

Rotary International

Consolidated Financial Statements as of and for the
Years Ended 30 June 2008 and 2007, and
Independent Auditors' Report

ROTARY INTERNATIONAL

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 30 JUNE 2008 AND 2007:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5–16

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Rotary International:

We have audited the accompanying consolidated statements of financial position of Rotary International and subsidiaries (collectively, "Rotary") as of 30 June 2008 and 2007, and the related consolidated statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of Rotary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rotary at 30 June 2008 and 2007, 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.

Deloitte & Touche LLP

19 September 2008

ROTARY INTERNATIONAL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 30 JUNE 2008 AND 2007 (In thousands of dollars)

	2008	2007
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 8,252	\$ 7,941
CLUB AND OTHER ACCOUNTS RECEIVABLE — Net of allowance for doubtful accounts of \$176 and \$171 in 2008 and 2007, respectively	4,586	5,309
DEFERRED CHARGES, PREPAID EXPENSES, AND OTHER ASSETS	4,048	3,446
DUE FROM THE ROTARY FOUNDATION	71	2,152
INVESTMENTS:		
Cash and short-term investments	17,075	8,635
Bonds	37,041	35,479
Stocks	50,426	59,185
Total investments	<u>104,542</u>	<u>103,299</u>
PROPERTY AND EQUIPMENT:		
Land	2,960	2,960
Building	59,378	56,348
Furniture and equipment	20,556	19,183
Total property and equipment	82,894	78,491
Accumulated depreciation	<u>45,663</u>	<u>40,942</u>
Property and equipment — net	<u>37,231</u>	<u>37,549</u>
TOTAL	<u>\$158,730</u>	<u>\$159,696</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 7,490	\$ 6,659
Accrued expenses	15,547	17,184
Deferred revenue	3,499	2,942
Pension obligation	3,071	1,980
Total liabilities	<u>29,607</u>	<u>28,765</u>
UNRESTRICTED NET ASSETS:		
Undesignated	123,998	116,958
Board-designated:		
Convention expense reserve	2,525	1,973
Investment earnings reserve	2,600	12,000
Total unrestricted net assets	<u>129,123</u>	<u>130,931</u>
TOTAL	<u>\$158,730</u>	<u>\$159,696</u>

See notes to consolidated financial statements.

ROTARY INTERNATIONAL

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED 30 JUNE 2008 AND 2007

(In thousands of dollars)

	2007-2008	2006-2007
REVENUES:		
Dues	\$ 56,315	\$ 55,542
Net investment return	(4,757)	12,329
Services and other activities	<u>22,106</u>	<u>24,565</u>
Total revenues	<u>73,664</u>	<u>92,436</u>
EXPENSES:		
Administrative	1,454	1,515
Board of Director activities	1,115	1,112
Board support services	941	973
Committees	1,112	698
Communications and public relations	7,196	6,452
Currency exchange gains — net	(1,000)	(746)
District conference representatives	1,138	1,016
District governors	7,647	8,072
Finance and investment services	4,110	4,478
Human resources	1,568	1,511
Information services	6,823	6,239
International assembly	4,101	3,476
International offices	5,872	5,364
Membership services	4,569	4,313
Office support services	2,386	2,075
President and president-elect offices	1,953	1,586
Programs and meetings	3,212	3,223
Services and other activities	<u>20,457</u>	<u>21,570</u>
Total expenses	<u>74,654</u>	<u>72,927</u>
CHANGE IN NET ASSETS:		
Before pension-related changes	(990)	19,509
Pension-related changes	<u>818</u>	<u>1,485</u>
CHANGE IN NET ASSETS	(1,808)	18,024
UNRESTRICTED NET ASSETS — Beginning of year	<u>130,931</u>	<u>112,907</u>
UNRESTRICTED NET ASSETS — End of year	<u>\$ 129,123</u>	<u>\$ 130,931</u>

See notes to consolidated financial statements.

ROTARY INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2008 AND 2007

(In thousands of dollars)

	2007-2008	2006-2007
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ (1,808)	\$ 18,024
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Realized gains on sale of investments — net	(6)	(4,629)
Unrealized losses (gains) on investments — net	7,844	(3,557)
Depreciation and amortization	5,428	5,233
Pension obligation — prior to allocation to The Rotary Foundation	1,091	1,980
Changes in assets and liabilities:		
Club and other accounts receivable	723	(265)
Deferred charges, prepaid expenses, and other assets	(602)	(1,489)
Due from The Rotary Foundation	2,081	(1,844)
Accounts payable	831	296
Accrued expenses	(1,637)	3,756
Deferred revenue	557	(2,429)
	<u>14,502</u>	<u>15,076</u>
Net cash flows provided by operating activities		
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of investments	(274,143)	(251,807)
Proceeds from sale of investments	273,502	244,774
Change in investment cash and short-term investments	(8,440)	(3,261)
Capital expenditures	(5,110)	(5,566)
	<u>(14,191)</u>	<u>(15,860)</u>
Net cash flows used in investing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	311	(784)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>7,941</u>	<u>8,725</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 8,252</u>	<u>\$ 7,941</u>

See notes to consolidated financial statements.

ROTARY INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 30 JUNE 2008 AND 2007 (In thousands of dollars)

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Recent Accounting Pronouncements — The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, in June 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Rotary management is in the process of evaluating the effect of this new interpretation on Rotary’s consolidated financial statements. This standard was originally effective for nonpublic entities for fiscal years beginning after 15 December 2006. On 1 February 2008, the FASB issued FASB Staff Position (FSP), that defers the effective date of FIN No. 48 for nonpublic entities until years beginning after 15 December 2007.

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

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an Amendment of FASB Statement No. 115*. FASB Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. FASB Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Rotary's management has adopted FASB Statement No. 159 as of 1 July 2008. The adoption of FASB Statement No. 159 is not expected to have a material impact on Rotary's consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. FASB Statement No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves transparency of financial reporting. Rotary management is in the process of evaluating the effect of this new standard, which must be adopted in fiscal year 2010, on Rotary's consolidated financial statements.

In May 2008, the FASB issued FSP Statement of Position (SOP) 94-3-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*, which made several changes to the guidance on consolidation and the equity method of accounting in the American Institute of Certified Public Accountants Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. The FSP (1) makes changes to the SOP 94-3 categorization of sole corporate membership, (2) confirms guidance on consolidation of special-purpose entity lessor, (3) clarifies the definition of control through a majority voting interest, (4) eliminates the exception to consolidation when control is expected to be temporary, and (5) requires the equity method be applied to certain investments in for-profit partnerships, limited liability companies, and similar entities unless they are reported at fair value, where permitted. Rotary management is in the process of evaluating the effect of this new standard, which must be adopted in fiscal year 2009, on Rotary's consolidated financial statements.

Cash and Cash Equivalents — Cash and cash equivalents include all cash and liquid investments with an initial maturity of three months or less. Cash and cash equivalents include \$5,402 and \$5,648 at 30 June 2008 and 2007, respectively, which is subject to certain repatriation restrictions imposed by local governments.

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

Investments — Investments are carried at fair value based on quoted market prices. Cash and short-term investments consist of cash being held by Rotary's investment managers and cash held in short term investments as part of Rotary's cash management activities.

Property and Equipment — Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets: building (31.5 years); furniture and equipment (3 to 10 years). Significant renewals and replacements are capitalized. The cost of repairs and maintenance is expensed as incurred. Rotary retires and disposes of capital assets that are no longer held or used in operations.

Financial Instruments — Rotary, from time to time, enters into foreign exchange option and forward contracts. All financial instruments are recorded at fair value with gains and losses resulting from changes in fair value recognized in net assets in the period of change. There were no options or contracts outstanding as of 30 June 2008 and 2007.

Revenue Recognition — Dues are recognized as revenue in the membership year to which they relate. Prepaid dues, as well as the Council on Legislation per capita levy in noncouncil years, are reported as deferred revenue. Revenues from services and other activities are recognized when the services are rendered.

Tax Status — Rotary is a qualified not-for-profit organization exempt from income tax under Section 501(c)(4) of the Internal Revenue Code, but is subject to U.S. tax on any unrelated business income. There was no liability required for unrelated business income at 30 June 2008 or 2007.

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

Risks and Uncertainties — Rotary has investments in cash and short-term investments, debt, and equity securities, 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 Statements of Financial Position and the Consolidated Statements of Activities.

3. SERVICES AND OTHER ACTIVITIES

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

	2007–2008	2006–2007
Council on legislation revenue	\$ -	\$ 3,285
Council on legislation expense	<u>-</u>	<u>3,285</u>
Excess revenue (expense)	<u>-</u>	<u>-</u>
International convention revenue	5,621	4,804
International convention expense	<u>5,244</u>	<u>4,256</u>
Excess revenue	<u>377</u>	<u>548</u>
Magazine revenue	6,555	6,639
Magazine expense (direct cost only)	<u>5,390</u>	<u>4,693</u>
Excess revenue	<u>1,165</u>	<u>1,946</u>
One Rotary Center revenue	5,906	5,259
One Rotary Center expense — net	<u>6,640</u>	<u>6,162</u>
Excess expense	<u>(734)</u>	<u>(903)</u>
Publications and supplies revenue	927	614
Cost of publications and supplies expense	<u>1,734</u>	<u>1,711</u>
Excess expense	<u>(807)</u>	<u>(1,097)</u>
Captive insurance assessment revenue	619	748
Captive insurance expense	<u>731</u>	<u>803</u>
Excess expense (excluding investment income)	<u>(112)</u>	<u>(55)</u>
License fees and royalties revenue	1,855	2,089
Miscellaneous income	623	1,127
Contribution to The Rotary Foundation	<u>718</u>	<u>660</u>
Excess revenue	<u>1,760</u>	<u>2,556</u>
Services and other activities revenue	22,106	24,565
Services and other activities expense	<u>20,457</u>	<u>21,570</u>
Excess revenue	<u>\$ 1,649</u>	<u>\$ 2,995</u>

4. INVESTMENTS

Rotary had investments in bonds in the amount of \$1,225 and \$699 denominated in currencies other than the U.S. dollar at 30 June 2008 and 2007, respectively. In addition, Rotary held investments in certain rated subprime mortgage-backed securities totaling \$1,168 (1.1% of total investments) at 30 June 2008, and \$3,200 (3.0% of total investments) at 30 June 2007. Accrued interest and dividends are included in total investments.

The components of net investment return are as follows:

	2007–2008	2006–2007
Interest and dividends	\$ 3,721	\$ 4,792
Realized gains — net	6	4,629
Unrealized (losses) gains — net	(7,844)	3,557
Investment and banking fees	<u>(640)</u>	<u>(649)</u>
Total	<u>\$ (4,757)</u>	<u>\$ 12,329</u>

5. ONE ROTARY CENTER

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

	2007–2008	2006–2007
One Rotary Center operating expense	\$ 6,914	\$ 6,863
Less revenues from tenants	<u>5,906</u>	<u>5,259</u>
Net cost to Rotary	1,008	1,604
Less The Rotary Foundation occupancy costs	<u>274</u>	<u>701</u>
Rotary International occupancy costs	<u>\$ 734</u>	<u>\$ 903</u>

6. BENEFIT PLANS

Pension Benefits — The Rotary International Retirement Plan is a defined benefit pension plan, covering substantially all Rotary employees with a hire date before 1 January 2008. The plan was closed to employees hired on or after this date. The benefits are determined by application of a benefit ratio to the employee’s highest average annual earnings for five consecutive plan years. The pension plan assets are invested in certain fixed income and equity funds.

Rotary’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 uses a 30 June measurement date for its plan.

	2008	2007
Summary information:		
Projected benefit obligation	\$ 36,687	\$ 36,050
Plan assets at fair value	<u>33,616</u>	<u>34,070</u>
Funded status	<u>\$ (3,071)</u>	<u>\$ (1,980)</u>
Amount recognized in unrestricted net assets	<u>\$ (3,071)</u>	<u>\$ (1,980)</u>
	2007–2008	2006–2007
Amounts recognized in change in net assets prior to allocation	\$ 1,091	\$ 1,980
Less amounts allocated to The Rotary Foundation	<u>273</u>	<u>495</u>
Amounts recognized in change in net assets — net	<u>\$ 818</u>	<u>\$ 1,485</u>

The net actuarial loss recognized by Rotary based upon its proportionate share of payroll expense was \$818 and \$1,485 for 2008 and 2007, respectively.

The amounts recognized by the plan as of 30 June 2008 and 2007, are as follows:

	2007–2008	2006–2007
Benefits paid	\$ 1,335	\$ 1,278
Pension expense	1,308	1,522
Employer contribution	1,308	1,535

The net periodic pension expense recognized by Rotary based upon its proportionate share of payroll expense was \$978 and \$1,141 for 2008 and 2007, respectively.

The weighted-average actuarial assumptions used to determine net periodic benefit cost for the years ended 30 June 2008 and 2007, respectively, were:

	2008	2007
Discount rate	6.25 %	6.25 %
Expected long-term rate of return	7.75	7.75
Assumed rate of compensation increases	5.00	5.00

The weighted-average actuarial assumptions used to determine the benefit obligation for the years ended 30 June 2008 and 2007, respectively, were:

	2008	2007
Discount rate	6.50 %	6.25 %
Assumed rate of compensation increases	5.00	5.00

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

The following table sets forth the allocation of plan assets:

	<u>Target</u>		<u>Actual</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Equity securities	50 %	60 %	47 %	62 %
Debt securities	<u>50</u>	<u>40</u>	<u>53</u>	<u>38</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The plan assets are managed solely in the interest of the participants and their beneficiaries. Based on the plan's objectives, the Trustees have developed the target asset allocations shown above, as well as re-balancing ranges. The investment objective is to achieve a rate of return consistent with the above target allocations and is designed to generate returns that will enable the plan to meet its future obligations. The investment performance is monitored on a regular basis to ensure that managers are meeting expectations. The plan is to be broadly diversified so as to limit the impact of large losses in individual investments on the total portfolio. Consideration is also given to the proper long-term level of risk for the plan.

Rotary expects to contribute \$1,547 to its pension plan in fiscal year 2009. The following benefit payments, which reflect future services, as appropriate, are expected to be paid in the following fiscal years:

Years Ending 30 June	Amount
2009	\$ 1,547
2010	1,598
2011	1,657
2012	1,744
2013	1,827
2014–2018	<u>11,077</u>
Total	<u>\$ 19,450</u>

401(k) Plan — The Rotary International 401(k) Plan (the "Plan") is a defined contribution plan. Employees voluntarily make contributions to the Plan in amounts based upon a percentage of their total compensation, up to a maximum of 50%, subject to limitations imposed by the Internal Revenue Service. As of 1 January 2008, Rotary matches 100% of the first 1% and 50% of the next 5% contributed of the participant's annual compensation. Prior to 1 January 2008, contributions were matched at 50% of the first 6% contributed of the participant's annual compensation. The expense to Rotary was \$527 and \$444 for the years ended 30 June 2008 and 2007, respectively. For employees hired on or after 1 January 2008, Rotary International may also make further contributions to the plan in what is called a Points Based Contribution.

7. LEASING ARRANGEMENTS

As lessee, Rotary leases certain office facilities and equipment. At 30 June 2008, the future minimum lease commitments under these noncancellable operating leases are as follows:

Years Ending 30 June	Amount
2009	\$ 905
2010	621
2011	392
2012	332
2013	213
Thereafter	-
Total future minimum lease commitments	<u>\$2,463</u>

Rental expense was \$1,288 and \$1,310 for the years ended 30 June 2008 and 2007, respectively.

At 30 June 2008, 51% (unaudited) of One Rotary Center space was available for lease. Of the available space for lease, 100% (unaudited) was leased to third parties with terms ranging from 3 to 15 years.

Future minimum rental income to be received on these leases is as follows:

Years Ending 30 June	Amount
2009	\$ 5,431
2010	5,298
2011	4,982
2012	3,474
2013	2,179
Thereafter	<u>4,313</u>
Total future minimum rental income	<u>\$25,677</u>

8. THE ROTARY FOUNDATION EXPENSE

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

	2007-2008	2006-2007
General administration	\$ 10,511	\$ 10,104
Information services	5,788	5,056
International assembly	1,092	1,146
International offices	4,165	3,640
One Rotary Center net occupancy costs	<u>274</u>	<u>701</u>
Total	<u>\$ 21,830</u>	<u>\$ 20,647</u>

9. FUNCTIONAL EXPENSES

Rotary classifies expenses functionally as follows:

	2007-2008	2006-2007
Meetings and conventions	\$ 12,557	\$ 14,240
Governance	13,906	13,457
Publications	14,320	12,856
Membership programs and services	11,641	10,886
Building operations	6,640	6,162
Management and general	<u>15,590</u>	<u>15,326</u>
Total	<u>\$ 74,654</u>	<u>\$ 72,927</u>

10. CAPTIVE INSURANCE COMPANY

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

	2008	2007
Balance Sheets		
Cash and cash equivalents	\$ 409	\$ 303
Investments — mutual funds	3,919	3,362
Other assets	<u>28</u>	<u>30</u>
Total assets	<u>\$4,356</u>	<u>\$3,695</u>
Accrued expenses	\$ 3,039	\$ 2,651
Accounts payable and other	405	253
Due to Rotary	<u>27</u>	<u>18</u>
Total liabilities	<u>3,471</u>	<u>2,922</u>
Common stock	250	250
Retained earnings	675	593
Accumulated other comprehensive loss	<u>(40)</u>	<u>(70)</u>
Total equity	<u>885</u>	<u>773</u>
Total liabilities and equity	<u>\$4,356</u>	<u>\$3,695</u>
	2007–2008	2006–2007
Statements of Income		
Direct assessment income	\$ 619	\$ 748
Investment income	<u>194</u>	<u>116</u>
Total revenue	813	864
Captive insurance expense	<u>731</u>	<u>803</u>
Net income	<u>\$ 82</u>	<u>\$ 61</u>

11. ROTARY INTERNATIONAL INFOTECH PVT. LTD.

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

	2008	2007
Balance Sheets		
Cash	\$ 51	\$ 222
Accounts receivable and deposits	79	125
Deferred tax credit provision	25	-
Net fixed assets	<u>631</u>	<u>761</u>
Total assets	<u>\$ 786</u>	<u>\$ 1,108</u>
Accounts payable, accrued expenses, and other liabilities	\$ 77	\$ 145
Due to Rotary	<u>883</u>	<u>1,396</u>
Total liabilities	<u>960</u>	<u>1,541</u>
Capital stock	87	2
Retained deficit	<u>(261)</u>	<u>(435)</u>
Total deficit	<u>(174)</u>	<u>(433)</u>
Total liabilities and equity	<u>\$ 786</u>	<u>\$ 1,108</u>
	2007–2008	2006–2007
Statements of Operations		
Income from services provided to Rotary	\$ 1,496	\$ -
Operating expenses	<u>1,322</u>	<u>435</u>
Net income (loss)	<u>\$ 174</u>	<u>\$ (435)</u>

12. AFFINITY CARD PROGRAM

The Board of Directors of Rotary, in consultation with the Trustees of The Rotary Foundation, renewed the U.S. affinity credit card program with a financial institution during fiscal year 2006. As of 30 June 2008, the affinity card program operates in Canada, Ireland, Italy, Japan, Mexico, Philippines, South Korea, Spain, Taiwan, Thailand, United Kingdom, and the United States. Rotary recognized affinity card royalty revenue of \$749 and \$676 in 2008 and 2007, respectively.

13. COUNCIL ON LEGISLATION

The Council on Legislation (the “Council”), the legislative body of Rotary, meets triennially and has the authority to amend the constitutional documents of the organization. The 2010 Council is scheduled to be held in Chicago, Illinois in April 2010. As of 30 June 2008, the per capita levy recognized as deferred revenue to cover the cost of the next Council has increased \$1,062 for a total of \$1,972.

14. DESIGNATION OF NET ASSETS

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

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

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