

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Rotary International

30 June 2013 and 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors Rotary International

We have audited the accompanying consolidated financial statements of Rotary International, which comprise the consolidated statements of financial position as of 30 June 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

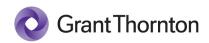
Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2013 and 2012, 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.

Supplementary information

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.

Chicago, Illinois

Stant Thornton LLP

Rotary International CONSOLIDATED STATEMENTS OF FINANCIAL POSITION 30 June 2013 and 2012 (In thousands of U.S. dollars)

ASSETS		2013		2012
ASSETS				
Cash and cash equivalents	\$	50,512	\$	54,891
Club and other accounts receivable, net		4,080		3,446
Pledges receivable, net		40,221		5,365
Deferred charges, prepaid expenses and other assets		7,381		7,101
Investments		919,581		846,541
Split-interest agreements		30,561		28,508
Property and equipment, net	-	39,741		36,094
TOTAL ASSETS	\$	1,092,077	\$_	981,946
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable, accrued expenses and split-interest				
agreements payable	\$	52,740	\$	45,364
Accrued program awards		65,831		57,187
Deferred revenue		1,843		3,664
Pension obligation	-	10,672		16,970
Total liabilities		131,086		123,185
NET ASSETS				
Unrestricted		654,563		610,229
Temporarily restricted		71,715		34,404
Permanently restricted	-	234,713		214,128
Total net assets	-	960,991		858,761
TOTAL LIABILITIES AND NET ASSETS	\$	1,092,077	\$_	981,946

The accompanying notes are an integral part of these statements.

Rotary International CONSOLIDATED STATEMENT OF ACTIVITIES Year ended 30 June 2013 (In thousands of U.S. dollars)

	Unrestricted			mporarily estricted		rmanently estricted		Total
Revenues				0.4.000		••••	*	••••
Contributions	\$	119,004	\$	94,800	\$	20,392	\$	234,196
Dues		62,503		-		-		62,503
Net investment return		46,164		21,549		-		67,713
Services and other activities		26,667		-		-		26,667
Grants and other activities, net		196		-		795		991
Net assets released from								
restrictions	_	79,640	=	(79,038)		(602)	_	
Total revenues		334,174		37,311		20,585		392,070
Expenses								
Program awards and expenses		251,400		-		-		251,400
Development expenses		17,684		-		-		17,684
General administration	_	27,054	_	-	_	-	_	27,054
Total expenses	_	296,138	_	-	_	-	_	296,138
Change in net assets before pension- related changes other than net periodic benefit cost		38,036		37,311		20,585		95,932
Pension-related changes other than net periodic benefit cost	_	6,298	_	-	<u> </u>	-	_	6,298
Change in net assets		44,334		37,311		20,585		102,230
Net assets								
Beginning of year	_	610,229	_	34,404	_	214,128	_	858,761
End of year	\$	654,563	\$ _	71,715	\$	234,713	\$_	960,991

The accompanying notes are an integral part of this statement.

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

	Unrestricted			emporarily estricted		ermanently estricted		Total
Revenues							_	
Contributions	\$	112,418	\$	50,181	\$	18,084	\$	180,683
Dues		61,387		-		-		61,387
Net investment return		(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 FUNCTIONAL EXPENSES Year ended 30 June 2013 (In thousands of U.S. dollars)

		Program awards and expenses										Supporting services						
		lucational programs		amanitarian programs		PolioPlus programs		Rotary grants	1	Other programs		Total program wards and expenses		evelopment expenses	ad	General ministration		Total
Expenses by natural classification																		
Program awards	\$	17,298	\$	45,527	\$	73,627	\$	17,992	\$	1,137	\$	155,581	\$	-	\$	-	\$	155,581
Salaries, benefits and payroll taxes		3,213		3,799		1,042		5,627		23,001		36,682		11,158		11,117		58,957
External services		437		474		600		536		4,043		6,090		1,121		3,972		11,183
Volunteer reimbursements		-		-		-		-		9,929		9,929		-		132		10,061
Travel		164		63		496		1,526		11,343		13,592		584		3,391		17,567
Conferences, conventions and meetings		8		8		18		79		8,211		8,324		437		165		8,926
Media and public relations		4		2		9		1		4,462		4,478		99		66		4,643
Information technology and communications		303		389		85		360		1,611		2,748		851		1,625		5,224
Publications and printing		18		11		94		35		2,159		2,317		249		184		2,750
Postage, shipping and freight		82		92		11		15		2,661		2,861		771		220		3,852
Donor recognition		_		-		-		-		-		-		776		-		776
Cost of sales		_		-		-		-		934		934		-		104		1,038
Occupancy		317		400		40		171		3,999		4,927		876		5,061		10,864
Insurance, finance fees and taxes		36		45		7		34		1,986		2,108		495		494		3,097
General office and miscellaneous	=	76		91		30		63		569		829		267		523		1,619
Total expenses by natural classification	\$	21,956	\$	50,901	\$	76,059	\$	26,439	\$ =	76,045	\$	251,400	\$	17,684	\$	27,054	\$	296,138
Expenses by activity																		
Association activities	\$	-	\$	-	\$	-	\$	=	\$	74,891	\$	74,891	\$	-	\$	22,403	\$	97,294
Foundation activities	=	21,956		50,901		76,059		26,439		1,154		176,509		17,684		4,651		198,844
	\$	21,956	\$	50,901	\$	76,059	\$	26,439	\$	76,045	\$	251,400	\$	17,684	\$	27,054	\$	296,138

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						
		ducational programs		amanitarian programs		PolioPlus programs		Rotary grants	1	Other programs		Total program awards and expenses		evelopment expenses	ad	General ministration		Total expenses
Expenses by natural classification																		
Program awards	\$	16,904	\$	48,415	\$	102,774	\$	15,674	\$	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 reimbursements		-		-		-		-		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
Donor 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	\$	19,490	\$ _	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		19,490		2,192		204,039		18,254		5,143		227,436
	\$	22,169	\$	55,187	\$	105,001	\$	19,490	\$	76,139	\$	277,986	\$	18,254	\$	27,089	\$	323,329

The accompanying notes are an integral part of this statement.

Rotary International CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended 30 June 2013 and 2012 (In thousands of U.S. dollars)

		2013		2012
Cook flows from operating activities				
Cash flows from operating activities Change in net assets	t	102,230	\$	(85,185)
Adjustments to reconcile change in net assets to net cash	P	102,230	Ψ	(05,105)
flows provided by (used in) operating activities				
Endowment Fund contributions		(19,643)		(17,356)
Contributed securities		(3,221)		(1,068)
Foreign currency translation losses		4,303		10,328
Realized gains on sale of investments, net		(33,194)		(50,255)
Unrealized (gains) losses on investments, net		(26,027)		74,091
Gains on disposal of property and equipment, net		-		(38)
Depreciation and amortization		6,101		5,905
Pension (benefit) obligation		(6,298)		10,460
Changes in operating assets and liabilities				
Pledges receivable, net		(34,276)		(124)
Deferred charges, prepaid expenses and other assets		134		972
Split-interest agreements		(2,053)		273
Club and other accounts receivable, net		(635)		(34)
Accrued program awards		8,644		19,926
Accounts payable, accrued expenses and split-interest				
agreements payable		6,963		1,377
Deferred revenue	_	(1,821)		1,018
Net cash provided by (used in) operating activities		1,207		(29,710)
Cash flows from investing activities				
Purchase of investments		(541,354)		(1,380,347)
Proceeds from sale of investments		520,593		1,399,257
Purchase of property and equipment		(9,748)		(6,648)
Proceeds from sale of property and equipment		-		278
Change in short-term investments	_	10,163		2,789
Net cash (used in) provided by investing activities		(20,346)		15,329
Cash flows from financing activities				
Proceeds from contributions restricted for investment in		10.072		14.656
Endowment Fund		19,063		14,656
Net cash provided by financing activities		19,063		14,656
Effect of exchange rate changes on cash		(4,303)		(10,328)
Decrease in cash and cash equivalents		(4,379)		(10,053)
Cash and cash equivalents, beginning of year	_	54,891		64,944
Cash and cash equivalents, end of year	\$ <u></u>	50,512	\$	54,891

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. The mission of Rotary International is to provide service to others, promote integrity and advance world understanding, goodwill, and peace through its fellowship of business, professional and community leaders. Rotary International supports Rotary clubs worldwide by coordinating global programs, campaigns and initiatives. Operating revenue is derived primarily from membership dues and investment income.

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 is funded solely by voluntary contributions from members and friends of Rotary who support its mission. Using Rotary Foundation grants, Rotary's 34,000 clubs across the globe develop and carry out sustainable humanitarian projects and provide scholarships and professional training opportunities that promote peace, fight disease, provide clean water, sustain mothers and children, improve education, and strengthen local economies. In addition, the Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan and the United Kingdom. The associate foundations provide local Rotarians and/or other donors with tax benefits for charitable contributions under the applicable laws in each country. The financial activities conducted by the associate foundations are included in the consolidated statement of financial position and the related consolidated statements of activities, functional expenses and cash flows. Operating revenue of the Foundation is derived primarily from contributions and investment income.

PPH, a subsidiary of Rotary International, is a captive insurance company 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, 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.

Cash and Cash Equivalents

Cash and cash equivalents include operating cash and liquid investments with an initial maturity of three months or less. These include 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 \$17,922 and \$27,695 as of 30 June 2013 and 2012, 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 2013 and 2012. 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 collectability 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 2013 and 2012, the present value discount is \$319 and \$119, respectively, and the allowance for uncollectible pledges is \$162 and \$194, respectively.

Investments

Investments are carried at fair value, except for certain equity and alternative investments. 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.

<u>Level 1</u> - 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.

<u>Level 2</u> - 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.

<u>Level 3</u> - 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.

Certain equity and alternative investments totaling \$154,359 and \$133,246 at 30 June 2013 and 2012, respectively, are not based on quoted market prices (Level 3). 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.

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.

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 2013.

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 2013 and 2012 resulted in an expense of \$2,067 and \$206, respectively.

Endowments

The Foundation's endowment (known as the Endowment Fund) is composed of donor-restricted and trustee-designated endowment funds. The primary objective of the Endowment 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 Endowment 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 Endowment 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 Endowment 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 Endowment Fund are invested to ensure that capital is preserved and enhanced over time. The investment policy for the Endowment 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 (three 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.

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 statements of financial position.

Net Assets

Rotary classifies resources into three classes of net assets as follows:

<u>Unrestricted</u> - 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 Rotarians, Rotary districts and clubs, and others.

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

<u>Temporarily restricted</u> - 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.

<u>Permanently restricted</u> - 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.

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 2013 and 2012.

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.

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 2010, 2011, 2012 and 2013 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.

Reclassifications

Certain reclassifications have been made to prior-year balances to conform to the current-year presentations.

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 expanded the required disclosures for fair value measurement that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. Rotary adopted ASU 2011-04 for the year ending 30 June 2013. The adoption of this standard did not materially expand Rotary's consolidated financial statement footnote disclosures.

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 2013:

	Quoted prices in active markets for identical assets (Level 1)			gnificant other observable inputs (Level 2)	un	ignificant observable inputs Level 3)		Total	
Investments at fair value Invested cash and short-term									
investments (a)	\$	5,000	\$	-	\$	-	\$	5,000	
Equity (b)		41,555		-		-		41,555	
Fixed income (c)		118,719		25,635		-		144,354	
Exchange traded funds (d)		13,181		_		-		13,181	
Mutual funds (e)		328,586		27,803		-		356,389	
Commingled funds (f)		-		46,573		-		46,573	
Limited liability companies (g)		-		128,141		-		128,141	
Private equity funds (h)		256		-		22,600		22,856	
Real estate funds (i)		-		-		60,349		60,349	
Hedge funds (j)				_		71,410		71,410	
Total investments at fair value	\$	507,297	\$	228,152	\$_	154,359	-	889,808	
Investments not at fair value (k)								29,773	
Total investments							\$	919,581	
Split-interest agreements Invested cash and short-term									
investments	\$	1,239	\$	-	\$	-	\$	1,239	
Fixed income		-		726		-		726	
Exchange traded funds		22,758		-		-		22,758	
Mutual funds		5,713		-		-		5,713	
Real estate		-	_	_		125		125	
Tatal and interest as many and									
Total split-interest agreements at fair value	\$	29,710	\$_	726	\$_	125	=	30,561	
Split-interest agreements not at fair value							_		
Total split-interest agreements							\$	30,561	

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 dentical assets (Level 1)		Significant other observable inputs (Level 2)		Significant nobservable inputs (Level 3)		Total
Investments at fair value Invested cash and short-term investments (a) Equity (b) Fixed income (c) Exchange traded funds (d) Mutual funds (e) Commingled funds (f) Limited liability companies (g)	\$	55,300 79,967 111,429 9,105 308,093	\$	21,844 42,190 62,393	\$		\$	55,300 79,967 111,429 9,105 329,937 42,190 62,393
Private equity funds (h) Real estate funds (i) Hedge funds (j)	_	196 - -		- - -		19,957 55,100 58,189	- <u>-</u>	20,153 55,100 58,189
Total investments at fair value	\$_	564,090	\$ _	126,427	\$	133,246	=	823,763
Investments not at fair value (k)							_	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	\$ _		\$.	-	<u>.</u>	28,234
Split-interest agreements not at fair value							_	274
Total split-interest agreements							\$	28,508

Investments categorized as Level 1 include: money market, U.S. government fixed income instruments, U.S. and non U.S. equity securities, certain 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, certain mutual 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 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 be valued below one U.S. dollar.
- (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. Mutual funds are stated at fair value determined primarily from quoted prices in the market in which they are principally traded. Certain mutual funds evaluated as Level 2 are stated at NAV because investors own shares of the fund and are provided a NAV per share 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 as mutual and commingled funds, and is 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 were suspended until the fund's outstanding credit facility was repaid. This fund has resumed distributions on a pro-rata basis as assets are sold.

- (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 in fiscal year 2009, and proceeds continue to be distributed as available when 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 \$16,000 on a cost basis of \$26,000 and has not received any distributions from this fund as of 30 June 2013.
- (k) Investments not at fair value include invested cash and short-term investments and a certificate of deposit.

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

	Equity			Private uity funds	e	Real state funds		Hedge funds	Total
Balance as of 1 July 2011	\$	58	\$	17,353	\$	49,033	\$	40,159	\$ 106,603
Realized (losses) gains, net		(864)		1,280		50,133		115	50,664
Unrealized gains (losses), net		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
Realized gains, net		-		1,807		240		226	2,273
Unrealized (losses) gains, net		-		(216)		3,864		4,677	8,325
Purchases		-		4,527		2,580		10,441	17,548
Sales	_	-		(3,475)		(1,435)		(2,123)	 (7,033)
Balance as of 30 June 2013	\$	-	\$_	22,600	\$_	60,349	\$_	71,410	\$ 154,359

Rotary investments reported at NAV or its equivalent as of 30 June 2013 include: certain mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	I	Fair value	Unfunded mmitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments			 		
Mutual funds	\$	27,803	\$ -	Daily/monthly	Daily/14th day of month
Commingled funds		46,573	-	Monthly	22nd day of preceding month
Limited liability companies		128,141	-	Daily/twice monthly	8th or 22nd of current month
Private equity funds		22,600	22,950	-	-
Real estate funds		60,349	-	Quarterly	60-90 days
Hedge funds	-	71,410	 -	Monthly/quarterly	30-65 days/not <5 days before end of month
Total	\$	356,876	\$ 22,950		

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

	F	air value		Jnfunded mmitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments						
Mutual funds	\$	21,844	\$	-	Daily/monthly	Daily/<20th day of month
Commingled funds		42,190		-	Monthly	22nd day of preceding month
Limited liability companies		62,393		-	Daily	Daily
Private equity funds		19,957		21,676	=	<u>-</u> '
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	\$_	259,673	\$	21,676		

At 30 June 2013 and 2012, Rotary has investments in bonds in the amount of \$41,460 and \$36,326, 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 2013 and 2012 are as follows:

		2013	 2012
Interest and dividends	\$	16,078	\$ 16,751
Realized gains, net		33,194	50,255
Unrealized gains (losses), net		26,027	(74,091)
Investment and banking fees		(3,399)	(4,013)
Currency losses, net	_	(4,187)	 (10,255)
Total	\$	67,713	\$ (21,353)

NOTE D - PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net as of 30 June 2013 and 2012 are as follows:

		2013		2012
Property and equipment				
Land	\$	2,960	\$	2,960
Building		71,230		67,303
Furniture and equipment	_	34,360	_	28,560
Property and equipment		108,550		98,823
Less accumulated depreciation	_	(68,809)		(62,729)
Total	\$	39,741	\$_	36,094

Depreciation expense for the years ended 30 June 2013 and 2012 is \$6,101 and \$5,905, 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 2013 and 2012.

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

Changes in endowment net assets for the year ended 30 June 2013 are as follows:

Changes in endowment net assets for the year ende	d 30 J	[une 2013	are a	s follows:			
	Uni	restricted		mporarily stricted		rmanently estricted	 Total
Endowment net assets, beginning of year	\$	4,023	\$	30,393	\$	201,457	\$ 235,873
Investment return							
Interest, dividends and investment fees, net Realized and unrealized gains, net	_	63 1,345		3,119 18,430	· <u>-</u>	-	 3,182 19,775
Total investment return		1,408		21,549		-	22,957
Contributions Transfer of funds Conversion of split-interest agreements to endowment		1,108		- - -		19,643 - 986	19,643 1,108 986
Modifications to endowment agreements Appropriation of endowment assets for expenditure	_	-		(336) (8,468)	· <u>-</u>	(602)	 (938) (8,468)
Endowment net assets, end of year	\$	6,539	\$	43,138	\$	221,484	\$ 271,161
Changes in endowment net assets for the year ende	d 30 J	une 2012	are a	s follows:			
	Uni	restricted		mporarily stricted		rmanently estricted	Total
Endowment net assets, beginning of year	\$	3,685	\$	41,096	\$	183,947	\$ 228,728
Investment return Interest, dividends and investment fees, net Realized and unrealized losses, net		111 (582)		3,062 (6,570)		- -	 3,173 (7,152)
Total investment return		(471)		(3,508)		-	(3,979)
Contributions Transfer of funds Conversion of split-interest agreements to endowment Appropriation of endowment assets for expenditure		809		- - (7,195)	_	17,356 - 154	 17,356 809 154 (7,195)
Endowment net assets, end of year	\$	4,023	\$	30,393	\$	201,457	\$ 235,873

Endowment composition by net asset class as of 30 June 2013 is as follows:

	Uni	restricted	mporarily estricted	ermanently restricted	 Total
Donor-restricted endowment funds Trustee-designated endowment funds	\$_	(149) 6,688	\$ 43,138	\$ 221,484	\$ 264,473 6,688
Endowment net assets, end of year	\$ _	6,539	\$ 43,138	\$ 221,484	\$ 271,161

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

	Uni	restricted	mporarily estricted	ermanently restricted	Total
Donor-restricted endowment funds Trustee-designated endowment funds	\$_	(1,101) 5,124	\$ 30,393	\$ 201,457	\$ 230,749 5,124
Endowment net assets, end of year	\$	4,023	\$ 30,393	\$ 201,457	\$ 235,873

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 \$149 and \$1,101 as of 30 June 2013 and 2012, 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.

, and the second	ollows:			
		2013		2012
Plan assets at fair value Projected benefit obligation	\$	54,649 65,321		49,008 65,978
Funded status	\$ _	(10,672)	\$_	(16,970)
Net actuarial loss	\$_	10,672	\$_	16,970
Amount recognized in unrestricted net assets	\$	10,672	\$_	16,970
The weighted-average actuarial assumptions used to determine the be 2012 are as follows:	enefit oblig	gation as of	30 Ju	ane 2013 and
		2013		2012
Discount rate Assumed rate of compensation increases		5.12% 5.00		4.58% 5.00
The amount recognized as pension-related changes other than net pension of activities for fiscal years 2013 and 2012 is as follows:	eriodic be	nefit cost ii	n the	consolidated
		2013		2012
C	\$	5,322 976	\$	(10,608) 148
Current year actuarial gain (loss) Amortization of actuarial loss	_			
	\$	6,298	\$	(10,460)
Amortization of actuarial loss Total recognized as pension-related changes other than	" =	-	\$ _	(10,460)
Amortization of actuarial loss Total recognized as pension-related changes other than net periodic benefit cost	" =	-	\$ <u>_</u>	(10,460)

The net periodic benefit cost for fiscal years 2013 and 2012 is as follows:

	 2013		2012
Service cost Interest cost	\$ 2,691 3,183	\$	1,987 3,011
Expected return on assets Amortization of loss	(3,351) 976		(3,238)
Net periodic benefit cost	\$ 3,499	\$_	1,908

The weighted-average actuarial assumptions used to determine net periodic benefit cost for the years ended 30 June 2013 and 2012 are as follows:

	2013	2012
Discount rate	4.58%	5.75%
Expected long-term rate of return	6.80	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 2013 for Plan assets are 53% in the liability hedging portfolio and 47% 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 2013:

	act	uoted prices in ive markets for lentical assets (Level 1)	gnificant other observable inputs (Level 2)		Significant nobservable inputs (Level 3)		Total
Invested cash and short-term							
investments (a)	\$	435	\$ -	\$	-	\$	435
Mutual funds (b)		27,034	-		-		27,034
Commingled funds (c)		-	13,562		-		13,562
Limited liability companies (d)	_	-			13,618	_	13,618
Total	\$	27,469	\$ 13,562	\$_	13,618	\$	54,649

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

	activ	oted prices in we markets for entical assets (Level 1)	_	gnificant other observable inputs (Level 2)		Significant nobservable 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)		-		<u> </u>		13,638	_	13,638
Total	\$	24,223	\$	11,147	\$_	13,638	\$	49,008

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:

	li	imited iability mpanies
Balance as of 1 July 2011	\$	-
Realized gains, net		57
Unrealized gains, net		383
Purchases		13,202
Sales	_	(4)
Balance as of 30 June 2012		13,638
Realized gains, net		342
Unrealized losses, net		(980)
Purchases		640
Sales	<u> </u>	(22)
Balance as of 30 June 2013	\$	13,618

Estimated Future Contributions and Benefit Payments

Rotary expects to contribute \$2,422 to the Plan in fiscal year 2014.

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

Years ending 30 June

2014 2015 2016 2017 2018 2019 - 2023	\$ 2,009 2,205 2,317 2,408 2,509 15,579
Total	\$ 27,027

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 \$1,432 and \$1,371 for the years ended 30 June 2013 and 2012, 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 2013 are as follows:

Years ending 30 June

2014 2015 2016 2017 2018 Thereafter	\$ 1,212 1,265 1,178 452 288
Total future minimum lease commitments	\$ 4,395

Rental expense was \$1,961 and \$1,830 for the years ended 30 June 2013 and 2012, respectively.

One Rotary Center is Rotary's world headquarters office building in Evanston, Illinois, USA, owned by Rotary International. At 30 June 2013, 45% of One Rotary Center space was available for lease to third parties. Of the available space for lease, 97% 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

2014 2015 2016 2017 2018 Thereafter	\$ 4,815 4,180 3,214 2,984 2,324 5,668
Total future minimum rental income	\$ 23,185

NOTE H - NET ASSETS

The components of Rotary's net assets as of 30 June 2013 and 2012 are as follows:

		2013	 2012
Unrestricted			
Undesignated	\$	491,766	\$ 486,224
Board-designated	-	162,797	 124,005
Total unrestricted net assets		654,563	610,229
Temporarily restricted			
PolioPlus		24,068	-
Endowment Fund earnings awaiting appropriation		43,138	30,393
Disaster recovery/termed gifts	-	4,509	 4,011
Total temporarily restricted net assets		71,715	34,404
Permanently restricted			
Annual fund		153,882	140,636
Educational programs		39,138	42,336
Humanitarian programs		1,710	4,980
Global grants		20,252	7,408
PolioPlus program		175	175
Split-interest agreements		13,229	12,671
Other	-	6,327	 5,922
Total permanently restricted net assets	-	234,713	 214,128
Total net assets	\$	960,991	\$ 858,761

Net assets released from temporary restrictions by incurring expenses which satisfied donor restrictions for the years ended 30 June 2013 and 2012 are as follows:

		2013		2012
PolioPlus	\$	69,183	\$	100,901
Endowment Fund earnings appropriated for use		7,015		5,661
Disaster recovery/terms gifts		2,341		7,359
Endowment modifications		99		-
Prior year pledges received		400		167
	_			
	\$ _	79,038	\$_	114,088

Net assets released from permanent restrictions through modifications to endowment agreements for the years ended 30 June 2013 and 2012 are as follows:

	·	2013	 2012
Endowment modifications Pledge write offs and allowance	\$	548 54	\$ -
Total	\$	602	\$

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 Council on Legislation, which meets every three years to vote on legislation submitted by clubs, district and the RI Board; *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, the Foundation 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 the Foundation'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 six-year period ended 30 June 2013, the Foundation received the total grant award of \$355,120 from BMGF and recorded this as temporarily restricted revenue. The addendum had provisions whereby the Foundation was responsible for separately raising \$200,000 by 30 June 2012, which was accomplished by 31 December 2011.

In September 2011, the Foundation and BMGF signed an addendum to the agreement for an additional grant award from BMGF of \$50,090 subject to revised contingencies. In accordance with this grant addendum, the Foundation 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 was recorded as revenue during fiscal year 2013.

In June 2013, the Foundation and BMGF entered into another addendum for an additional grant award from BMGF of up to \$350,000 subject to revised contingencies. The addendum provides a 2:1 match for new spending from non-BMGF funds, with a match of up to \$70,000 per calendar year for five years. In accordance with this grant addendum, the Foundation recognizes revenue when all contingencies related to the grant are substantially met. As of the year ended 30 June 2013, the Foundation spent \$2,263 of non-BMGF funds and recorded a pledge receivable of \$4,526.

NOTE K - SUBSEQUENT EVENTS

Management considered subsequent events through 31 October 2013, the date the consolidated financial statements were available to be issued. Rotary is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.



Rotary International CONSOLIDATING STATEMENT OF FINANCIAL POSITION 30 June 2013 (In thousands of U.S. dollars)

\$ 	9,197 3,807 - 3,591 4,183 108,909 - 39,549	\$	436 - - 78	\$	80 273	\$	-	\$	9,713	\$	40.700	\$			
_	3,807 - 3,591 4,183 108,909	\$	-	\$		\$	-	\$	9.713	•	40.700	•		26	
	4,183 108,909		78		_		-		4,080	à	40,799 - 40,221	ф	- - -	\$	50,512 4,080 40,221
	4,183 108,909		·/Q								ŕ				
_ _	108,909		70		51 751		(764)		3,720 4,170		3,661		(4,170)		7,381
	-		4,346		751		(2,137)		111,118		808,463		(4,170)		919,581
- \$	39 549		-		-		(2,137)		-		30,561		_		30,561
\$	37,377	_	-		192		-		39,741		-			_	39,741
_	169,236	\$	4,860	\$	1,347	\$ <u></u>	(2,901)	\$	172,542	\$ _	923,705	\$	(4,170)	\$ <u></u>	1,092,077
_		_								_		_		_	
\$	26,610	\$	3,338	\$	302	\$	375	\$	30,625	\$		\$	-	\$	52,740
	1 900		-		-		-		1 200				-		65,831 1,843
			-								-		-		10,672
_	709		409		21		(1,139)		-		4,170		(4,170)	_	10,072
	39,800		3,747		323		(764)		43,106		92,150		(4,170)		131,086
	07 591		1 112		1.024		(2.137)		07 591		304 195				491,766
_	31,855					_	(2,137)		31,855		130,942			_	162,797
	129,436		1,113		1,024		(2,137)		129,436		525,127		-		654,563
	-		-		_		-		_		71,715		-		71,715
_	-		-				-		-		234,713			_	234,713
	129,436		1,113		1,024		(2,137)		400 101		0.5. ===				070.004
			, .		1,024		(2,13/)	-	129,436		831,555				960,991
		1,809 10,672 709 39,800 97,581 31,855 129,436	1,809 10,672 709 39,800 97,581 31,855 129,436	1,809 - 10,672 - 409 39,800 3,747 97,581 1,113 31,855 - 129,436 1,113	1,809 - 10,672 - 409 39,800 3,747 97,581 1,113 31,855 - 129,436 1,113	1,809	1,809 10,672 709 409 21 39,800 3,747 323 97,581 31,855 - 129,436 1,113 1,024	1,809	1,809	1,809 - - - 1,809 10,672 - - - 10,672 709 409 21 (1,139) - 39,800 3,747 323 (764) 43,106 97,581 1,113 1,024 (2,137) 97,581 31,855 - - - 31,855 129,436 1,113 1,024 (2,137) 129,436 - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -	1,809 - - - 1,809 10,672 - - - 10,672 709 409 21 (1,139) - 39,800 3,747 323 (764) 43,106 97,581 1,113 1,024 (2,137) 97,581 31,855 - - - 31,855 129,436 1,113 1,024 (2,137) 129,436 - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -	1,809 - - - 1,809 34 10,672 - - - 10,672 - 709 409 21 (1,139) - 4,170 39,800 3,747 323 (764) 43,106 92,150 97,581 1,113 1,024 (2,137) 97,581 394,185 31,855 - - - 31,855 130,942 129,436 1,113 1,024 (2,137) 129,436 525,127 - - - - - 71,715 - - - - - 234,713	1,809 - - - 1,809 34 10,672 - - - 10,672 - 709 409 21 (1,139) - 4,170 39,800 3,747 323 (764) 43,106 92,150 97,581 1,113 1,024 (2,137) 97,581 394,185 31,855 - - - 31,855 130,942 129,436 1,113 1,024 (2,137) 129,436 525,127 - - - - - 71,715 - - - - - 234,713	1,809 1,809 34 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,0672 - 1,070 (4,170) 39,800 3,747 323 (764) 43,106 92,150 (4,170) 97,581 1,113 1,024 (2,137) 97,581 394,185 - 1,0672 - 1	1,809 - - - 1,809 34 - 10,672 - - 10,672 - - - 709 409 21 (1,139) - 4,170 (4,170) 39,800 3,747 323 (764) 43,106 92,150 (4,170) 97,581 1,113 1,024 (2,137) 97,581 394,185 - 31,855 - - - 31,855 130,942 - 129,436 1,113 1,024 (2,137) 129,436 525,127 - - - - - - 71,715 - - - - - 234,713 -

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

ASSETS	<u>I</u>	Rotary nternational	_	РРН	-	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		- E 2/E		-		3,446
Pledges receivable, net Deferred charges, prepaid expenses and		-		-		-		-	-		5,365		-		5,365
other assets		3,665		23		49		_	3,737		3,778		(414)		7,101
Due from affiliates		2,983		-		198		(208)	2,973		5,770		(2,973)		-,101
Investments		115,952		4,417		-		(1,536)	118,833		727,708		(2,7,5)		846,541
Split-interest agreements		-		-		-		-	-		28,508		_		28,508
Property and equipment, net		35,967		-		127		-	 36,094		<u> </u>			_	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 Pension obligation		3,664 16,970		-		-		-	3,664		-		-		3,664
Due to affiliates		198		410		-		(608)	 16,970 -		2,973		(2,973)		16 , 970 -
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	s		\$		\$		\$		\$			\$		\$	

Rotary International CONSOLIDATING STATEMENT OF ACTIVITIES Year ended 30 June 2013 (In thousands of U.S. dollars)

	Rotar Internati		_	РРН		Infotech		Eliminating entries		Association subtotal		Foundation	Eliminating entries	Consolidated total
Revenues														
Contributions	\$	-	\$	-	\$	-	\$	-	\$	-	\$	239,576	\$ (5,380)	\$ 234,196
Dues		503		-		-		-		62,503		-	-	62,503
Net investment return		638		140		(21)		(4)		11,753		55,960	-	67,713
Services and other activities	26,	760		869		1,924		(2,886)		26,667		-	-	26,667
Grants and other activities, net	-	-		-		-		-		-		991	 -	 991
Total revenues	100,	901		1,009		1,903		(2,890)		100,923		296,527	(5,380)	392,070
Expenses														
Program awards and expenses														
Educational programs		-		-		-		-		-		21,956	-	21,956
Humanitarian programs		-		-		-		-		-		50,901	-	50,901
PolioPlus programs		-		-		-		-		-		76,059	-	76,059
Rotary grants		-		-		-		-		-		26,439	-	26,439
Other programs	74,	891		-		-		-		74,891		1,154	 -	 76,045
Total program awards and expenses	74,	891		-		-		-		74,891		176,509	-	251,400
Development expenses		_		_		_		_		_		17,684	_	17,684
General administration	27,	976		981		1,716		(2,890)		27,783		4,651	 (5,380)	 27,054
Total expenses	102,	867	. <u>-</u>	981	_	1,716	_	(2,890)	_	102,674		198,844	 (5,380)	 296,138
Change in net assets before pension-related														
changes other than net periodic benefit cost														
and equity investment in subsidiary	(1,	,966)		28		187		-		(1,751)		97,683	-	95,932
Pension-related changes other than net periodic														
benefit cost	6	298		_		_		_		6,298		_	_	6,298
Equity investment in subsidiary		215		-	_	386	_	(601)	_	-	_	-	 _	
CHANGE IN NET ASSETS	4,	547		28		573		(601)		4, 547		97,683	-	102,230
Net assets														
Beginning of year	124,	889		1,085		451		(1,536)		124,889		733,872	 -	 858,761
End of year	\$ 129,	136	\$	1,113	\$	1,024	•	(2,137)	\$	129,436	\$	831,555	\$	\$ 960,991

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

	Rotary Internation	al	РРН	РРН			Eliminating entries	Association subtotal		Foundation		Eliminating entries		_	Consolidated total
Revenues															
Contributions	\$	- \$	-	\$	-	\$	-	\$	-	\$	181,097	\$	(414)	\$	180,683
Dues	61,38		-		-		-		61,387		-		-		61,387
Net investment return	(6,50		262		(29)		-		(6,270)		(15,083)		-		(21,353)
Services and other activities	27,70	9	578		1,700		(2,427)		27,560		-		-		27,560
Grants and other activities, net			-		-	-	-	-			327			_	327
Total revenues	82,59	3	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
Rotary grants		-	_		-		_		-		19,490		_		19,490
Other programs	73,94	7	-		-	_	-	_	73,947		2,192			_	76,139
Total program awards and expenses	73,94	7	-		-		-		73,947		204,039		-		277,986
Development expenses		_	_		_		_		_		18,254		_		18,254
General administration	22,00	9	1,135	_	1,643	_	(2.427)	_	22,360		5,143		(414)	_	27,089
Total expenses	95,95	6	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	(13,36	3)	(295)		28		-		(13,630)		(61,095)		-		(74,725
Pension-related changes other than net periodic															
benefit cost	(10,46	(1)	_		_		_		(10,460)		_		_		(10,460)
Equity investment in subsidiary	(26		-	_	277	_	(10)	_	-				<u> </u>	_	(10,400
CHANGE IN NET ASSETS	(24,09	0)	(295)		305		(10)		(24,090)		(61,095)		-		(85,185
Net assets															
Beginning of year	148,97	9	1,380	_	146	-	(1,526)	_	148,979		794,967	_	-	_	943,946
End of year	\$ 124,88	9 \$	1,085	\$	451	\$	(1,536)	\$	124,889	\$	733,872	\$	_	\$	858,761

Rotary International ASSOCIATION ACTIVITIES Year ended 30 June 2013 (In thousands of U.S. dollars)

Revenues		
Dues	\$	62,503
Investment return, net		11,753
Services and other activities	_	26,667
Total revenue		100,923
Expenses		
Senior leader, governance and executive		6,055
Programs and member services		24,458
Messaging and communications		13,191
IS operations and administration		13,425
Finances		4,632
Strategy and enterprise projects		105
International operations		6,650
Human resources, legal and audit	_	3,118
Total operating expenses		71,634
Services and other activities	_	31,040
Total expenses	_	102,674
Excess expense before pension-related changes other than net periodic benefit cost	\$	(1,751)

SERVICES AND OTHER ACTIVITIES

						Excess revenue/
	_	Revenue	_	Expense	_	(expense)
Council on Legislation	\$	2,978	\$	2,978	\$	-
International convention		8,207		7,697		510
Magazine		6,447		5,309		1,138
One Rotary Center		5,136		7,091		(1,955)
Publications and supplies		633		1,050		(417)
U.S. clubs insurance program		1,375		1,325		50
License fees and miscellaneous		1,891		210		1,681
Contribution to the Foundation		-		5,380		(5,380)
Total	\$	26,667	\$	31,040	\$	(4,373)

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

Revenues		
Dues	\$	61,387
Investment return, net	Ħ	(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 expense 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	1,11 0		(2)
License fees and miscellaneous		3,078	384		2,694
Contribution to the Foundation	_	-	 414		(414)
Total	\$	27,560	\$ 26,241	\$	1,319