

# Rotary International

Consolidated Financial Statements and  
Supplementary Information as of and for the  
Years Ended 30 June 2018 and 2017, and  
Independent Auditors' Report

# ROTARY INTERNATIONAL

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Rotary International:

We have audited the accompanying consolidated financial statements of Rotary International, which comprise the consolidated statement of financial position as of 30 June 2018, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Rotary International'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 Rotary International'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 on 2018 Consolidated Financial Statements**

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 2018, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Predecessor Auditors' Opinion on 2017 Consolidated Financial Statements**

The consolidated financial statements of Rotary International as of and for the year ended 30 June 2017, were audited by other auditors whose report, dated 31 October 2017, expressed an unmodified opinion on those statements.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2018 consolidated financial statements. This 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 2018 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 consolidated financial statements or to the 2018 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such 2018 information is fairly stated, in all material respects, in relation to the 2018 consolidated financial statements as a whole. The 2017 supplementary information was subjected to auditing procedures by other auditors whose report, dated 31 October 2017, referred to above, stated that such information is fairly stated, in all material respects, in relation to the 2017 consolidated financial statements as a whole.

*Deloitte & Touche LLP*

31 October 2018

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF 30 JUNE 2018 AND 2017

(In thousands of U.S. dollars)

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	2018	2017
<b>ASSETS</b>		
ASSETS:		
Cash and cash equivalents—unrestricted and restricted	\$ 57,890	\$ 56,087
Club and other accounts receivable—net	4,974	3,049
Pledges receivable—net	24,183	14,754
Deferred charges, prepaid expenses, and other assets	11,605	10,825
Investments	1,244,013	1,174,100
Foreign currency contracts	101	
Split-interest agreements	45,032	42,681
Property and equipment—net	<u>36,608</u>	<u>38,247</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,424,406</u></b>	<b><u>\$ 1,339,743</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 27,349	\$ 26,914
Split-interest agreements payable	29,805	29,158
Accrued program awards	89,130	79,533
Deferred revenue	<u>10,728</u>	<u>8,623</u>
 Total liabilities	<u>157,012</u>	<u>144,228</u>
 NET ASSETS:		
Unrestricted	840,556	817,852
Temporarily restricted	111,680	90,958
Permanently restricted	<u>315,158</u>	<u>286,705</u>
 Total net assets	<u>1,267,394</u>	<u>1,195,515</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,424,406</u></b>	<b><u>\$ 1,339,743</u></b>

See accompanying notes to the consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2018 (In thousands of U.S. dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Contributions	\$ 145,694	\$ 168,239	\$ 25,911	\$ 339,844
Split-interest agreements			1,018	1,018
Dues	73,330			73,330
Net investment return	31,111	28,513		59,624
Services and other activities	27,803			27,803
Other revenues—net	112	(13)	1,652	1,751
Net assets released from restrictions	<u>175,790</u>	<u>(175,790)</u>	<u>          </u>	<u>          </u>
Total revenues	<u>453,840</u>	<u>20,949</u>	<u>28,581</u>	<u>503,370</u>
EXPENSES:				
Program awards and expenses	384,688			384,688
Development expenses	20,350			20,350
General administration	<u>23,325</u>	<u>          </u>	<u>          </u>	<u>23,325</u>
Total expenses	<u>428,363</u>	<u>          </u>	<u>          </u>	<u>428,363</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	25,477	20,949	28,581	75,007
FOREIGN CURRENCY EXCHANGE LOSSES (GAINS)	(2,713)	25		(2,688)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(60)</u>	<u>(252)</u>	<u>(128)</u>	<u>(440)</u>
CHANGE IN NET ASSETS	22,704	20,722	28,453	71,879
NET ASSETS—Beginning of year	<u>817,852</u>	<u>90,958</u>	<u>286,705</u>	<u>1,195,515</u>
NET ASSETS—End of year	<u>\$ 840,556</u>	<u>\$ 111,680</u>	<u>\$ 315,158</u>	<u>\$ 1,267,394</u>

See accompanying notes to the consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2017 (In thousands of U.S. dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Contributions	\$ 145,785	\$ 130,383	\$ 25,936	\$ 302,104
Split-interest agreements			1,830	1,830
Dues	68,784			68,784
Net investment return	68,468	39,111		107,579
Services and other activities	28,529			28,529
Other revenues—net	228		(2,757)	(2,529)
Net assets released from restrictions	<u>135,215</u>	<u>(134,965)</u>	<u>(250)</u>	<u>-</u>
Total revenues	<u>447,009</u>	<u>34,529</u>	<u>24,759</u>	<u>506,297</u>
EXPENSES:				
Program awards and expenses	323,306			323,306
Development expenses	19,888			19,888
General administration	<u>21,929</u>			<u>21,929</u>
Total expenses	<u>365,123</u>	<u>-</u>	<u>-</u>	<u>365,123</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	81,886	34,529	24,759	141,174
FOREIGN CURRENCY EXCHANGE LOSSES	(485)	(85)		(570)
RESERVE AGAINST PLEDGES RECEIVABLE	<u>(456)</u>	<u>(360)</u>	<u>(994)</u>	<u>(1,810)</u>
CHANGE IN NET ASSETS	80,945	34,084	23,765	138,794
NET ASSETS—Beginning of year	<u>736,907</u>	<u>56,874</u>	<u>262,940</u>	<u>1,056,721</u>
NET ASSETS—End of year	<u>\$817,852</u>	<u>\$ 90,958</u>	<u>\$286,705</u>	<u>\$1,195,515</u>

See accompanying notes to the consolidated financial statements.

# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2018 (In thousands of U.S. dollars)

	Program Awards and Expenses				Supporting Services		
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	Total Expenses
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$ 156,455	\$ 108,641	\$ 12,129	\$ 277,225	\$ -	\$ -	\$ 277,225
Salaries, benefits, and payroll taxes	1,657	14,752	32,669	49,078	11,288	10,036	70,402
External services	236	2,088	6,306	8,630	1,870	1,812	12,312
Volunteer reimbursements			9,541	9,541		248	9,789
Travel	161	1,440	7,059	8,660	1,178	4,378	14,216
Conferences, conventions, and meetings	15	138	5,891	6,044	572	1,201	7,817
Media and public relations	36	319	2,023	2,378	448	638	3,464
Information technology and communications	215	1,892	2,528	4,635	866	1,053	6,554
Publications and printing	2	20	1,465	1,487	519	259	2,265
Postage, shipping, and freight	15	136	2,006	2,157	1,036	450	3,643
Donor recognition			22	22	850	5	877
Cost of sales	2	20	440	462	9	102	573
Occupancy	131	1,155	8,682	9,968	491	2,200	12,659
Insurance, finance fees, and taxes	14	127	2,064	2,205	870	472	3,547
General office and miscellaneous	86	759	1,351	2,196	353	471	3,020
<b>TOTAL EXPENSES BY NATURAL CLASSIFICATION</b>	<b>\$ 159,025</b>	<b>\$ 131,487</b>	<b>\$ 94,176</b>	<b>\$ 384,688</b>	<b>\$ 20,350</b>	<b>\$ 23,325</b>	<b>\$ 428,363</b>
EXPENSE BY ACTIVITY:							
Association activities	\$ -	\$ -	\$ 82,001	\$ 82,001	\$ -	\$ 17,890	\$ 99,891
Foundation activities	159,025	131,487	12,175	302,687	20,350	5,435	328,472
	<b>\$ 159,025</b>	<b>\$ 131,487</b>	<b>\$ 94,176</b>	<b>\$ 384,688</b>	<b>\$ 20,350</b>	<b>\$ 23,325</b>	<b>\$ 428,363</b>

See accompanying notes to the consolidated financial statements.



# ROTARY INTERNATIONAL

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2017 (In thousands of U.S. dollars)

	Program Awards and Expenses				Supporting Services		Total Expenses
	PolioPlus Program	Rotary Grants	Other Programs	Total Program Awards and Expenses	Development Expenses	General Administration	
EXPENSES BY NATURAL CLASSIFICATION:							
Program awards	\$ 108,302	\$ 105,189	\$ 7,713	\$ 221,204	\$ -	\$ -	\$ 221,204
Salaries, benefits, and payroll taxes	1,681	12,966	29,917	44,564	10,521	9,055	64,140
External services	276	2,127	6,026	8,429	1,914	1,721	12,064
Volunteer reimbursements	4	33	9,250	9,287	17	253	9,557
Travel	147	1,136	6,938	8,221	1,098	3,936	13,255
Conferences, conventions, and meetings	7	53	6,313	6,373	709	1,382	8,464
Media and public relations	77	591	2,091	2,759	610	682	4,051
Information technology and communications	223	1,721	2,325	4,269	906	942	6,117
Publications and printing	2	12	1,510	1,524	428	293	2,245
Postage, shipping, and freight	17	141	2,118	2,276	1,099	444	3,819
Donor recognition			7	7	810	10	827
Cost of sales	4	29	865	898	57	197	1,152
Occupancy	145	1,115	8,261	9,521	571	2,087	12,179
Insurance, finance fees, and taxes	13	100	2,186	2,299	780	494	3,573
General office and miscellaneous	67	516	1,092	1,675	368	433	2,476
<b>TOTAL EXPENSES BY NATURAL CLASSIFICATION</b>	<b>\$ 110,965</b>	<b>\$ 125,729</b>	<b>\$ 86,612</b>	<b>\$ 323,306</b>	<b>\$ 19,888</b>	<b>\$ 21,929</b>	<b>\$ 365,123</b>
EXPENSE BY ACTIVITY:							
Association activities	\$ -	\$ -	\$ 78,896	\$ 78,896	\$ -	\$ 17,176	\$ 96,072
Foundation activities	110,965	125,729	7,716	244,410	19,888	4,753	269,051
	<b>\$ 110,965</b>	<b>\$ 125,729</b>	<b>\$ 86,612</b>	<b>\$ 323,306</b>	<b>\$ 19,888</b>	<b>\$ 21,929</b>	<b>\$ 365,123</b>

See accompanying notes to the consolidated financial statements.

## ROTARY INTERNATIONAL

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 JUNE 2018 AND 2017 (In thousands of U.S. dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 71,879	\$ 138,794
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Endowment Fund contributions	(25,911)	(25,936)
Contributed securities	(20)	(5)
Foreign currency translation losses	2,165	274
Realized and unrealized gains on investments—net	(43,463)	(100,045)
Losses on disposal of property and equipment	586	
Depreciation and amortization	7,591	7,590
Change in fair value of foreign currency hedges	(101)	(210)
Changes in operating assets and liabilities:		
Pledges receivable—net	(6,387)	(4,834)
Deferred charges, prepaid expenses, and other assets	(780)	(1,924)
Split-interest agreements	(2,351)	(7,152)
Club and other accounts receivable—net	(1,925)	728
Accrued program awards	9,597	26,571
Accounts payable and accrued expenses	288	(3,246)
Split-interest agreements payable	646	8,280
Deferred revenue	2,105	(1,373)
Net cash provided by operating activities	<u>13,919</u>	<u>37,512</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,464,795)	(1,508,636)
Proceeds from sale of investments	3,366,255	1,452,160
Purchase of property and equipment	(6,390)	(9,754)
Change in short-term investments	72,110	(3,589)
Net cash used in investing activities	<u>(32,820)</u>	<u>(69,819)</u>
CASH FLOWS FROM FINANCING ACTIVITIES—Proceeds from contributions restricted for investment in Endowment Fund		
	<u>22,869</u>	<u>23,670</u>
Net cash provided by financing activities	<u>22,869</u>	<u>23,670</u>
EFFECT OF EXCHANGE RATES ON CASH	<u>(2,165)</u>	<u>(274)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,803	(8,911)
CASH AND CASH EQUIVALENTS—Unrestricted and restricted—beginning of year	<u>56,087</u>	<u>64,998</u>
CASH AND CASH EQUIVALENTS—Unrestricted and restricted—end of year	<u>\$ 57,890</u>	<u>\$ 56,087</u>

See accompanying notes to the consolidated financial statements.

# ROTARY INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 30 JUNE 2018 AND 2017 (In thousands of U.S. dollars)

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### 1. NATURE OF OPERATIONS

The consolidated financial statements consist of four affiliated entities: Rotary International, The Rotary Foundation of Rotary International (the "Foundation"), PPH National Insurance Co. ("PPH"), and Rotary International Infotech Pvt. Ltd. ("Infotech"), collectively referred to as "Rotary." 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 approximately 35,000 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 statements 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Use of Estimates**—The preparation of consolidated 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 consolidated 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 \$14,504 and \$21,444 as of 30 June 2018 and 2017, 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 2018 and 2017. 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. As of 30 June 2018 and 2017, the net club and other accounts receivable is \$4,974 and \$3,049, and the allowance for doubtful accounts is \$115 and \$21 respectively.

**Pledges Receivable**—The Foundation receives unconditional multiyear pledges ranging from one year to 10 years. Management makes judgments regarding the outstanding pledges and ultimate collectibility of these receivables. Pledges receivable are recorded net of discounting for the present value of the expected future cash flows using a risk-free rate.

**Investments**—Investment holdings of securities and financial instruments are recorded at fair value or estimated fair value. Rotary values its investments using the hierarchy of valuation inputs established by Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 820. The categorization of a financial instrument or investment is based upon its pricing transparency and liquidity and does not necessarily correspond to Rotary's perceived risk of that instrument.

Investment income is recorded on accrual basis and purchases and sales of investment securities are reflected on a trade-date basis.

**Split-Interest Agreements**—Split-interest agreements with donors consist of charitable remainder unitrusts for which the Foundation serves as trustee, gift annuity contracts, and pooled income funds. Assets held under these agreements are recorded at estimated fair value and the contribution portion of these agreements is recognized as revenue when received. A liability for the obligation to pay beneficiaries income for their remaining life expectancy is recorded when the agreement is established at the estimated net present value of future cash flows using a discount rate commensurate with the duration of the estimated payments and actuarial assumptions reflecting the terms of the agreements and the estimated time of receipt.

**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), furniture and equipment (three to 10 years), and data processing equipment and software projects (three or five years as appropriate). 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.

**Asset Impairment**—Rotary evaluates long-lived assets for impairment on an annual basis. Long-lived assets are considered to be impaired whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. When such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset. No impairment losses have been recognized in fiscal years 2018 or 2017.

**Derivative Financial Instruments**—Foreign currency contracts and obligations are used to manage exposure to changes in the value of currency, other than the U.S. dollar, held as part of operations. The agreements are not designated as hedges for accounting purposes and are recorded at estimated fair value.

**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:

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

Unrestricted net assets that are board- or trustee-designated represent amounts that have been designated for specific programs or uses including polio eradication, the Endowment Fund, and areas of focus and term gifts. These unrestricted net assets also include the operating reserves that support Rotary's operating and program expenses in the event that current-year investment earnings are inadequate.

**Temporarily Restricted**—Net assets subject to donor-imposed stipulations that may or will be met by fulfillment of the stipulated purpose and/or the passage of time. These include contributions that are restricted for polio eradication, areas of focus, 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 at the time of gift acceptance and in accordance with the spending policy approved by the Foundation trustees. Noncurrent pledges and the unspent portion of the Endowment Fund's net investment return are classified as temporarily restricted.

**Permanently Restricted**—Net assets subject to donor-imposed stipulations that they be invested to provide a permanent source of income. Such stipulations can neither be removed by fulfillment of a stipulated purpose nor expire with the passage of time.

**Revenue Recognition**—Contributions and unconditional pledges, net of discount, are recognized as revenue in the period received and recorded at net realizable value. Dues are recognized as revenue in the membership year to which they relate. Prepaid dues are reported as deferred revenue. Revenues from services and other activities are recognized when the services are rendered.

**Tax Status**—Rotary International and the Foundation have each received a favorable determination letter from the IRS stating that each is exempt from federal income taxes under the provisions of Sections 501(c)(4) and 501(c)(3), respectively, of the Internal Revenue Code of 1986, as amended, except for income taxes pertaining to unrelated business income.

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 2018 and 2017.

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.

Tax effects from uncertain positions are recognized in the consolidated 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. Management has determined there are no material uncertain positions that require recognition in the consolidated financial statements. Additionally, no provision for income taxes is reflected in the consolidated financial statements and there is no interest or penalties recognized in the consolidated statements of activities or consolidated statements of financial position.

**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 as a separate line item adjusting the change in unrestricted net assets, as reported in the consolidated statements of activities.

**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.

**Upcoming Accounting Pronouncements Not Yet Adopted**—In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2014-09 will become effective for the fiscal year ending 30 June 2020. Rotary is currently evaluating the impact of adopting this standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. The guidance will be effective for the fiscal year ending 30 June 2021, and early adoption is permitted. Rotary is currently evaluating the impact of adopting this standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard simplifies and improves how a not-for-profit organization classifies its net assets as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The provisions of this standard are effective for the fiscal year ending 30 June 2019, and early adoption is permitted. Rotary is currently evaluating the impact of adopting this standard.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and 2) determining whether a contribution is conditional. ASU No. 2018-08 will become effective for the fiscal year ending 30 June 2020. Rotary is currently evaluating the impact of adopting this standard.

**Subsequent Events**—Management considered subsequent events through 31 October 2018, the date the consolidated financial statements were available to be issued. Rotary is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

### 3. PLEDGES RECEIVABLE

Pledges receivables, net at 30 June 2018 and 2017, are summarized as follows:

	<b>2018</b>	<b>2017</b>
Total pledges receivable	\$26,267	\$16,906
Less adjustments to present value of future cash flows for pledges receivable	(457)	(293)
Less allowance for uncollectible pledges receivable	<u>(1,627)</u>	<u>(1,859)</u>
Pledges receivable—net	<u>\$24,183</u>	<u>\$14,754</u>

The discount rates used to determine the present value of pledges receivable represent the risk-free interest rates applicable to the years in which the promises are received and range from 0.68% to 8%.

Payments on pledges receivable at 30 June 2018, are expected to be received as follows:

2019	\$ 19,075
2020	4,366
2021	1,885
2022	<u>941</u>
	<u>\$ 26,267</u>

#### 4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Rotary's investment policy is established by the Board of Directors of Rotary International (the "Board") and the Board of Trustees of the Foundation (the "Trustees"), on the advice of and under the oversight of an Investment Committee, and implemented by the office of investment. Rotary's investable assets consist of temporarily invested expendable funds, endowed funds, assets associated with split-interest agreements, and donor-advised funds. Investments are separated into distinct portfolios, each with a specific objective and investment policy, and are invested by external investment firms on behalf of the Rotary, except for certain securities which are managed internally. All invested assets are held in the custody of third-party financial institutions.

**Level 1**—Quoted (unadjusted) prices in active markets for identical assets or liabilities as of the measurement date. Price data is obtained from independent sources.

**Level 2**—Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices in markets that are not as active, or other inputs that are observable or can be corroborated by observable market data for substantially all of the same term of the assets or liabilities. Inputs are generally obtained from various sources, including market participants, dealers, and brokers.

**Level 3**—Unobservable inputs that are supported by little or no market activity, including an investment manager's own assumptions about the inputs market participants would use to price an instrument, and are significant to the fair value of the assets or liabilities.

As a practical expedient permitted under U.S. GAAP, the reported net asset value (NAV) of investments in certain commingled funds is used to estimate fair value. Investments that use NAV as a practical expedient for valuation purposes are shown separately from the level hierarchy.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input significant to the fair value measurement. If there are changes in the inputs used to measure the fair value of an asset or liability result in a transfer of the fair value measurement to a different categorization, such transfers are recognized at the end of the reporting period.

Equity securities traded on a national securities exchange are stated at the last reported sale price on the date of valuation. Mutual funds are valued based on the NAV reported by the fund companies as of the last business day of the fiscal year and are classified as Level 1. To the extent that quoted market prices are not readily available for a security, fair value may be estimated based on broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency and categorized as Level 2. Government and corporate bonds are generally obtained from third-party pricing services



for comparable securities and are categorized as Level 2 except for bond exchange-traded funds that are categorized as Level 1.

Investments in commingled funds other than mutual funds are generally recorded at the estimated fair value based on the NAV. Investments in limited partnerships and other similar types of funds are recorded at the estimated fair value based on the percentage ownership of the fund's NAV as of the measurement date provided by the fund manager or third-party administrator. In determining fair value, management utilizes valuations provided by the fund manager. The estimated fair values of certain investments in the fund, which may include private placements and other securities for which prices are not readily available, are determined by the fund manager of the respective fund and may not reflect amounts that could be realized upon immediate sale nor the amount that may ultimately be realized. Accordingly, the estimated fair values may differ from the values that would have been used had a readily available market existed for these investments. In cases where the practical expedient threshold is not met, such as an investment not in compliance with GAAP, or where a statement of partners' capital is not provided, the investment is reported as Level 3.

The estimated fair value of securities that do not have readily determined fair values, and of other investments, that are generally less liquid, are based on valuation information received on the relevant entity and may include last sale information or an independent appraisal of value. In addition, standard valuation techniques, including discounted cash flow models or valuation multiples based on comparable investment may be used. The estimated fair values for these securities are classified as Level 3 reflecting significant unobservable inputs supported by little or no market activity.

Interests in commingled funds other than mutual funds are generally recorded at the NAV reported by the fund administrator or fund manager which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from the NAV.

The valuations of investments measured at NAV and those categorized as Level 3 necessarily involve assumptions and methods that are reviewed by management. Management exercises diligence to assess the policies, procedures, and controls of external investment managers, obtains and reviews a fund's audited financial statements, valuation procedures and transparency of those processes, periodic attendance at investor meetings and discussions with investment managers. Management has determined that the valuations of these investments are reasonable estimates of fair value. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in assumptions or market conditions in the near term would materially affect the amounts reported in the consolidated financial statements. Funds whose estimated fair values are recorded using the NAV as a practical expedient are reported separately from the fair value levels.

The fair value of the foreign currency contracts and obligations is obtained from a third party as of the measurement date, and are classified within Level 2.

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. The Foundation recognizes revenue when assets are contributed to the DAF. Grants made to other organizations from the DAF are recorded as program awards.

In the following tables, equity investments/securities include individual equity securities, mutual funds that invest in equity securities, and exchange-traded funds that hold or replicate a basket of equity securities in an index. Fixed-income investments/securities includes bond mutual funds and exchange-traded funds that are categorized as Level 1 and individual government and corporate bonds that are categorized as Level 2.

The estimated fair values of the Foundation's investments and financial assets that are measured on a recurring basis are as follows as of 30 June 2018:

	<b>Measured at NAV or Equivalent</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled investments:					
Equity investments/securities	\$ 128,889	\$ 43,204	\$ -	\$ -	\$ 172,093
Fixed income investments/ securities	29,189	81,952			111,141
Buyout funds	40,038				40,038
Natural resources	12,833				12,833
Real estate	65,677				65,677
Hedge funds	52,938				52,938
Balanced funds	<u>15,620</u>	<u>4,999</u>			<u>20,619</u>
Total pooled investments	<u>345,184</u>	<u>130,155</u>	<u>-</u>	<u>-</u>	<u>475,339</u>
Nonpooled investments:					
Cash and cash equivalents		83,181			83,181
Equity investments/securities		193,572			193,572
Fixed income investments/ securities		<u>234,016</u>	<u>257,905</u>		<u>491,921</u>
Total nonpooled investments	<u>-</u>	<u>510,769</u>	<u>257,905</u>	<u>-</u>	<u>768,674</u>
Total investments at fair value	<u>\$ 345,184</u>	<u>\$ 640,924</u>	<u>\$ 257,905</u>	<u>\$ -</u>	<u>\$ 1,244,013</u>
Foreign currency hedge contracts			<u>\$ 101</u>		<u>\$ 101</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 589	\$ -	\$ -	\$ 589
Equity investments/securities		32,138			32,138
Fixed income investments/securities		11,376			11,376
Real estate				<u>929</u>	<u>929</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 44,103</u>	<u>\$ -</u>	<u>\$ 929</u>	<u>\$ 45,032</u>

The fair value presentation as of 30 June 2017, has been revised to conform to the format adopted as of 30 June 2018. The values in each level and NAV column have not changed. The estimated fair values of Rotary's consolidated investments and financial assets that are measured on a recurring basis are as follows as of 30 June 2017:

	<b>Measured at NAV or Equivalent</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled investments:					
Cash and cash equivalents	\$ -	\$ 2,908	\$ -	\$ -	\$ 2,908
Equity investments/securities	227,007	81,163			308,170
Fixed income investments/ securities	46,544	23,525			70,069
Buyout funds	34,804				34,804
Natural resources	10,576				10,576
Real estate	57,918				57,918
Hedge funds	82,873	11,077			93,950
Other	<u>70,077</u>	<u>150,108</u>			<u>220,185</u>
Total pooled investments	<u>529,799</u>	<u>268,781</u>	<u>-</u>	<u>-</u>	<u>798,580</u>
Nonpooled investments:					
Cash and cash equivalents		188,392			188,392
Equity investments/securities		122,840			122,840
Fixed income investments/ securities		<u>54,974</u>	<u>171</u>		<u>55,145</u>
Total nonpooled investments	<u>-</u>	<u>366,206</u>	<u>171</u>	<u>-</u>	<u>366,377</u>
Total investments at fair value	<u>\$ 529,799</u>	<u>\$ 634,987</u>	<u>\$ 171</u>	<u>\$ -</u>	1,164,957
Investments not at fair value					<u>9,143</u>
Total investments					<u>\$ 1,174,100</u>
Foreign currency hedge contracts					<u>\$ -</u>
Split-interest agreements:					
Cash and cash equivalents	\$ -	\$ 401	\$ -	\$ -	\$ 401
Equity investments/securities		36,487			36,487
Fixed income investments/securities		4,864			4,864
Real estate			<u>929</u>		<u>929</u>
Total split-interest agreements at fair value	<u>\$ -</u>	<u>\$ 41,752</u>	<u>\$ 929</u>	<u>\$ -</u>	<u>\$ 42,681</u>

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2018, are as follows:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency *</b>	<b>Redemption Notice Period</b>
Open-ended funds	\$ 290,439	\$ -	D/M/Q/A	up to 90 days
Closed-ended funds	<u>54,745</u>	<u>29,847</u>	N/A	N/A
In liquidation			N/A	N/A
Total	<u>\$ 345,184</u>	<u>\$ 29,847</u>		

\* D—daily, M—monthly, Q—quarterly, A—annually

Fair value estimates for funds reported at NAV or its equivalent as a practical expedient at 30 June 2017, are as follows:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency *</b>	<b>Redemption Notice Period</b>
Open-ended funds	\$ 484,147	\$ -	D/M/Q/A	up to 90 days
Closed-ended funds	45,380	26,329	N/A	N/A
In liquidation	<u>272</u>	<u></u>	N/A	N/A
Total	<u>\$ 529,799</u>	<u>\$ 26,329</u>		

\* D—daily, M—monthly, Q—quarterly, A—annually

Open-end funds are those commingled funds that can issue and redeem shares at any time. Closed-end funds are those commingled funds that raise a fixed amount of capital in a private offering. As of 30 June 2018 and 2017, Rotary had no plans to sell any investments at amounts different from the NAV.

The components of investment return-net for the years ended 30 June 2018 and 2017, are as follows:

	<b>2018</b>	<b>2017</b>
Interest and dividends	\$ 19,754	\$ 12,215
Realized gains—net	62,725	18,564
Unrealized (losses) gains—net	(19,262)	81,481
Investment and banking fees	<u>(3,593)</u>	<u>(4,681)</u>
Total	<u>\$ 59,624</u>	<u>\$ 107,579</u>

## 5. PROPERTY AND EQUIPMENT

The components of property and equipment, net as of 30 June 2018 and 2017, are as follows:

	<b>2018</b>	<b>2017</b>
Property and equipment:		
Land	\$ 2,231	\$ 2,231
Building and building improvements	84,435	81,583
Furniture and equipment	3,889	3,861
Data processing equipment and software projects	<u>40,973</u>	<u>38,693</u>
Total property and equipment	131,528	126,368
Less accumulated depreciation and amortization	<u>(94,920)</u>	<u>(88,121)</u>
Total	<u>\$ 36,608</u>	<u>\$ 38,247</u>

Depreciation and amortization expense for the years ended 30 June 2018 and 2017, was \$7,591 and \$7,590, respectively.

## 6. ENDOWMENTS

The Foundation's Endowment Fund consists of donor-restricted funds and funds designated by the trustees to function as an endowed fund. The primary objective of the Endowment Fund is to support the Foundation in perpetuity. Endowed assets are included in a consolidated pool and invested in accordance with the investment policy approved by the trustees. Assets of the Endowment Fund are invested for long-term growth and capital appreciation and to provide a stable and sustainable source of funding to support the Foundation.

The net assets associated with endowed funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation and was adopted by the state of Illinois. Management considers the factors prescribed by UPMIFA when deciding how much to distribute each year from a donor-restricted endowed fund and generally applies the same policy to trustee-designated funds.

A portion of the Endowment Fund's investment earnings is 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 operations and operating expenses as approved by the Foundation's trustees. In fiscal years 2018 and 2017, the trustees approved spending from those donor-restricted and trustee-designated endowed gifts where the fair value is at least 90% of the accumulated gift value. Spending is based on a tiered spending rate structure, with rates between 2.0% and 5.0%, depending on the level of accumulated earnings.

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 2018, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets—beginning of year	<u>\$ 59,545</u>	<u>\$ 71,726</u>	<u>\$ 273,273</u>	<u>\$404,544</u>
Investment return:				
Interest, dividends, and investment fees—net	506	2,976		3,482
Realized and unrealized gains/(loss)—net	<u>4,370</u>	<u>25,549</u>		<u>29,919</u>
Total investment return	<u>4,876</u>	<u>28,525</u>	-	<u>33,401</u>
Contributions			25,911	25,911
Transfer of funds	2,219			2,219
Conversion of split interest to endowment			955	955
Reserve against pledges receivable			(128)	(128)
Appropriation of endowment assets for expenditures	<u>(2,301)</u>	<u>(13,276)</u>		<u>(15,577)</u>
Endowment net assets—end of year	<u>\$ 64,339</u>	<u>\$ 86,975</u>	<u>\$ 300,011</u>	<u>\$451,325</u>

Note: Endowment net assets include gross pledge receivables

Changes in endowment net assets for the year ended 30 June 2017, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets—beginning of year	<u>\$ 52,156</u>	<u>\$ 45,040</u>	<u>\$248,380</u>	<u>\$345,576</u>
Investment return:				
Interest, dividends, and investment fees—net	264	1,492		1,756
Realized and unrealized gains—net	<u>6,621</u>	<u>37,533</u>		<u>44,154</u>
Total investment return	<u>6,885</u>	<u>39,025</u>	-	<u>45,910</u>
Contributions	653		25,936	26,589
Transfer of funds	1,003			1,003
Conversion of split-interest agreements to endowment			201	201
Modifications to endowment agreements		(25)	(250)	(275)
Reserve against pledges receivable			(994)	(994)
Appropriation of endowment assets for expenditure	<u>(1,152)</u>	<u>(12,314)</u>		<u>(13,466)</u>
Endowment net assets—end of year	<u>\$ 59,545</u>	<u>\$ 71,726</u>	<u>\$273,273</u>	<u>\$404,544</u>

Endowment composition by net asset class as of 30 June 2018, is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (11)	\$86,975	\$300,011	\$386,975
Trustee-designated endowment funds	<u>64,350</u>	_____	_____	<u>64,350</u>
Endowment net assets—end of year	<u>\$64,339</u>	<u>\$86,975</u>	<u>\$300,011</u>	<u>\$451,325</u>

Endowment composition by net asset class as of 30 June 2017, is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$71,726	\$273,273	\$344,999
Trustee-designated endowment funds	<u>59,545</u>	_____	_____	<u>59,545</u>
Endowment net assets—end of year	<u>\$59,545</u>	<u>\$71,726</u>	<u>\$273,273</u>	<u>\$404,544</u>

**Funds with Deficiencies**—From time to time, the fair value of assets associated with the donor-restricted endowed funds may fall below the original gift value. The Foundation is required to fund deficiencies from unrestricted net assets. There were no material deficiencies as of 30 June 2018 and 2017.

## 7. BENEFIT PLANS

**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. Rotary International also makes further contributions to the 401(k) Plan via a points-based contribution. The match and points-based contribution expense to Rotary was \$3,506 and \$2,775 for the years ended 30 June 2018 and 2017, respectively.

## 8. 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 2018, are as follows:

<b>Years Ending 30 June</b>	
2019	\$1,329
2020	1,178
2021	1,099
2022	912
2023	807
Thereafter	<u>2,052</u>
Total future minimum lease commitments	<u>\$7,377</u>

Rental expense was \$1,780 and \$1,619 for the years ended 30 June 2018 and 2017, respectively.

One Rotary Center is Rotary's world headquarters office building in Evanston, Illinois, United States of America, owned by Rotary International. At 30 June 2018, 54% of One Rotary Center space was available for lease to third parties. Of the available space for lease, 99% was leased to third parties with terms ranging from one year to 20 years. Rental income is reported in services and other activities in the consolidated statements of activities. Future minimum rental income to be received on these non-cancelable operating leases is as follows:

<b>Years Ending 30 June</b>	
2019	\$ 6,242
2020	6,471
2021	6,405
2022	6,239
2023	5,093
Thereafter	<u>34,405</u>
Total future minimum rental income	<u>\$64,855</u>



## 9. NET ASSETS

The components of Rotary's net assets as of 30 June 2018 and 2017, are as follows:

	<b>2018</b>	<b>2017</b>
Unrestricted:		
Undesignated	\$ 601,417	\$ 583,504
Board-designated	<u>239,139</u>	<u>234,348</u>
Total unrestricted net assets	<u>840,556</u>	<u>817,852</u>
Temporarily restricted:		
Endowment Fund earnings awaiting appropriation	86,975	71,727
Areas of focus/term gifts	<u>24,705</u>	<u>19,231</u>
Total temporarily restricted net assets	<u>111,680</u>	<u>90,958</u>
Permanently restricted:		
Annual fund	184,255	171,628
Rotary grants	113,768	100,581
PolioPlus program	889	405
Split-interest agreements	15,147	13,433
Other	<u>1,099</u>	<u>658</u>
Total permanently restricted net assets	<u>315,158</u>	<u>286,705</u>
Total net assets	<u>\$ 1,267,394</u>	<u>\$ 1,195,515</u>

Net assets released from temporary restrictions by incurring expenses that satisfied donor restrictions for the years ended 30 June 2018 and 2017, are as follows:

	<b>2018</b>	<b>2017</b>
PolioPlus	\$143,669	\$108,100
Endowment Fund earnings appropriated for use	9,531	9,173
Areas of focus/term gifts	20,338	17,500
Endowment modifications		(250)
Prior-year pledges due	<u>2,252</u>	<u>442</u>
Total	<u>\$175,790</u>	<u>\$134,965</u>

Net assets released from permanent restrictions through modifications to endowment agreements for the years ended 30 June 2018 and 2017, are as follows:

	<b>2018</b>	<b>2017</b>
Endowment modifications	\$ -	\$ 250
Total	<u>\$ -</u>	<u>\$ 250</u>

#### **10. SERVICES AND OTHER ACTIVITIES**

The Association has services and other activities that generate income to offset the expenses incurred for certain 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, districts, and the 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, United States of America; 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.

#### **11. THE BILL & MELINDA GATES FOUNDATION GRANT**

The Foundation has entered into grant agreements with the Bill & Melinda Gates Foundation (BMGF) to support the global polio eradication initiative. In accordance with the grant agreements and all future addendums, the Foundation recognizes revenue when all contingencies to the grant are substantially met.

Pursuant to the agreements, BMGF provides a 2 to 1 match for new spending from non-BMGF funds, with a match of up to \$70,000 in calendar year 2017 and a match of up to \$100,000 per calendar year in calendar years 2018-2020. The Foundation recorded a \$107,300 award as revenue in fiscal year 2018 and a \$70,000 award as revenue in fiscal year 2017.

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**

# ROTARY INTERNATIONAL

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2018 (In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating Entries	Association Subtotal	Foundation	Eliminating Entries	Consolidated Total
<b>ASSETS</b>								
ASSETS:								
Cash and cash equivalents—unrestricted and restricted	\$ 15,716	\$ 109	\$ 544	\$ -	\$ 16,369	\$ 41,521	\$ -	\$ 57,890
Club and other accounts receivable—net	4,296		678		4,974			4,974
Pledges receivable—net					-	24,183		24,183
Deferred charges, prepaid expenses, and other assets	8,304	24	103		8,431	3,174		11,605
Due from affiliates	6,669		555	(581)	6,643		(6,643)	-
Investments	101,478	5,109		(3,323)	103,264	1,140,749		1,244,013
Foreign currency contracts	68				68	33		101
Split-interest agreements					-	45,032		45,032
Property and equipment—net	<u>35,914</u>	<u>      </u>	<u>694</u>	<u>      </u>	<u>36,608</u>	<u>      </u>	<u>      </u>	<u>36,608</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 172,445</u></b>	<b><u>\$ 5,242</u></b>	<b><u>\$ 2,574</u></b>	<b><u>\$ (3,904)</u></b>	<b><u>\$ 176,357</u></b>	<b><u>\$ 1,254,692</u></b>	<b><u>\$ (6,643)</u></b>	<b><u>\$ 1,424,406</u></b>
<b>LIABILITIES AND NET ASSETS</b>								
LIABILITIES:								
Accounts payable and accrued expenses	\$ 22,701	\$ 3,414	\$ 587	\$ 420	\$ 27,122	\$ 227	\$ -	\$ 27,349
Split-interest agreements payable					-	29,805		29,805
Accrued program awards					-	89,130		89,130
Deferred revenue	9,139				9,139	1,589		10,728
Due to affiliates	<u>514</u>	<u>466</u>	<u>21</u>	<u>(1,001)</u>	<u>-</u>	<u>6,643</u>	<u>(6,643)</u>	<u>-</u>
Total liabilities	<u>32,354</u>	<u>3,880</u>	<u>608</u>	<u>(581)</u>	<u>36,261</u>	<u>127,394</u>	<u>(6,643)</u>	<u>157,012</u>
NET ASSETS:								
Unrestricted:								
Undesignated	123,475	1,362	1,966	(3,323)	123,480	477,937		601,417
Board designated	<u>16,616</u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>16,616</u>	<u>222,523</u>	<u>      </u>	<u>239,139</u>
Total unrestricted net assets	140,091	1,362	1,966	(3,323)	140,096	700,460	-	840,556
Temporarily restricted					-	111,680		111,680
Permanently restricted					-	315,158		315,158
Total net assets	<u>140,091</u>	<u>1,362</u>	<u>1,966</u>	<u>(3,323)</u>	<u>140,096</u>	<u>1,127,298</u>	<u>-</u>	<u>1,267,394</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 172,445</u></b>	<b><u>\$ 5,242</u></b>	<b><u>\$ 2,574</u></b>	<b><u>\$ (3,904)</u></b>	<b><u>\$ 176,357</u></b>	<b><u>\$ 1,254,692</u></b>	<b><u>\$ (6,643)</u></b>	<b><u>\$ 1,424,406</u></b>

# ROTARY INTERNATIONAL

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2017

(In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating Entries	Association Subtotal	Foundation	Eliminating Entries	Consolidated Total
<b>ASSETS</b>								
ASSETS:								
Cash and cash equivalents—unrestricted and restricted	\$ 10,932	\$ 43	\$ 162	\$ -	\$ 11,137	\$ 44,950	\$ -	\$ 56,087
Club and other accounts receivable—net	2,469		580		3,049			3,049
Pledges receivable—net					-	14,754		14,754
Deferred charges, prepaid expenses, and other assets	7,684	63	94		7,841	2,984		10,825
Due from affiliates	6,394		571	(575)	6,390		(6,390)	-
Investments	101,784	5,282		(2,921)	104,145	1,069,955		1,174,100
Split-interest agreements					-	42,681		42,681
Property and equipment—net	<u>37,437</u>		<u>810</u>		<u>38,247</u>			<u>38,247</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 166,700</u></b>	<b><u>\$ 5,388</u></b>	<b><u>\$ 2,217</u></b>	<b><u>\$(3,496)</u></b>	<b><u>\$ 170,809</u></b>	<b><u>\$ 1,175,324</u></b>	<b><u>\$(6,390)</u></b>	<b><u>\$ 1,339,743</u></b>
<b>LIABILITIES AND NET ASSETS</b>								
LIABILITIES:								
Accounts payable and accrued expenses	\$ 22,077	\$ 3,758	\$ 510	\$ 365	\$ 26,710	\$ 29,159	\$ -	\$ 55,869
Split-interest agreements payable					-	203		203
Accrued program awards					-	79,533		79,533
Deferred revenue	7,260				7,260	1,363		8,623
Foreign currency obligations					-			-
Due to affiliates	<u>529</u>	<u>390</u>	<u>21</u>	<u>(940)</u>	<u>-</u>	<u>6,390</u>	<u>(6,390)</u>	<u>-</u>
Total liabilities	<u>29,866</u>	<u>4,148</u>	<u>531</u>	<u>(575)</u>	<u>33,970</u>	<u>116,648</u>	<u>(6,390)</u>	<u>144,228</u>
NET ASSETS:								
Unrestricted:								
Undesignated	120,826	1,240	1,686	(2,921)	120,831	462,673		583,504
Board designated	<u>16,008</u>				<u>16,008</u>	<u>218,340</u>		<u>234,348</u>
Total unrestricted net assets	136,834	1,240	1,686	(2,921)	136,839	681,013	-	817,852
Temporarily restricted					-	90,958		90,958
Permanently restricted					-	286,705		286,705
Total net assets	<u>136,834</u>	<u>1,240</u>	<u>1,686</u>	<u>(2,921)</u>	<u>136,839</u>	<u>1,058,676</u>	<u>-</u>	<u>1,195,515</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 166,700</u></b>	<b><u>\$ 5,388</u></b>	<b><u>\$ 2,217</u></b>	<b><u>\$(3,496)</u></b>	<b><u>\$ 170,809</u></b>	<b><u>\$ 1,175,324</u></b>	<b><u>\$(6,390)</u></b>	<b><u>\$ 1,339,743</u></b>

# ROTARY INTERNATIONAL

## CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018 (In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating Entries	Association Subtotal	Foundation	Eliminating Entries	Consolidated Total
REVENUES:								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 340,117	\$(273)	\$ 339,844
Split-interest agreements					-	1,018		1,018
Dues	73,330				73,330			73,330
Net investment return	3,285	76	7		3,368	56,256		59,624
Services and other activities	27,803				27,803			27,803
Other revenues—net	<u>254</u>	<u>828</u>	<u>3,006</u>	<u>(4,088)</u>	<u>-</u>	<u>1,751</u>		<u>1,751</u>
Total revenues	<u>104,672</u>	<u>904</u>	<u>3,013</u>	<u>(4,088)</u>	<u>104,501</u>	<u>399,142</u>	<u>(273)</u>	<u>503,370</u>
EXPENSES:								
Program awards and expenses:								
PolioPlus program					-	159,025		159,025
Rotary grants					-	131,487		131,487
Other programs	<u>82,001</u>				<u>82,001</u>	<u>12,175</u>		<u>94,176</u>
Total program awards and expenses	82,001	-	-	-	82,001	302,687	-	384,688
Developmental expenses						20,350		20,350
General administration	<u>18,827</u>	<u>782</u>	<u>2,642</u>	<u>(4,088)</u>	<u>18,163</u>	<u>5,435</u>	<u>(273)</u>	<u>23,325</u>
Total expenses	<u>100,828</u>	<u>782</u>	<u>2,642</u>	<u>(4,088)</u>	<u>100,164</u>	<u>328,472</u>	<u>(273)</u>	<u>428,363</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	3,844	122	371	-	4,337	70,670	-	75,007
FOREIGN CURRENCY EXCHANGE LOSSES	(989)		(91)		(1,080)	(1,608)		(2,688)
RESERVE AGAINST PLEDGES RECEIVABLE					-	(440)		(440)
EQUITY INVESTMENT IN SUBSIDIARY	<u>402</u>			<u>(402)</u>	<u>-</u>			<u>-</u>
CHANGE IN NET ASSETS	3,257	122	280	(402)	3,257	68,622	-	71,879
NET ASSETS:								
Beginning of year	<u>136,839</u>	<u>1,240</u>	<u>1,686</u>	<u>(2,926)</u>	<u>136,839</u>	<u>1,058,676</u>		<u>1,195,515</u>
End of year	<u>\$ 140,096</u>	<u>\$ 1,362</u>	<u>\$ 1,966</u>	<u>\$(3,328)</u>	<u>\$ 140,096</u>	<u>\$ 1,127,298</u>	<u>\$ -</u>	<u>\$ 1,267,394</u>

# ROTARY INTERNATIONAL

## CONSOLIDATING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017 (In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating Entries	Association Subtotal	Foundation	Eliminating Entries	Consolidated Total
REVENUES:								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 302,545	\$ (441)	\$ 302,104
Split-interest agreements					-	1,830		1,830
Dues	68,784				68,784			68,784
Net investment return	9,414	110	3		9,527	98,052		107,579
Services and other activities	28,529				28,529			28,529
Other revenues—net	<u>258</u>	<u>834</u>	<u>2,675</u>	<u>(3,767)</u>	<u>-</u>	<u>(2,529)</u>		<u>(2,529)</u>
Total revenues	<u>106,985</u>	<u>944</u>	<u>2,678</u>	<u>(3,767)</u>	<u>106,840</u>	<u>399,898</u>	<u>(441)</u>	<u>506,297</u>
EXPENSES:								
Program awards and expenses:								
PolioPlus program					-	110,965		110,965
Rotary grants					-	125,729		125,729
Other programs	<u>78,896</u>				<u>78,896</u>	<u>7,716</u>		<u>86,612</u>
Total program awards and expenses	78,896	-	-	-	78,896	244,410	-	323,306
Developmental expenses						19,888		19,888
General administration	<u>18,086</u>	<u>962</u>	<u>2,336</u>	<u>(3,767)</u>	<u>17,617</u>	<u>4,753</u>	<u>(441)</u>	<u>21,929</u>
Total expenses	<u>96,982</u>	<u>962</u>	<u>2,336</u>	<u>(3,767)</u>	<u>96,513</u>	<u>269,051</u>	<u>(441)</u>	<u>365,123</u>
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	10,003	(18)	342	-	10,327	130,847	-	141,174
FOREIGN CURRENCY EXCHANGE LOSSES	(22)		(53)		(75)	(495)		(570)
RESERVE AGAINST PLEDGES RECEIVABLE					-	(1,810)		(1,810)
EQUITY INVESTMENT IN SUBSIDIARY	<u>271</u>			<u>(271)</u>	<u>-</u>			<u>-</u>
CHANGE IN NET ASSETS	10,252	(18)	289	(271)	10,252	128,542	-	138,794
NET ASSETS:								
Beginning of year	<u>126,587</u>	<u>1,258</u>	<u>1,397</u>	<u>(2,655)</u>	<u>126,587</u>	<u>930,134</u>		<u>1,056,721</u>
End of year	<u>\$ 136,839</u>	<u>\$ 1,240</u>	<u>\$ 1,686</u>	<u>\$ (2,926)</u>	<u>\$ 136,839</u>	<u>\$ 1,058,676</u>	<u>\$ -</u>	<u>\$ 1,195,515</u>

# ROTARY INTERNATIONAL

## ASSOCIATION ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018 (In thousands of U.S. dollars)

REVENUES:	
Dues	\$ 73,330
Net investment return	3,368
Services and other activities	<u>27,803</u>
Total revenues	<u>104,501</u>

EXPENSES:	
Senior leader, governance, and executive	5,519
Programs and member services	25,117
Communications	13,270
Polio, development and partnerships	22
Information Technology	8,173
Operations and administration	9,495
Finances	5,083
Strategy and enterprise projects	2,843
International operations	7,606
Human resources, legal, and audit	<u>3,292</u>
Total operating expenses	80,420
Services and other activities	19,471
Contribution to The Rotary Foundation	<u>273</u>
Total expenses	<u>100,164</u>

EXCESS REVENUE BEFORE NON-OPERATING ACTIVITIES	<u>\$ 4,337</u>
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	Revenue	Expense	Excess Revenue (Expense)
<b>SERVICES AND OTHER ACTIVITIES</b>			
COUNCIL ON LEGISLATION	\$ 304	\$ 304	\$ -
INTERNATIONAL CONVENTION	9,525	7,962	1,563
MAGAZINE	6,035	4,846	1,189
ONE ROTARY CENTER	7,280	4,677	2,603
PUBLICATIONS AND SUPPLIES	404	433	(29)
U.S. CLUBS INSURANCE PROGRAM	1,286	1,346	(60)
LICENSE FEES AND MISCELLANEOUS	<u>2,969</u>	<u>(97)</u>	<u>3,066</u>
TOTAL	<u>\$27,803</u>	<u>\$19,471</u>	<u>\$ 8,332</u>



# ROTARY INTERNATIONAL

## ASSOCIATION ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017 (In thousands of U.S. dollars)

REVENUES:		
Dues		\$ 68,784
Net investment return		9,527
Services and other activities		<u>28,529</u>
Total revenues		<u>106,840</u>
EXPENSES:		
Senior leader, governance, and executive		5,370
Programs and member services		23,716
Communications		13,261
Polio, development, and partnerships		822
IT, operations, and administration		16,155
Finances		4,686
Strategy and enterprise projects		1,383
International operations		6,984
Human resources, legal, and audit		<u>2,876</u>
Total operating expenses		75,253
Services and other activities		20,819
Contribution to The Rotary Foundation		<u>441</u>
Total expenses		<u>96,513</u>
EXCESS REVENUE BEFORE NON-OPERATING ACTIVITIES		<u>\$ 10,327</u>

	Revenue	Expense	Excess Revenue (Expense)
<b>SERVICES AND OTHER ACTIVITIES</b>			
COUNCIL ON LEGISLATION	\$ 238	\$ 238	\$ -
INTERNATIONAL CONVENTION	10,769	8,948	1,821
MAGAZINE	6,160	4,746	1,414
ONE ROTARY CENTER	6,546	4,673	1,873
PUBLICATIONS AND SUPPLIES	843	852	(9)
U.S. CLUBS INSURANCE PROGRAM	1,314	1,328	(14)
LICENSE FEES AND MISCELLANEOUS	<u>2,659</u>	<u>34</u>	<u>2,625</u>
TOTAL	<u>\$28,529</u>	<u>\$20,819</u>	<u>\$ 7,710</u>