhausted, is classified as permanently restricted net assets. A portion of the fund's earnings are classified as temporarily restricted net assets until they have been appropriated for expenditure by the Foundation and have met any purpose restrictions. The amount of the fund that is trustee-designated is classified as unrestricted net assets. 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 Foundation's program awards and expenses approved by the Foundation's Trustees.

The Foundation's Trustees have responsibility for formulating the Permanent Fund's 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 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.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the following 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 (3 to 10 years). Significant renewals and replacements are capitalized, subject to a capitalization threshold minimum of $5. 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. There were no outstanding foreign exchange option and forward contracts as of 30 June 2012 and 2011.

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 not subject to donor-imposed stipulations, including all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets. These include contributions from Rotary districts and clubs, Rotarians and others.

Unrestricted net assets that are Board-designated represent amounts that have been designated for specific programs or uses. These include reserves which support Rotary's operating expenses in the event that current-year investment earnings are inadequate, and program reserves made up of accumulated investment earnings on unrestricted and temporarily donations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met by fulfillment of the stipulated purpose and/or the passage of time. These include contributions that are restricted for polio eradication, disaster recovery and term gifts. Foundation policy stipulates that a portion of the endowment fund's net investment return be used to support the programs of the Foundation, including reasonable administrative costs in accordance with the conditions agreed on or at the time of gift acceptance and in accordance with the spending policy approved by the Foundation Trustees. Non-current pledges and the unspent portion of the endowment fund's net investment return are classified as temporarily restricted.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be invested to provide a permanent source of income. Such stipulations can neither be removed by fulfillment of a stipulated purpose nor expire with the passage of time. These include contributions that are restricted for endowment funds and split-interest agreements.

Revenue Recognition

Contributions and unconditional pledges are recognized as revenue in the period received and recorded at estimated fair value. Dues are recognized as revenue in the membership year to which they relate. Prepaid dues, as well as the Council on Legislation (Council) per capita levy in non-Council years, are reported as deferred revenue. Revenues from services and other activities are recognized when the services are rendered.

Tax Status

Rotary International is an organization described in Section 501(c)(4) of the Internal Revenue Code (IRC) of 1986, as amended and, as such, is exempt from federal income tax on income earned related to exempt activities under IRC Section 501(a). The Foundation is an organization described in Section 501(c)(3) of the IRC of 1986, as amended and, as such, is exempt from federal income tax on income earned related to exempt activities under IRC Section 501(a). In addition, the IRS has determined that both Rotary International and the Foundation are not private foundations within the meaning of Section 509(a) of the IRC.

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 treated as a foreign partnership and all operations are included in Rotary's U.S. tax filings.

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 2012 and 2011.

The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. While Rotary International is exempt from income tax under IRC Section 501(c)(4) and the Foundation is exempt from income tax under IRC Section 501(c)(3), they are subject to tax on income unrelated to their exempt purposes, unless that income is otherwise excluded by the IRC. Rotary applied the uncertain tax position guidance, as required by U.S. GAAP, to all tax positions for which the statute of limitations would remain open and determined there were no material unrecognized tax liabilities or benefits. The tax years ended 2009, 2010 and 2011 are still open to audit for both federal and Illinois purposes.

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 into 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.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, "*Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*." ASU 2011-04 revised the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 also expands the required disclosures for fair value measurement that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. ASU 2011-04 will be effective for the year ending 30 June 2013, with early adoption permitted. Rotary has not yet adopted this guidance. Rotary believed that the adoption of this standard will not materially expand its consolidated financial statement footnote disclosures.

In January 2010, the FASB issued ASU 2010-06, "*Improving Disclosures about Fair Value Measurements*," which, among other things, amends Accounting Standards Codification 820. ASU 2010-06 clarifies existing disclosures and requires new disclosures about fair value measurements. Rotary adopted these new provisions as of 30 June 2011, and has included the required disclosures in the footnotes in the accompanying consolidated financial statements.

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The fair values of Rotary's consolidated financial assets that are measured on a recurring basis are as follows as of 30 June 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments at fair value				
Invested cash and short-term investments (a)	$ 55,300	$ -	$ -	$ 55,300
Equity (b)	79,967	-	-	79,967
Fixed income (c)	111,429	-	-	111,429
Exchange traded funds (d)	9,105	-	-	9,105
Mutual funds (e)	329,937	-	-	329,937
Commingled funds (f)	-	42,190	-	42,190
Limited liability companies (g)	-	62,393	-	62,393
Private equity funds (h)	196	-	19,957	20,153
Real estate funds (i)	-	-	55,100	55,100
Hedge funds (j)	-	-	58,189	58,189
Total investments at fair value	$ 585,934	$ 104,583	$ 133,246	823,763
Investments not at fair value				22,778
Total investments				$ 846,541
Split-interest agreements				
Exchange traded funds	$ 28,234	$ -	$ -	$ 28,234
Total split-interest agreements at fair value	$ 28,234	$ -	$ -	28,234
Split-interest agreements not at fair value				274
Total split-interest agreements				$ 28,508

The fair values of Rotary's consolidated financial assets that are measured on a recurring basis are as follows as of 30 June 2011:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investments at fair value				
Invested cash and short-term investments (a)	$ 20,252	$ -	$ -	$ 20,252
Equity (b)	69,597	-	58	69,655
Fixed income (c)	128,356	3,593	-	131,949
Exchange traded funds (d)	8,991	-	-	8,991
Mutual funds (e)	265,395	-	-	265,395
Commingled funds (f)	-	91,579	-	91,579
Limited liability companies (g)	-	168,832	-	168,832
Private equity funds (h)	53	-	17,353	17,406
Real estate funds (i)	-	-	49,033	49,033
Hedge funds (j)	-	-	40,159	40,159
Total investments at fair value	$ 492,644	$ 264,004	$ 106,603	863,251
Investments not at fair value				27,757
Total investments				$ 891,008
Split-interest agreements				
Exchange traded funds	$ 28,507	$ -	$ -	$ 28,507
Total split-interest agreements at fair value	$ 28,507	$ -	$ -	28,507
Split-interest agreements not at fair value				274
Total split-interest agreements				$ 28,781

Investments categorized as Level 1 include: money market, U.S. government fixed income instruments, U.S. and non U.S. equity securities, mutual funds, and exchange traded funds.

Investments categorized as Level 2 include: certain fixed income instruments, primarily corporate bonds, international bonds, asset-backed securities, non-exchange traded funds, limited liability companies, commingled funds and U.S. agency bonds, valued primarily using matrix and/or market corroborated pricing.

Investments categorized as Level 3 include: certain equity, hedge funds, private equity funds and real estate funds.

(a) Invested cash and short-term investments are invested in money market funds whose portfolio is composed of highly rated short-term issuance managed with the primary goal of preserving principal while providing reasonable yield. It is possible for the value of these funds to dip below $1.

(b) Equity securities are stated at fair value determined primarily by closing prices quoted on recognized U.S. and international security exchanges.

(c) Fixed income securities are stated at fair value determined primarily from quoted prices in the market in which they are principally traded. Certain securities evaluated as Level 2 are stated at fair value determined primarily by matrix pricing.

(d) Exchange traded funds are baskets of securities designed to replicate various indices and whose value is determined through daily market action in the shares of the exchange traded fund. Fair market value is determined by obtaining prices from quoted market sources.

(e) Mutual funds are pools of assets commingled together to benefit from professional management and through economies of scale. Investors own shares of the fund and are provided a NAV per share, as previously defined, on a regular basis. Mutual funds are registered with the U.S. Securities and Exchange Commission.

(f) Commingled funds are pools of assets commingled together to benefit from professional management and through economies of scale. Investors own shares of the fund and are provided a NAV on a regular basis. Commingled funds are regulated by the U.S. Office of the Comptroller of the Currency or by the state banking authority.

(g) The limited liability companies are investing vehicles whose interest is in a membership of the limited liability company. The membership has the same benefits of professional management and economies of scale that mutual and commingled funds do, and are provided with regular NAV reporting.

(h) Private equity funds include several 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 an acquisition by another company or an initial public offering. The time horizon of a typical private equity fund is approximately 10 to 15 years. The fair values of the investments in this category have been estimated based on the Rotary's ownership interest in partners' capital, which is deemed to be a NAV equivalent.

(i) Real estate funds include open-ended and closed-ended real estate funds that invest in U.S. real estate. The holdings in the real estate funds 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 NAV per share of the investments, based on an annual valuation by an independent third-party appraiser. Redemption requests in the open-ended fund are subject to approval by the fund's Board of Trustees on a quarterly basis. Redemptions of the closed-ended fund have been suspended until the fund's outstanding credit facility is repaid; per the fund manager, this is anticipated in the first calendar quarter of 2013.

(j) Hedge funds include various hedge 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 NAV per share of the investments. A full redemption has been requested from one of the fund managers, and proceeds have been distributed as the underlying managers have been able to provide liquidity. Another fund is in bankruptcy, with all assets in cash pending distribution to creditors and investors. In fiscal year 2006, Rotary recorded a valuation reserve of $16 million on a cost basis of $26 million and has not received any distributions from this fund as of 30 June 2012.

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

	Equity	Private equity funds	Real estate funds	Hedge funds	Total
Balance as of 30 June 2010	$ -	$ 13,479	$ 39,261	$ 25,353	$ 78,093
Realized gains	-	500	-	67	567
Unrealized (losses) gains	(987)	1,706	9,563	2,017	12,299
Purchases	-	4,945	4,670	21,418	31,033
Sales	-	(3,277)	(4,461)	(8,696)	(16,434)
Transfers in	1,045	-	-	-	1,045
Balance as of 30 June 2011	58	17,353	49,033	40,159	106,603
Realized (losses) gains	(864)	1,280	50,133	115	50,664
Unrealized gains (losses)	987	(72)	3,489	(650)	3,754
Purchases	-	12,648	17,973	19,636	50,257
Sales	(181)	(11,252)	(65,528)	(1,071)	(78,032)
Balance as of 30 June 2012	$ -	$ 19,957	$ 55,100	$ 58,189	$ 133,246

Rotary investments reported at NAV or its equivalent as of 30 June 2012 include: exchange traded funds, mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Exchange traded funds	$ 9,105	$ -	Daily	Daily
Mutual funds	329,937	-	Daily/monthly	Daily/<20th day of month
Commingled funds	42,190	-	Monthly	22nd day of preceding month
Limited liability companies	62,393	-	Daily	-
Private equity funds	19,957	21,676	-	-
Real estate funds	55,100	-	Quarterly	60-90 days
Hedge funds	58,189	-	Monthly/quarterly	30-65 days/not <5 days days before end of month
Total	$ 576,871	$ 21,676		

Rotary investments reported at NAV or its equivalent as of 30 June 2011 include: exchange traded funds, mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Exchange traded funds	$ 8,991	$ -	Daily	-
Mutual funds	265,395	-	Daily	-
Commingled funds	91,579	-	Daily/monthly	22nd day of preceding month
Limited liability companies	168,832	-	Daily/monthly	2 business days before end of month
Private equity funds	17,406	20,924	-	-
Real estate funds	49,033	-	Quarterly	60-90 days
Hedge funds	40,159	-	Monthly/quarterly	30-65 days/not <5 days days before end of month
Total	$ 641,395	$ 20,924		

At 30 June 2012 and 2011, Rotary has investments in bonds in the amount of $36,326 and $30,749, respectively, denominated in currencies other than the U.S. dollar. Accrued interest and dividends are included in total investments.

The components of investment return, net for the years ended 30 June 2012 and 2011 are as follows:

	2012	2011
Interest and dividends	$ 16,751	$ 12,783
Realized gains, net	50,255	16,336
Unrealized (losses) gains, net	(74,091)	105,547
Investment and banking fees	(4,013)	(2,672)
Currency (losses) gains, net	(10,255)	6,568
Total	$ (21,353)	$ 138,562

NOTE D - PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net as of 30 June 2012 and 2011, are as follows:

	2012	2011
Property and equipment		
Land	$ 2,960	$ 2,960
Building	67,303	65,689
Furniture and equipment	28,560	25,104
Property and equipment	98,823	93,753
Less accumulated depreciation	(62,729)	(58,162)
Total	$ 36,094	$ 35,591

Depreciation expense for the years ended 30 June 2012 and 2011, was $5,905 and $5,365, respectively.

NOTE E - ENDOWMENTS

Based on the spending policy approved by the Trustees, annual spending occurs each year from those endowed gifts where the market values exceed their accumulated gift values. In accordance with UPMIFA, the Foundation considers the following factors in making a determination for the spending rate for endowment funds: the duration and preservation of the fund, the mission of the Foundation and the purposes of the donor-restricted endowment funds, the investment policy, general economic conditions, possible effects of inflation and deflation, and the expected total return from income and appreciation of investments. The Trustees approved a spending rate of 4.5% for fiscal years 2012 and 2011.

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 year ended 30 June 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 3,685	$ 41,096	$ 183,947	$ 228,728
Investment return				
Interest, dividends and investment fees, net	111	3,062	-	3,173
Realized and unrealized losses, net	(582)	(6,570)	-	(7,152)
Total investment return	(471)	(3,508)	-	(3,979)
Contributions	-	-	17,356	17,356
Transfer of funds	809	-	-	809
Conversion of split-interest agreements to endowment	-	-	154	154
Appropriation of endowment assets for expenditure	-	(7,195)	-	(7,195)
Endowment net assets, end of year	$ 4,023	$ 30,393	$ 201,457	$ 235,873

Changes in endowment net assets for the year ended 30 June 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, as previously reported	$ -	$ 8,181	$ 169,269	$ 177,450
Restatement (see note L)	(5,547)	6,556	(1,009)	-
Endowment net assets, beginning of year, as restated	(5,547)	14,737	168,260	177,450
Investment return				
Interest, dividends and investment fees, net	36	1,788	-	1,824
Realized and unrealized gains, net	8,600	30,316	-	38,916
Total investment return	8,636	32,104	-	40,740
Contributions	-	-	15,426	15,426
Transfer of funds	596	-	-	596
Conversion of split-interest agreements to endowment	-	-	261	261
Appropriation of endowment assets for expenditure	-	(5,745)	-	(5,745)
Endowment net assets, end of year	$ 3,685	$ 41,096	$ 183,947	$ 228,728

Endowment composition by net asset class as of 30 June 2012 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,101)	$ 30,393	$ 201,457	$ 230,749
Trustee-designated endowment funds	5,124	-	-	5,124
Endowment net assets, end of year	$ 4,023	$ 30,393	$ 201,457	$ 235,873

Endowment composition by net asset class as of 30 June 2011 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (768)	$ 41,096	$ 183,947	$ 224,275
Trustee-designated endowment funds	4,453	-	-	4,453
Endowment net assets, end of year	$ 3,685	$ 41,096	$ 183,947	$ 228,728

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 unrestricted net assets to temporarily restricted net assets when deficiencies result from unfavorable market fluctuations. The required transfer is the amount by which 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. These deficiencies totaled $1,101 and $768 as of 30 June 2012 and 2011, respectively.

NOTE F - BENEFIT PLANS

Pension Benefits

The Rotary International Retirement Plan (the Plan) is a defined benefit pension plan covering substantially all Rotary International U.S. 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 Plan's assets are invested in certain fixed-income, equity funds and limited liability companies.

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 the Plan.

Summary information for the Plan as of 30 June 2012 and 2011 is as follows:

	2012	2011
Plan assets at fair value	$ 49,008	$ 44,247
Projected benefit obligation	65,978	50,757
Funded status	$ (16,970)	$ (6,510)
Net actuarial loss	$ 16,970	$ 6,510
Amount recognized in unrestricted net assets	$ 16,970	$ 6,510

The weighted-average actuarial assumptions used to determine the benefit obligation as of 30 June 2012 and 2011 are as follows:

	2012	2011
Discount rate	4.58%	5.75%
Assumed rate of compensation increases	5.00	5.00

The amount recognized as pension-related changes other than net periodic benefit cost in the consolidated statement of activities for fiscal years 2012 and 2011 is as follows:

	2012	2011
Current year actuarial (loss) gain	$ (10,608)	$ 5,798
Amortization of actuarial loss	148	654
Total recognized as pension-related changes	$ (10,460)	$ 6,452

The amounts recognized by the Plan for fiscal years 2012 and 2011 are as follows:

	2012	2011
Benefits paid	$ 1,504	$ 1,418
Pension expense	1,908	2,898
Employer contribution	1,908	2,898

The net periodic benefit cost for fiscal years 2012 and 2011 is as follows:

	2012	2011
Service cost	$ 1,987	$ 2,087
Interest cost	3,011	2,753
Expected return on assets	(3,238)	(2,596)
Amortization of loss	148	654
Net periodic benefit cost	$ 1,908	$ 2,898

The weighted-average actuarial assumptions used to determine net periodic benefit cost for the years ended 30 June 2012 and 2011 are as follows:

	2012	2011
Discount rate	5.75%	5.42%
Expected long-term rate of return	7.30	7.30
Assumed rate of compensation increases	5.00	5.00

In developing the expected long-term rate of return on assets, the Plan's 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 the Plan. This included considering the trust's targeted asset allocation for the fiscal year and the expected returns likely to be earned over the next 30 years. Amounts are reviewed for reasonableness against the historical averages.

Plan Assets

The long-term objective for the Plan is to generate investment returns that, in combination with funding contributions from Rotary, provide adequate assets to meet all current and future benefit obligations of the Plan. More specifically, the Plan is seeking to generate investment returns that meet or exceed the actuarial expected rate of return, while maintaining volatility in the funded status of the Plan at acceptable levels. The Plan's trustees have developed a dynamic asset allocation policy that adjusts the allocation between its return seeking portfolio and its liability hedging portfolio as its funded status changes. The target allocations for Plan assets are 55% liability hedging portfolio and 45% return seeking portfolio. The actual allocations at 30 June 2012 for Plan assets are 56% in the liability hedging portfolio and 44% in the return seeking portfolio.

The following fair value hierarchy table presents information about the Plan's investments measured at fair value as of 30 June 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Invested cash and short-term investments (a)	$ 130	$ -	$ -	$ 130
Mutual funds (b)	24,093	-	-	24,093
Commingled funds (c)	-	11,147	-	11,147
Limited liability companies (d)	-	-	13,638	13,638
Total	$ 24,223	$ 11,147	$ 13,638	$ 49,008

The following fair value hierarchy table presents information about the Plan's investments measured at fair value as of 30 June 2011:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Invested cash and short-term investments (a)	$ 125	$ -	$ -	$ 125
Mutual funds (b)	17,058	-	-	17,058
Commingled funds (c)	-	27,064	-	27,064
Total	$ 17,183	$ 27,064	$ -	$ 44,247

Plan assets categorized as Level 1 include: money market and fixed term deposits with maturities of less than one year, U.S. government obligations, fixed-income instruments, U.S and non U.S. equity securities, mutual funds, and exchange traded funds.

Plan assets categorized as Level 2 are commingled funds. Commingled funds are valued based on NAV per share, derived from the quoted prices in active markets of the underlying equity securities.

Plan assets categorized as Level 3 are limited liability companies investing in bond funds. Bond fund values are derived from the quoted prices in active markets of the underlying fixed income securities.

(a) Invested cash and short-term investments are invested in money market funds whose portfolio is composed of highly rated short-term issuance managed with the primary goal of preserving principal while providing minimal yield.

(b) Mutual funds are pools of assets commingled together to benefit from professional management and through economies of scale. Investors own shares of the fund and are provided a NAV per share, as previously defined, on a regular basis. Mutual funds are registered with the U.S. Securities and Exchange Commission.

(c) Commingled funds are pools of assets commingled together to benefit from professional management and through economies of scale. Investors own shares of the fund and are provided a NAV on a regular basis. Commingled funds are regulated by the U.S. Office of the Comptroller of the Currency or by the state banking authority.

(d) The limited liability companies are investing vehicles whose interest is in a membership of the limited liability company. The membership has the same benefits of professional management and economies of scale that mutual and commingled funds do, and are provided with regular NAV reporting.

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

	Limited liability companies
Balance as of 30 June 2011	$ -
Realized gains	57
Unrealized gains	383
Purchases	13,202
Sales	(4)
Balance as of 30 June 2012	$ 13,638

Estimated Future Contributions and Benefit Payments

Rotary expects to contribute $3,203 to the Plan in fiscal year 2013.

The following benefit payments, which reflect future services, as appropriate, are expected to be paid in the following fiscal years:

2013	$ 1,820
2014	1,990
2015	2,172
2016	2,277
2017	2,364
2018 - 2022	14,288
Total	$ 24,911

401(k) Plan

The Rotary International 401(k) Plan (the 401(k) Plan) is a defined contribution plan. Employees voluntarily make contributions to the 401(k) Plan in amounts based on a percentage of their total compensation, up to a maximum of 50%, subject to limitations imposed by the IRS. Rotary International matches 100% of the first 1% and 50% of the next 5% contributed of the participant's annual compensation. For employees hired on or after 1 January 2008, Rotary International may also make further contributions to the 401(k) Plan via a points-based contribution. The match and points-based contribution expense to Rotary was $1,371 and $1,253 for the years ended 30 June 2012 and 2011, respectively.

NOTE G - LEASING ARRANGEMENTS

As lessee, Rotary International leases certain office facilities. The future minimum lease commitments under these non-cancelable operating leases as of 30 June 2012 are as follows:

Years ending 30 June	
2013	$ 1,309
2014	679
2015	659
2016	591
2017	387
Thereafter	250
Total future minimum lease commitments	$ 3,875

Rental expense was $1,830 and $1,693 for the years ended 30 June 2012 and 2011, respectively.

One Rotary Center is Rotary's world headquarters office building in Evanston, Illinois, USA, owned by Rotary International. At 30 June 2012, 46% of One Rotary Center space was available for lease to third parties. Of the available space for lease, 89% was leased to third parties with terms ranging from one to 15 years. Future minimum rental income to be received on these non-cancelable operating leases is as follows:

Years ending 30 June	
2013	$ 4,481
2014	4,358
2015	3,648
2016	2,677
2017	2,523
Thereafter	6,133
Total future minimum rental income	$ 23,820

NOTE H - NET ASSETS

The components of Rotary's net assets as of 30 June 2012 and 2011 are as follows:

	2012	2011
Unrestricted		
Undesignated	$ 486,224	$ 500,635
Board-designated	124,005	144,774
Total unrestricted net assets	610,229	645,409
Temporarily restricted		
PolioPlus	-	55,938
Permanent Fund earnings awaiting appropriation	30,393	41,096
Disaster recovery/termed gifts	4,011	4,784
Total temporarily restricted net assets	34,404	101,818
Permanently restricted		
Annual program fund	140,636	131,763
Educational programs	42,336	42,324
Humanitarian programs	4,980	5,706
Global grants	7,408	701
PolioPlus program	175	175
Split-interest agreements	12,671	12,771
Other	5,922	3,279
Total permanently restricted net assets	214,128	196,719
Total net assets	$ 858,761	$ 943,946

Net assets released from restrictions by incurring expenses which satisfied donor restrictions for the years ended 30 June 2012 and 2011 are as follows:

	2012	2011
PolioPlus	$ 100,901	$ 77,011
Permanent Fund earnings appropriated for use	5,661	4,580
Disaster recovery/terms gifts	7,359	2,101
Prior year pledges received	167	239
	$ 114,088	$ 83,931

NOTE I - SERVICES AND OTHER ACTIVITIES

The Association has services and other activities that generate income to offset the expenses incurred for certain activities (see supplementary schedule of Association activities).

These activities include: the international convention, which is held annually to inspire and inform Rotarians of Rotary programs and activities during the past year and highlight upcoming activities; *The Rotarian*, which is an English-language magazine subscribed to by Rotarians worldwide; rental income from One Rotary Center, Rotary's world headquarters office building in Evanston, Illinois, USA; and the U.S. club insurance program, which provides liability insurances to U.S. Rotary clubs and districts. Also included in the supplementary schedule are publications and supplies, license fees and miscellaneous, and contributions to the Foundation.

NOTE J - THE BILL & MELINDA GATES FOUNDATION GRANT

Beginning in fiscal year 2008, Rotary entered into a grant agreement with The Bill & Melinda Gates Foundation (BMGF) to support the global polio eradication initiative. The intent of the grant agreement is to strengthen Rotary's leadership in working with other organizations, such as the United Nations Children's Fund, the Centers for Disease Control and the World Health Organization, in pursuit of the eradication of polio throughout the world. In accordance with the grant agreement, the Foundation recognizes revenue when all contingencies to the grant are substantially met.

Through the five-year period ended 30 June 2012, Rotary received a total of $340,105 from BMGF recorded as temporarily restricted revenue, out of a total grant award of $355,120. The agreement has provisions whereby Rotary is responsible for separately raising $200,000 by 30 June 2012, which was accomplished by 31 December 2011.

In September 2011, Rotary and BMGF added an addendum to the agreement for an additional grant award from BMGF of $50,090 subject to revised contingencies. In accordance with the new grant agreement, Rotary recognizes revenue when all contingencies related to the grant are substantially met. The contingencies to the September 2011 grant award were met in October 2012; therefore, the additional $50,090 award will be recorded as revenue during fiscal year 2013.

NOTE K - SUBSEQUENT EVENTS

Management considered subsequent events through 2 November 2012, the date the financial statements were available to be issued. Rotary is not aware of any subsequent events, other than disclosed in note J, which would require recognition or disclosure in the consolidated financial statements.

NOTE L - RESTATEMENT

Subsequent to the issuance of Rotary's 2010 financial statements, management determined that certain classifications of net assets were inaccurate. A portion of previously reported temporarily restricted net assets totaling $44,351 and a portion of previously reported permanently restricted net assets totaling $3,051 should have been classified as unrestricted board-designated net assets as the use restrictions were board imposed and not donor driven. Another component of previously reported temporarily restricted net assets representing $8,598 of endowments that were underwater should have been classified as a reduction in unrestricted net assets, but were instead reported as a reduction in temporarily restricted net assets. Finally, a portion of previously reported temporarily restricted net assets totaling $2,042 should have been classified as permanently restricted net assets, as they related to donor contributions. As a result of these matters, the beginning unrestricted, temporarily restricted and permanently restricted net assets of Rotary at 1 July 2010 have been restated to properly reflect the classification.

The restated amounts as of 1 July 2010 are as follows:

	As previously reported	Restatement	As restated
Unrestricted net assets	$ 487,984	$ 38,804	$ 526,788
Temporarily restricted net assets	108,498	(37,795)	70,703
Permanently restricted net assets	179,031	(1,009)	178,022
Total	$ 775,513	$ -	$ 775,513

SUPPLEMENTARY INFORMATION

Rotary International
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
30 June 2012
(In thousands of U.S. dollars)

ASSETS	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
ASSETS								
Cash and cash equivalents	$ 5,935	$ 512	$ 97	$ -	$ 6,544	$ 48,347	$ -	$ 54,891
Club and other accounts receivable, net	3,156	-	290	-	3,446	-	-	3,446
Pledges receivable, net	-	-	-	-	-	5,365	-	5,365
Deferred charges, prepaid expenses and other assets	3,665	23	49	-	3,737	3,778	(414)	7,101
Due from affiliates	2,983	-	198	(208)	2,973	-	(2,973)	-
Investments	115,952	4,417	-	(1,536)	118,833	727,708	-	846,541
Split-interest agreements	-	-	-	-	-	28,508	-	28,508
Property and equipment, net	35,967	-	127	-	36,094	-	-	36,094
Total assets	$ 167,658	$ 4,952	$ 761	$ (1,744)	$ 171,627	$ 813,706	$ (3,387)	$ 981,946
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable, accrued expenses and split-interest agreements payable	$ 21,937	$ 3,457	$ 310	$ 400	$ 26,104	$ 19,674	$ (414)	$ 45,364
Accrued program awards	-	-	-	-	-	57,187	-	57,187
Deferred revenue	3,664	-	-	-	3,664	-	-	3,664
Pension obligation	16,970	-	-	-	16,970	-	-	16,970
Due to affiliates	198	410	-	(608)	-	2,973	(2,973)	-
Total liabilities	42,769	3,867	310	(208)	46,738	79,834	(3,387)	123,185
NET ASSETS								
Unrestricted								
Undesignated	102,193	1,085	451	(1,536)	102,193	384,031	-	486,224
Board designated	22,696	-	-	-	22,696	101,309	-	124,005
Total unrestricted net assets	124,889	1,085	451	(1,536)	124,889	485,340	-	610,229
Temporarily restricted	-	-	-	-	-	34,404	-	34,404
Permanently restricted	-	-	-	-	-	214,128	-	214,128
Total net assets	124,889	1,085	451	(1,536)	124,889	733,872	-	858,761
TOTAL LIABILITIES AND NET ASSETS	$ 167,658	$ 4,952	$ 761	$ (1,744)	$ 171,627	$ 813,706	$ (3,387)	$ 981,946

Rotary International
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
30 June 2011
(In thousands of U.S. dollars)

ASSETS	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
ASSETS								
Cash and cash equivalents	$ 11,265	$ 470	$ 26	$ -	$ 11,761	$ 53,183	$ -	$ 64,944
Club and other accounts receivable, net	3,138	-	274	-	3,412	-	-	3,412
Pledges receivable, net	-	-	-	-	-	2,541	-	2,541
Deferred charges, prepaid expenses and other assets	4,171	47	45	-	4,263	3,810	(374)	7,699
Due from affiliates	1,249	-	-	(122)	1,127	-	(1,127)	-
Investments	123,716	4,677	-	(1,526)	126,867	764,141	-	891,008
Split-interest agreements	-	-	-	-	-	28,781	-	28,781
Property and equipment, net	35,408	-	183	-	35,591	-	-	35,591
Total assets	$ 178,947	$ 5,194	$ 528	$ (1,648)	$ 183,021	$ 852,456	$ (1,501)	$ 1,033,976
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable, accrued expenses and split-interest agreements payable	$ 20,812	$ 3,303	$ 271	$ 500	$ 24,886	$ 19,101	$ (374)	$ 43,613
Accrued program awards	-	-	-	-	-	37,261	-	37,261
Deferred revenue	2,646	-	-	-	2,646	-	-	2,646
Pension obligation	6,510	-	-	-	6,510	-	-	6,510
Due to affiliates	-	511	111	(622)	-	1,127	(1,127)	-
Total liabilities	29,968	3,814	382	(122)	34,042	57,489	(1,501)	90,030
NET ASSETS								
Unrestricted								
Undesignated	123,336	1,380	146	(1,526)	123,336	377,299	-	500,635
Board designated	25,643	-	-	-	25,643	119,131	-	144,774
Total unrestricted net assets	148,979	1,380	146	(1,526)	148,979	496,430	-	645,409
Temporarily restricted	-	-	-	-	-	101,818	-	101,818
Permanently restricted	-	-	-	-	-	196,719	-	196,719
Total net assets	148,979	1,380	146	(1,526)	148,979	794,967	-	943,946
TOTAL LIABILITIES AND NET ASSETS	$ 178,947	$ 5,194	$ 528	$ (1,648)	$ 183,021	$ 852,456	$ (1,501)	$ 1,033,976

Rotary International
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended 30 June 2012
(In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
Revenues								
Contributions	$ -	$ -	$ -	$ -	$ -	$ 181,097	$ (414)	$ 180,683
Dues	61,387	-	-	-	61,387	-	-	61,387
Investment return, net	(6,503)	262	(29)	-	(6,270)	(15,083)	-	(21,353)
Services and other activities	27,709	578	1,700	(2,427)	27,560	-	-	27,560
Grants and other activities, net	-	-	-	-	-	327	-	327
Total revenues	82,593	840	1,671	(2,427)	82,677	166,341	(414)	248,604
Expenses								
Program awards and expenses								
Educational programs	-	-	-	-	-	22,169	-	22,169
Humanitarian programs	-	-	-	-	-	55,187	-	55,187
PolioPlus programs	-	-	-	-	-	105,001	-	105,001
Global grants	-	-	-	-	-	14,396	-	14,396
District grants	-	-	-	-	-	5,094	-	5,094
Other programs	73,947	-	-	-	73,947	2,192	-	76,139
Total program awards and expenses	73,947	-	-	-	73,947	204,039	-	277,986
Development expenses	-	-	-	-	-	18,254	-	18,254
General administration	22,009	1,135	1,643	(2.427)	22,360	5,143	(414)	27,089
Total expenses	95,956	1,135	1,643	(2,427)	96,307	227,436	(414)	323,329
Change in net assets before pension-related changes other than net periodic benefit cost and equity investment in subsidiary	(13,363)	(295)	28	-	(13,630)	(61,095)	-	(74,725)
Pension-related changes other than net periodic benefit cost	(10,460)	-	-	-	(10,460)	-	-	(10,460)
Equity investment in subsidiary	(267)	-	277	(10)	-	-	-	-
CHANGE IN NET ASSETS	(24,090)	(295)	305	(10)	(24,090)	(61,095)	-	(85,185)
Net assets								
Beginning of year	148,979	1,380	146	(1,526)	148,979	794,967	-	943,946
End of year	$ 124,889	$ 1,085	$ 451	$ (1,536)	$ 124,889	$ 733,872	$ -	$ 858,761

Rotary International
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended 30 June 2011
(In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
Revenues								
Contributions	$ -	$ -	$ -	$ -	$ -	$ 208,487	$ (374)	$ 208,113
Dues	60,252	-	-	-	60,252	-	-	60,252
Investment return, net	21,455	281	(7)	-	21,729	116,833	-	138,562
Services and other activities	24,010	516	1,785	(2,460)	23,851	-	-	23,851
Grants and other activities, net	-	-	-	-	-	2,721	-	2,721
Total revenues	105,717	797	1,778	(2,460)	105,832	328,041	(374)	433,499
Expenses								
Program awards and expenses								
Educational programs	-	-	-	-	-	21,794	-	21,794
Humanitarian programs	-	-	-	-	-	47,472	-	47,472
PolioPlus programs	-	-	-	-	-	77,870	-	77,870
Global grants	-	-	-	-	-	12,826	-	12,826
District grants	-	-	-	-	-	6,295	-	6,295
Other programs	59,195	-	-	-	59,195	2,384	-	61,579
Total program awards and expenses	59,195	-	-	-	59,195	168,641	-	227,836
Development expenses	-	-	-	-	-	17,499	-	17,499
General administration	20,766	747	1,810	(2,460)	20,863	5,694	(374)	26,183
Total expenses	79,961	747	1,810	(2,460)	80,058	191,834	(374)	271,518
Change in net assets before pension-related changes other than net periodic benefit cost and equity investment in subsidiary	25,756	50	(32)	-	25,774	136,207	-	161,981
Pension-related changes other than net periodic benefit cost	5,162	-	-	-	5,162	1,290	-	6,452
Equity investment in subsidiary	18	-	-	(18)	-	-	-	-
CHANGE IN NET ASSETS	30,936	50	(32)	(18)	30,936	137,497	-	168,433
Net assets								
Beginning of year	118,043	1,330	178	(1,508)	118,043	657,470	-	775,513
End of year	$ 148,979	$ 1,380	$ 146	$ (1,526)	$ 148,979	$ 794,967	$ -	$ 943,946

Rotary International
ASSOCIATION ACTIVITIES
Year ended 30 June 2012
(In thousands of U.S. dollars)

Revenues	
Dues	$ 61,387
Investment return, net	(6,270)
Services and other activities	27,560
Total revenue	82,677
Expenses	
Administrative	1,986
Board of Directors activities	1,589
Board support services	1,196
Committees	899
Communications and public relations	14,158
District conference representatives	848
District governors	9,687
Finance and investment services	5,388
Human resources	1,122
Information services	8,745
International assembly	5,263
International offices	7,073
Member services	4,219
Office support services	2,731
President's offices	1,930
Programs and meetings	3,232
Total operating expenses	70,066
Services and other activities	26,241
Total expenses	96,307
Excess revenue before pension-related changes other than net periodic benefit cost	$ (13,630)

SERVICES AND OTHER ACTIVITIES

	Revenue	Expense	Excess revenue/ (expense)
International convention	$ 10,658	$ 10,666	$ (8)
Magazine	6,650	5,335	1,315
One Rotary Center	5,194	6,990	(1,796)
Publications and supplies	872	1,342	(470)
U.S. clubs insurance program	1,108	1,110	(2)
License fees and miscellaneous	3,078	384	2,694
Contribution to the Foundation	-	414	(414)
Total	$ 27,560	$ 26,241	$ 1,319

Rotary International
ASSOCIATION ACTIVITIES
Year ended 30 June 2011
(In thousands of U.S. dollars)

Revenues	
Dues	$ 60,252
Investment return, net	21,729
Services and other activities	23,851
Total revenue	105,832
Expenses	
Administrative	1,852
Board of Directors activities	1,416
Board support services	1,191
Committees	509
Communications and public relations	8,436
District conference representatives	364
District governors	9,248
Finance and investment services	4,488
Human resources	1,171
Information services	8,198
International assembly	4,130
International offices	6,824
Member services	4,267
Office support services	2,559
President's offices	1,908
Programs and meetings	3,193
Total operating expenses	59,754
Services and other activities	20,304
Total expenses	80,058
Excess revenue before pension-related changes other than net periodic benefit cost	$ 25,774

SERVICES AND OTHER ACTIVITIES

	Revenue	Expense	Excess revenue/ (expense)
International convention	$ 5,762	$ 4,989	$ 773
Magazine	6,747	5,324	1,423
One Rotary Center	6,754	7,058	(304)
Publications and supplies	1,150	1,229	(79)
U.S. clubs insurance program	1,013	1,033	(20)
License fees and miscellaneous	2,425	297	2,128
Contribution to the Foundation	-	374	(374)
Total	$ 23,851	$ 20,304	$ 3,547