



**Consolidated Financial Statements and Report of  
Independent Certified Public Accountants**

**Rotary International**

**30 June 2017 and 2016**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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### Board of Directors Rotary International

We have audited the accompanying consolidated financial statements of Rotary International, which comprise the consolidated statements of financial position as of 30 June 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### Management's responsibility for the financial statements

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

#### Auditor's responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rotary International as of 30 June 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Emphasis of matter

As discussed in note M, the 2016 consolidated financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

#### Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information and association activities as of and for the years ending 30 June 2017 and 2016, are presented for purposes of additional analysis, rather than to present the financial position, results of operations and cash flows of the individual entities, and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information and association activities are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Chicago, Illinois  
31 October 2017

**Rotary International**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**30 June 2017 and 2016**  
(In thousands of U.S. dollars)

<b>ASSETS</b>	<b>2017</b>	<b>2016</b> (as restated)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 56,087	\$ 64,998
Club and other accounts receivable, net	3,049	3,777
Pledges receivable, net	14,754	7,654
Deferred charges, prepaid expenses and other assets	10,825	8,902
Investments	1,174,100	1,013,986
Foreign currency contracts	-	24
Split-interest agreements	42,681	35,529
Property and equipment, net	38,247	36,083
<b>TOTAL ASSETS</b>	<b>\$ 1,339,743</b>	<b>\$ 1,170,953</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	26,914	30,160
Split-interest agreements payable	29,158	20,879
Accrued program awards	79,533	52,962
Deferred revenue	8,623	9,997
Foreign currency obligations	-	234
<b>Total liabilities</b>	<b>144,228</b>	<b>114,232</b>
<b>NET ASSETS</b>		
Unrestricted	817,852	736,907
Temporarily restricted	90,958	56,874
Permanently restricted	286,705	262,940
<b>Total net assets</b>	<b>1,195,515</b>	<b>1,056,721</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,339,743</b>	<b>\$ 1,170,953</b>

The accompanying notes are an integral part of this statement.

**Rotary International**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2017**  
**(In thousands of U.S. dollars)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues</b>				
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	135,215	(134,965)	(250)	-
Total revenues	447,009	34,529	24,759	506,297
<b>Expenses</b>				
Program awards and expenses	323,306	-	-	323,306
Development expenses	19,888	-	-	19,888
General administration	21,929	-	-	21,929
Total expenses	365,123	-	-	365,123
Change in net assets before non-operating activities	81,886	34,529	24,759	141,174
Foreign currency exchange losses	(485)	(85)	-	(570)
Reserve against pledges receivable	(456)	(360)	(994)	(1,810)
Change in net assets	80,945	34,084	23,765	138,794
<b>Net assets</b>				
Beginning of year, as restated	736,907	56,874	262,940	1,056,721
End of year	\$ 817,852	\$ 90,958	\$ 286,705	\$ 1,195,515

The accompanying notes are an integral part of this statement.

**Rotary International**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2016**  
**(In thousands of U.S. dollars)**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Revenues</b>				
Contributions, as restated	\$ 134,881	\$ 114,626	\$ 15,147	\$ 264,654
Split-interest agreements	-	-	672	672
Dues	67,459	-	-	67,459
Net investment return, as restated	(6,906)	(2,703)	-	(9,609)
Services and other activities	33,571	-	-	33,571
Other revenues, net	220	-	(1,007)	(787)
Net assets released from restrictions, as restated	125,457	(123,700)	(1,757)	-
<b>Total revenues</b>	<b>354,682</b>	<b>(11,777)</b>	<b>13,055</b>	<b>355,960</b>
<b>Expenses</b>				
Program awards and expenses	331,787	-	-	331,787
Development expenses	18,427	-	-	18,427
General administration	22,675	-	-	22,675
<b>Total expenses</b>	<b>372,889</b>	<b>-</b>	<b>-</b>	<b>372,889</b>
Change in net assets before non-operating activities	(18,207)	(11,777)	13,055	(16,929)
Change in fair value of foreign currency contracts and obligations	(210)	-	-	(210)
Foreign currency exchange (losses) gains	(7,561)	164	-	(7,397)
Reserve against pledges receivable	(214)	-	(780)	(994)
Pension-related changes other than net periodic benefit cost	7,714	-	-	7,714
<b>Change in net assets</b>	<b>(18,478)</b>	<b>(11,613)</b>	<b>12,275</b>	<b>(17,816)</b>
<b>Net assets</b>				
Beginning of year	721,157	73,081	280,299	1,074,537
Restatement (see note M)	34,228	(4,594)	(29,634)	-
Beginning of year, as restated	755,385	68,487	250,665	1,074,537
<b>End of year, as restated</b>	<b>\$ 736,907</b>	<b>\$ 56,874</b>	<b>\$ 262,940</b>	<b>\$ 1,056,721</b>

The accompanying notes are an integral part of this statement.

**Rotary International**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended 30 June 2017**  
**(In thousands of U.S. dollars)**

	Program awards and expenses				Supporting services		
	PolioPlus program	Rotary grants	Other programs	Total programs awards and expenses	Development expenses	General administration	Total expenses
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
Total expenses by natural classification	<u>\$ 110,965</u>	<u>\$ 125,729</u>	<u>\$ 86,612</u>	<u>\$ 323,306</u>	<u>\$ 19,888</u>	<u>\$ 21,929</u>	<u>\$ 365,123</u>
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
	<u>\$ 110,965</u>	<u>\$ 125,729</u>	<u>\$ 86,612</u>	<u>\$ 323,306</u>	<u>\$ 19,888</u>	<u>\$ 21,929</u>	<u>\$ 365,123</u>

The accompanying notes are an integral part of this statement.



**Rotary International**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended 30 June 2016**  
**(In thousands of U.S. dollars)**

	Program awards and expenses				Supporting services		
	PolioPlus program	Rotary grants	Other programs	Total programs awards and expenses	Development expenses	General administration	Total expenses
Expenses by natural classification							
Program awards	\$ 114,700	\$ 99,276	\$ 7,171	\$ 221,147	\$ -	\$ -	\$ 221,147
Salaries, benefits and payroll taxes	2,049	15,213	32,842	50,104	10,579	9,886	70,569
External services	236	1,752	5,310	7,298	1,429	1,471	10,198
Volunteer reimbursements	-	-	9,276	9,276	-	157	9,433
Travel	155	1,149	8,848	10,152	1,000	4,220	15,372
Conferences, conventions and meetings	6	45	9,827	9,878	489	1,964	12,331
Media and public relations	27	201	1,395	1,623	98	438	2,159
Information technology and communications	237	1,762	2,189	4,188	754	924	5,866
Publications and printing	3	25	1,540	1,568	585	289	2,442
Postage, shipping, and freight	22	163	2,468	2,653	884	468	4,005
Donor recognition	-	-	195	195	1,102	3	1,300
Cost of sales	4	28	637	669	18	137	824
Occupancy	195	1,445	7,563	9,203	612	1,905	11,720
Insurance, finance fees and taxes	14	106	2,262	2,382	664	471	3,517
General office and miscellaneous	45	333	1,073	1,451	213	342	2,006
Total expenses by natural classification	<u>\$ 117,693</u>	<u>\$ 121,498</u>	<u>\$ 92,596</u>	<u>\$ 331,787</u>	<u>\$ 18,427</u>	<u>\$ 22,675</u>	<u>\$ 372,889</u>
Expense by activity							
Association activities	\$ -	\$ -	\$ 85,417	\$ 85,417	\$ -	\$ 17,428	\$ 102,845
Foundation activities	117,693	121,498	7,179	246,370	18,427	5,247	270,044
	<u>\$ 117,693</u>	<u>\$ 121,498</u>	<u>\$ 92,596</u>	<u>\$ 331,787</u>	<u>\$ 18,427</u>	<u>\$ 22,675</u>	<u>\$ 372,889</u>

The accompanying notes are an integral part of this statement.

**Rotary International**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended 30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

	2017	2016 (as restated)
Cash flows from operating activities		
Change in net assets	\$ 138,794	\$ (17,816)
Adjustments to reconcile change in net assets to net cash flows provided by (used in) operating activities		
Endowment Fund contributions	(25,936)	(15,147)
Contributed securities	(5)	(21)
Foreign currency translation losses	274	7,677
Realized and unrealized (gains) losses on investments, net	(100,045)	20,199
Change in fair value of foreign currency contracts and obligations	(210)	210
Depreciation and amortization	7,590	7,122
Changes in operating assets and liabilities		
Pledges receivable, net	(4,834)	486
Deferred charges, prepaid expenses and other assets	(1,924)	(1,644)
Split-interest agreements	(7,152)	628
Club and other accounts receivable, net	728	(203)
Accrued program awards	26,571	(44,361)
Accounts payable and accrued expenses	(3,246)	1,063
Split-interest agreements payable	8,280	(124)
Deferred revenue	(1,373)	5,138
Pension obligation	-	(8,215)
Net cash provided by (used in) operating activities	<u>37,512</u>	<u>(45,008)</u>
Cash flows from investing activities		
Purchase of investments	(1,508,636)	(1,589,751)
Proceeds from sale of investments	1,452,160	1,591,645
Purchase of property and equipment	(9,754)	(6,134)
Change in short-term investments	(3,589)	28,012
Net cash (used in) provided by investing activities	<u>(69,819)</u>	<u>23,772</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in Endowment Fund	<u>23,670</u>	<u>15,244</u>
Net cash provided by financing activities	23,670	15,244
Effect of exchange rates on cash	<u>(274)</u>	<u>(7,677)</u>
Decrease in cash and cash equivalents	(8,911)	(13,669)
Cash and cash equivalents, beginning of year	<u>64,998</u>	<u>78,667</u>
Cash and cash equivalents, end of year	<u>\$ 56,087</u>	<u>\$ 64,998</u>

**Rotary International**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

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**NOTE A - NATURE OF OPERATIONS**

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

Rotary International is a corporation organized under the Illinois Not-for-Profit Corporation Act. The mission of Rotary International is to provide service to others, promote integrity and advance world understanding, goodwill, and peace through its fellowship of business, professional and community leaders. Rotary International supports Rotary clubs worldwide by coordinating global programs, campaigns and initiatives. Operating revenue is derived primarily from membership dues and investment income.

The Foundation is a corporation organized under the Illinois Not-for-Profit Corporation Act, of which Rotary International is the sole corporate member. The Foundation is funded solely by voluntary contributions from members and friends of Rotary who support its mission. Using Rotary Foundation grants, Rotary's 34,000 clubs across the globe develop and carry out sustainable humanitarian projects and provide scholarships and professional training opportunities that promote peace, fight disease, provide clean water, sustain mothers and children, improve education, and strengthen local economies. In addition, the Foundation has established associate foundations in Australia, Brazil, Canada, Germany, India, Japan and the United Kingdom. The associate foundations provide local Rotarians and/or other donors with tax benefits for charitable contributions under the applicable laws in each country. The financial activities conducted by the associate foundations are included in the consolidated 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.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

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

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and

**Rotary International**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

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liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents include operating cash and liquid investments with an initial maturity of three months or less. These include interest-bearing accounts, money market mutual funds and fixed-term deposits, and are stated at cost, which approximates fair value. Cash equivalents consist of \$9,029 and \$10,152 as of 30 June 2017 and 2016, respectively. Rotary maintains foreign and domestic cash accounts, including cash and cash equivalents of \$21,444 and \$19,821 as of 30 June 2017 and 2016, 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 2017 and 2016. Rotary believes it is not exposed to significant credit risk on cash and cash equivalents.

***Club and Other Accounts Receivable***

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

***Pledges Receivable***

The Foundation receives unconditional multi-year pledges ranging from one to 10 years. Management makes judgments regarding the outstanding pledges and ultimate collectability of these receivables. Pledges receivable are recorded net of discounting for the present value of the expected future cash flows using a risk adjusted rate. As of 30 June 2017 and 2016, the present value discount is \$293 and \$154, respectively, and the allowance for uncollectible pledges is \$1,859 and \$595, respectively.

***Investments***

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date.

Level 3 - Financial instruments that have little to no pricing observability as of the report date.

**Rotary International**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

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Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement; however, the determination of what constitutes observable information requires significant judgment by Rotary's management. Rotary considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to Rotary's perceived risk of that instrument.

Financial instruments with values that are based on quoted market prices in active markets and are, therefore, classified within Level 1, include equities listed on an active exchange, publicly traded mutual funds with published prices per share and certain money market securities. Rotary does not adjust the quoted price for such instruments.

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

Rotary maintains foreign and domestic investment accounts, including investments of \$4,488 as of 30 June 2017, subject to certain restrictions imposed by local governments. There were no such accounts as of 30 June 2016.

***Split-interest Agreements***

The Foundation is the trustee or custodian, beneficiary and charitable remainderman of trusts and charitable annuities held for the benefit of others and the Foundation for various specified terms. These funds are held in charitable remainder unitrusts, a charitable gift annuity account and a pooled income fund. Assets received under these agreements are recorded at fair value and the contribution portion of these agreements is recognized as revenue when received. Liabilities incurred as a result of these agreements are measured based on the present value of the expected future payments to be made to the named beneficiaries using various discount rates and actuarial assumptions reflecting the terms of the agreements and the estimated time of receipt. The Foundation's policy is to perform a valuation of the split-interest agreement liabilities annually. The valuation adjustment for these liabilities as of 30 June 2017 and 2016, resulted in an expense of \$7,849 and \$613, respectively.

***Endowments***

The Foundation's endowment (known as the Endowment Fund) consists of donor-restricted and trustee-designated funds. The primary objective of the Endowment Fund is to support the Foundation in perpetuity. The Foundation has determined that it will invest in perpetuity, and preserve over time, the original gift value of a donor-restricted endowment fund, unless there are explicit donor stipulations to the contrary. As

**Rotary International**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

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a result of this determination, the Foundation classifies as permanently restricted (a) the original gift value of contributions from a donor or donors to an endowment fund, and (b) the original value of subsequent contributions from a donor or donors to an endowment fund.

Notwithstanding the foregoing, this determination is not intended to and shall not affect the authority under the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) to spend funds from a permanently restricted fund when the market value of a permanently restricted fund is below the original value of the contributions by the donors. The Foundation considers the factors prescribed by UPMIFA in making a determination as to how much to spend each year from a permanently restricted fund.

A portion of a permanently restricted fund's investment earnings are classified as temporarily restricted net assets until the earnings have been appropriated for expenditure and have met the restriction. Funds functioning as endowments that are designated by the trustees are classified as unrestricted net assets.

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.

Endowment fund 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.

***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 (3 to 10 years), and data processing equipment and software projects (3 or 5 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.

***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 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:

**Rotary International**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

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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. These unrestricted net assets include 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. Non-current pledges and the unspent portion of the Endowment Fund's net investment return are classified as temporarily restricted.

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

***Revenue Recognition***

Contributions and unconditional pledges, net of discount, are recognized as revenue in the period received and recorded at estimated fair value. Dues are recognized as revenue in the membership year to which they relate. Prepaid dues 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 2017 and 2016.

Infotech is a private limited company registered in India and, as such, is a taxable corporation in India. Under U.S. tax regulations, Infotech is treated as a foreign partnership and all operations are included in Rotary's U.S. tax filings.

The Financial Accounting Standards Board issued guidance that requires tax effects from uncertain positions to be 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

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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.

***Reclassifications***

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

**NOTE C – PLEDGES RECEIVABLE**

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

	<u>2017</u>	<u>2016</u>
Total pledges receivable	\$ 16,906	\$ 8,403
Less: adjustments to present value of future cash flows for pledges receivable	(293)	(154)
Less: allowance for uncollectible pledges receivable	<u>(1,859)</u>	<u>(595)</u>
Pledges receivable, net	<u>\$ 14,754</u>	<u>\$ 7,654</u>

The discount rates used to determine the present value of pledges receivable represent risk adjusted interest rates applicable to the years in which the promises are received and range from 0.68% to 8.00%.

Payments on pledges receivable at 30 June 2017 are expected to be received as follows:

2018	\$	9,412
2019		4,597
2020		2,034
2021		863
	\$	<u><u>16,906</u></u>



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**NOTE D - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The fair values of Rotary's consolidated financial assets that are measured on a recurring basis are as follows as of 30 June 2017:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Balance as of 30 June 2017
<b>Investments at fair value</b>				
Invested cash and short-term investments (a)	\$ 192,589	\$ -	\$ -	\$ 192,589
Equity (b)	106,760	-	-	106,760
Fixed income (c)	40,196	171	-	40,367
Exchange traded funds (d)	25,014	-	-	25,014
Mutual funds (e)	270,428	-	-	270,428
Commingled funds (f)	-	-	207,744	207,744
Limited liability companies (g)	-	-	123,620	123,620
Private equity funds (h)	-	-	45,378	45,378
Real estate funds (i)	-	-	57,918	57,918
Hedge funds (j)	-	-	95,139	95,139
<b>Total investments at fair value</b>	<b>\$ 634,987</b>	<b>\$ 171</b>	<b>\$ 529,799</b>	<b>1,164,957</b>
Investments not at fair value (k)				<u>9,143</u>
<b>Total investments</b>				<b>\$ 1,174,100</b>
<b>Split-interest agreements</b>				
Invested cash and short-term investments	\$ 401	\$ -	\$ -	\$ 401
Fixed income	4,864	-	-	4,864
Exchange traded funds	36,175	-	-	36,175
Equity	312	-	-	312
Real estate	-	929	-	929
<b>Total split-interest agreements     at fair value</b>	<b>\$ 41,752</b>	<b>\$ 929</b>	<b>\$ -</b>	<b>\$ 42,681</b>

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The fair values of Rotary's consolidated financial assets that are measured on a recurring basis are as follows as of 30 June 2016:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Investments measured at NAV	Balance as of 30 June 2016
<b>Investments at fair value</b>				
Invested cash and short-term investments (a)	\$ 160,087	\$ -	\$ -	\$ 160,087
Equity (b)	89,150	-	-	89,150
Fixed income (c)	35,420	227	-	35,647
Exchange traded funds (d)	20,882	-	-	20,882
Mutual funds (e)	311,679	-	-	311,679
Commingled funds (f)	-	-	96,630	96,630
Limited liability companies (g)	-	-	107,391	107,391
Private equity funds (h)	-	-	40,104	40,104
Real estate funds (i)	-	-	57,743	57,743
Hedge funds (j)	-	-	91,077	91,077
<b>Total investments at fair value</b>	<b>\$ 617,218</b>	<b>\$ 227</b>	<b>\$ 392,945</b>	<b>1,010,390</b>
<b>Investments not at fair value (k)</b>				<b>3,596</b>
<b>Total investments</b>				<b>\$ 1,013,986</b>
<b>Foreign currency contracts</b>		<b>\$ 24</b>		<b>\$ 24</b>
<b>Split-interest agreements</b>				
Invested cash and short-term investments	\$ 724	\$ -	\$ -	\$ 724
Fixed income	-	1,080	-	1,080
Exchange traded funds	33,257	-	-	33,257
Mutual funds	68	-	-	68
Real estate	-	400	-	400
<b>Total split-interest agreements at fair value</b>	<b>\$ 34,049</b>	<b>\$ 1,480</b>	<b>\$ -</b>	<b>\$ 35,529</b>
<b>Foreign currency obligations</b>		<b>\$ (234)</b>		<b>\$ (234)</b>

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

Financial instruments categorized as Level 2 include: certain fixed income instruments, primarily corporate bonds, mortgage backed securities and collateralized mortgage obligations valued primarily using matrix and/or

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market corroborated pricing. Foreign currency contracts and obligations are valued using a third party as of the measurement date.

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

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

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

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

(e) Mutual funds are pools of assets commingled together to benefit from professional management and economies of scale. Mutual funds are stated at fair value determined primarily from quoted prices in the market in which they are principally traded. Mutual funds are registered with the U.S. Securities and Exchange Commission.

(f) Commingled funds are pools of assets commingled together to benefit from professional management and economies of scale including certain open-end investment companies. Investors own shares of the fund and are provided a net asset value (NAV) on a regular basis. Commingled funds are regulated by, or comply with regulations issued by, an agency or authority, and are subject to applicable laws, in their legal jurisdiction.

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

(h) Private equity funds include several funds that invest globally. Capital is committed to these investments and called as investments are made. Distributions are made only when the underlying investments of the funds undergo a significant market event, such as an acquisition by another company or an initial public offering. The time horizon of a typical private equity fund is approximately 10 to 15 years. The fair values of the investments in this category have been estimated based on Rotary's ownership interest in partners' capital, which is deemed to be a NAV equivalent.

(i) Real estate funds include open-ended and closed-ended real estate funds that invest in U.S. real estate. The holdings in the real estate funds comprise a mix of apartments, offices, industrial, retail and hotel properties. The fair values of the investments in this category have been estimated using the NAV per share of the investments, based on an annual valuation by an independent third-party appraiser. Redemption requests in the open-ended fund are subject to approval by the fund's Board of Trustees on a quarterly basis. Redemptions of the closed-ended fund were suspended until the fund's outstanding credit facility was repaid. This fund has resumed distributions on a pro-rata basis as assets are sold.

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(j) Hedge funds include various hedge funds that pursue multiple global strategies to diversify risks and reduce volatility. The fair values of the investments in this category have been estimated using the NAV per share of the investments. A full redemption was requested from one of the fund managers in fiscal year 2009 and final proceeds were distributed in fiscal year 2016. Another fund that was previously in bankruptcy is in liquidation proceedings, with all assets in cash pending distribution to creditors and investors. In fiscal year 2006, Rotary recorded a valuation reserve against the reported fair value of this fund of \$16,000. During fiscal years 2017 and 2016, a portion of the \$16,000 originally written off was recovered in the amounts of \$1,879 and \$4,138, respectively, and recorded as realized gains. Further distributions may be made in the future that will result in additional gains.

(k) Investments not at fair value include certain invested cash, savings and other money market funds, and certificates of deposit.

Rotary investments reported at NAV or its equivalent as of 30 June 2017 include: certain commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded Commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Commingled funds	\$ 207,744	\$ -	Daily	Daily/2-5 days
Limited liability companies	123,620	-	Daily/twice monthly/monthly	8th or 22nd of current month/15 days
Private equity funds	45,378	26,329	-	-
Real estate funds	57,918	-	Quarterly	60-90 days
Hedge funds	95,139	-	Monthly/quarterly	14-65 days/not <5 days before end of month
Total	<u>\$ 529,799</u>	<u>\$ 26,329</u>		

Rotary investments reported at NAV or its equivalent as of 30 June 2016, include: certain commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded Commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Commingled funds	\$ 96,630	\$ -	Daily	Daily/2 days
Limited liability companies	107,391	-	Daily/twice monthly/monthly	8th or 22nd of current month/15 days
Private equity funds	40,104	30,982	-	-
Real estate funds	57,743	-	Quarterly	60-90 days
Hedge funds	91,077	-	Monthly/quarterly	14-65 days/not <5 days before end of month
Total	<u>\$ 392,945</u>	<u>\$ 30,982</u>		

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The components of investment return, net for the years ended 30 June 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 12,215	\$ 13,508
Realized gains, net	18,564	13,784
Unrealized gains (losses), net	81,481	(33,983)
Investment and banking fees	<u>(4,681)</u>	<u>(2,918)</u>
<b>Total</b>	<b>\$ <u>107,579</u></b>	<b>\$ <u>(9,609)</u></b>

**NOTE E - PROPERTY AND EQUIPMENT**

The components of property and equipment, net as of 30 June 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Property and equipment		
Land	\$ 2,231	\$ 2,231
Building	81,583	75,551
Furniture and equipment	3,861	4,192
Data processing equipment and software projects	<u>38,693</u>	<u>35,991</u>
<b>Property and equipment</b>	<b>126,368</b>	<b>117,965</b>
Less accumulated depreciation and amortization	<u>(88,121)</u>	<u>(81,882)</u>
<b>Total</b>	<b>\$ <u>38,247</u></b>	<b>\$ <u>36,083</u></b>

Depreciation and amortization expense for the years ended 30 June 2017 and 2016, was \$7,590 and \$7,122, respectively.

**NOTE F - ENDOWMENTS**

Based on the spending policy approved by the trustees, annual spending occurs each year from those endowed gifts where the market value is at least 90% of the accumulated gift value based on a tiered spending rate structure. In accordance with UPMIFA, the Foundation considers the following factors in making a determination for the spending rate for endowment funds: the duration and preservation of the fund, the mission of the Foundation and the purposes of the donor-restricted endowment funds, the investment policy, general economic conditions, possible effects of inflation and deflation, and the expected total return from income and appreciation of investments. The trustees approved tiered spending rates between 2.0% and 5.0% for fiscal years 2017 and 2016.

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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 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year, as restated (see note M)	\$ 52,156	\$ 45,040	\$ 248,380	\$ 345,576
Investment return				
Interest, dividends and investment fees, net	264	1,492	-	1,756
Realized and unrealized gains, net	6,621	37,533	-	44,154
Total investment return	6,885	39,025	-	45,910
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	(1,152)	(12,314)	-	(13,466)
Endowment net assets, end of year	<u>\$ 59,545</u>	<u>\$ 71,726</u>	<u>\$ 273,273</u>	<u>\$ 404,544</u>

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Changes in endowment net assets for the year ended 30 June 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 18,424	\$ 62,770	\$ 265,234	\$ 346,428
Restatement (see note M)	<u>34,228</u>	<u>(4,594)</u>	<u>(29,634)</u>	<u>-</u>
Endowment net assets, beginning of year, as restated	52,652	58,176	235,600	346,428
Investment return				
Interest, dividends and investment fees, net	466	2,847	-	3,313
Realized and unrealized losses, net	<u>(1,157)</u>	<u>(5,386)</u>	<u>-</u>	<u>(6,543)</u>
Total investment return, as restated	(691)	(2,539)	-	(3,230)
Contributions, as restated	896	-	15,147	16,043
Transfer of funds	496	-	-	496
Conversion of split-interest agreements to endowment	-	-	170	170
Modifications to endowment agreements	-	1,508	(1,757)	(249)
Reserve against pledges receivable	-	-	(780)	(780)
Appropriation of endowment assets for expenditure, as restated	<u>(1,197)</u>	<u>(12,105)</u>	<u>-</u>	<u>(13,302)</u>
Endowment net assets, end of year, as restated	\$ <u>52,156</u>	\$ <u>45,040</u>	\$ <u>248,380</u>	\$ <u>345,576</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 71,726	\$ 273,273	\$ 344,999
Trustee-designated endowment funds	<u>59,545</u>	<u>-</u>	<u>-</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>

Endowment composition by net asset class as of 30 June 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (208)	\$ 45,040	\$ 248,380	\$ 293,212
Trustee-designated endowment funds	<u>52,364</u>	<u>-</u>	<u>-</u>	<u>52,364</u>
Endowment net assets, end of year, as restated	\$ <u>52,156</u>	\$ <u>45,040</u>	\$ <u>248,380</u>	\$ <u>345,576</u>

***Funds with Deficiencies***

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. The

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Foundation is required to transfer funds from unrestricted net assets to temporarily restricted net assets when deficiencies result from unfavorable market fluctuations. The required transfer is the amount by which the fair value of the assets at fiscal year-end is less than the level required by donor stipulations in order to retain as a fund of perpetual duration. There were no deficiencies as of 30 June 2017. Deficiencies totaled \$208 as of 30 June 2016.

**NOTE G - BENEFIT PLANS**

***Pension Benefits***

The Rotary International Retirement Plan (the Plan) is a defined benefit pension plan covering substantially all Rotary International U.S. employees with a hire date before 1 January 2008. The Plan was closed to employees hired on or after this date. On 31 December 2014, the Plan benefits were frozen and the Plan was terminated. Assets were fully distributed by June 2016.

The amount recognized as pension-related changes other than net periodic benefit cost in the consolidated statements of activities for fiscal year 2016 is as follows:

	<u>2016</u>
Current year actuarial loss	\$ (1,133)
Amortization of actuarial gain	15
Recognition of settlement loss	<u>8,832</u>
Total recognized as pension-related changes other than net periodic benefit cost	<u>\$ 7,714</u>

The amounts recognized by the Plan for fiscal year 2016 is as follows:

	<u>2016</u>
Benefits paid	\$ 73,860
Pension expense	125

The net periodic benefit cost for fiscal year 2016 is as follows:

	<u>2016</u>
Service cost	\$ -
Interest cost	685
Expected return on assets	(575)
Amortization of loss	<u>15</u>
Net periodic benefit cost	<u>\$ 125</u>



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***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 \$2,775 and \$3,269 for the years ended 30 June 2017 and 2016, respectively.

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**NOTE H - 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 2017, are as follows:

Years ending 30 June

2018	\$ 1,059
2019	471
2020	335
2021	<u>220</u>
Total future minimum lease commitments	<u>\$ 2,085</u>

Rental expense was \$1,619 and \$1,599 for the years ended 30 June 2017 and 2016, respectively.

One Rotary Center is Rotary's world headquarters office building in Evanston, Illinois, USA, owned by Rotary International. At 30 June 2017, 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 to 20 years. Future minimum rental income to be received on these non-cancelable operating leases is as follows:

Years ending 30 June

2018	\$ 6,140
2019	6,237
2020	6,415
2021	6,056
2022	5,862
Thereafter	<u>38,989</u>
Total future minimum rental income	<u>\$ 69,699</u>

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**NOTE I - NET ASSETS**

The components of Rotary's net assets as of 30 June 2017 and 2016, are as follows:

	2017	2016 (as restated)
Unrestricted		
Undesignated	\$ 583,504	\$ 555,907
Board-designated	234,348	181,000
Total unrestricted net assets	817,852	736,907
Temporarily restricted		
Endowment Fund earnings awaiting appropriation	71,727	45,040
Areas of focus/term gifts	19,231	11,834
Total temporarily restricted net assets	90,958	56,874
Permanently restricted		
Annual fund	171,628	157,377
Rotary grants	100,581	89,222
PolioPlus program	405	200
Split-interest agreements	13,433	14,560
Other	658	1,581
Total permanently restricted net assets	286,705	262,940
Total net assets	\$ 1,195,515	\$ 1,056,721

Net assets released from temporary restrictions by incurring expenses that satisfied donor restrictions for the years ended 30 June 2017 and 2016, are as follows:

	2017	2016 (as restated)
PolioPlus	\$ 108,100	\$ 97,390
Endowment Fund earnings appropriated for use	9,173	8,890
Areas of focus/term gifts	17,500	17,925
Endowment modifications	(250)	(1,508)
Prior-year pledges due	442	1,003
Total	\$ 134,965	\$ 123,700

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Net assets released from permanent restrictions through modifications to endowment agreements for the years ended 30 June 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Endowment modifications	\$ <u>250</u>	\$ <u>1,757</u>
Total	\$ <u><u>250</u></u>	\$ <u><u>1,757</u></u>

**NOTE J - SERVICES AND OTHER ACTIVITIES**

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

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

**NOTE K - THE BILL & MELINDA GATES FOUNDATION GRANT**

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

In June 2013, the Foundation and BMGF signed an addendum for a grant award from BMGF of up to \$350,000 subject to revised contingencies. The addendum provides a 2:1 match for new spending from non-BMGF funds, with a match of up to \$70,000 per calendar year for calendar years 2014-2018. The Foundation recorded a \$70,000 award as revenue in fiscal years 2017 and 2016.

In May 2017, the Foundation and BMGF signed an addendum for a grant award from BMGF of up to \$230,000. The addendum provides a 2:1 match for new spending from non-BMGF funds, with an additional match of up to \$30,000 in calendar year 2018 and a match of up to \$100,000 per calendar year for calendar years 2019-2020.

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**NOTE L - SUBSEQUENT EVENTS**

Management considered subsequent events through 31 October 2017, 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.

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**NOTE M - RESTATEMENT**

Subsequent to the issuance of the Foundation's 2016 financial statements, management determined that certain classifications of net assets related to realized estate gifts contributed to the Endowment Fund were incorrect. A portion of previously reported permanently restricted net assets totaling \$29,634 and related earnings reported as temporarily restricted net assets totaling \$4,594 should have been classified as unrestricted board-designated net assets as the use restrictions were board imposed and not donor driven. Contributions and net assets released from restriction within the consolidated statement of activities for the year ended 30 June 2016, were changed to reflect 2016 activity related to restatement described above. As a result of this matter, the beginning unrestricted, temporarily restricted and permanently restricted net assets of the Foundation at 1 July 2015, have been restated to properly reflect the correct classification.

The restated amounts as of 1 July 2015, within the consolidated statement of financial position, are as follows:

	<u>As previously reported</u>	<u>Restatement</u>	<u>As restated</u>
Unrestricted net assets	\$ 721,157	\$ 34,228	\$ 755,385
Temporarily restricted net assets	73,081	(4,594)	68,487
Permanently restricted net assets	<u>280,299</u>	<u>(29,634)</u>	<u>250,665</u>
Total	<u>\$1,074,537</u>	<u>\$ -</u>	<u>\$ 1,074,537</u>

**Rotary International**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**30 June 2017 and 2016**  
**(In thousands of U.S. dollars)**

The restated amounts for the year ended 30 June 2016, within the consolidated statement of activities and consolidated statement of cash flows are as follows:

	<u>As previously reported</u>	<u>Restatement</u>	<u>As restated</u>
Contributions - unrestricted	\$ 133,985	\$ 896	\$ 134,881
Contributions - permanently restricted	16,043	(896)	15,147
Net investment return - unrestricted	(6,579)	(327)	(6,906)
Net investment return - temporarily restricted	(3,030)	327	(2,703)
Net assets released from restriction - unrestricted	126,654	(1,197)	125,457
Net assets released from restriction - temporarily restricted	(124,897)	1,197	(123,700)
Endowment fund contributions	(16,043)	896	(15,147)
Proceeds from contributions restricted for investment in Endowment Fund	16,140	(896)	15,244

**SUPPLEMENTARY INFORMATION**

**Rotary International**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**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>								
<b>ASSETS</b>								
Cash and cash equivalents	\$ 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	37,437	-	810	-	38,247	-	-	38,247
Total assets	<u>\$ 166,700</u>	<u>\$ 5,388</u>	<u>\$ 2,217</u>	<u>\$ (3,496)</u>	<u>\$ 170,809</u>	<u>\$ 1,175,324</u>	<u>\$ (6,390)</u>	<u>\$ 1,339,743</u>
<b>LIABILITIES AND NET ASSETS</b>								
<b>LIABILITIES</b>								
Accounts payable, accrued expenses and split-interest agreements payable	\$ 22,077	\$ 3,758	\$ 510	\$ 365	\$ 26,710	\$ 29,362	\$ -	\$ 56,072
Accrued program awards	-	-	-	-	-	79,533	-	79,533
Deferred revenue	7,260	-	-	-	7,260	1,363	-	8,623
Foreign currency obligations	-	-	-	-	-	-	-	-
Due to affiliates	529	390	21	(940)	-	6,390	(6,390)	-
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>
<b>NET ASSETS</b>								
Unrestricted								
Undesignated	120,826	1,240	1,686	(2,921)	120,831	462,673	-	583,504
Board designated	16,008	-	-	-	16,008	218,340	-	234,348
Total unrestricted net assets	<u>136,834</u>	<u>1,240</u>	<u>1,686</u>	<u>(2,921)</u>	<u>136,839</u>	<u>681,013</u>	<u>-</u>	<u>817,852</u>
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>	<u>\$ 166,700</u>	<u>\$ 5,388</u>	<u>\$ 2,217</u>	<u>\$ (3,496)</u>	<u>\$ 170,809</u>	<u>\$ 1,175,324</u>	<u>\$ (6,390)</u>	<u>\$ 1,339,743</u>

**Rotary International**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**30 June 2016**  
**(In thousands of U.S. dollars)**

	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation (as restated)	Eliminating entries	Consolidated total
<b>ASSETS</b>								
<b>ASSETS</b>								
Cash and cash equivalents	\$ 22,092	\$ 74	\$ 236	\$ -	\$ 22,402	\$ 42,596	\$ -	\$ 64,998
Club and other accounts receivable, net	3,131	-	646	-	3,777	-	-	3,777
Pledges receivable, net	-	-	-	-	-	7,654	-	7,654
Deferred charges, prepaid expenses and other assets	5,491	101	61	-	5,653	3,249	-	8,902
Due from affiliates	4,603	-	437	(463)	4,577	-	(4,577)	-
Investments	88,882	5,372	-	(2,655)	91,599	922,387	-	1,013,986
Foreign currency contracts	-	-	-	-	-	24	-	24
Split-interest agreements	-	-	-	-	-	35,529	-	35,529
Property and equipment, net	35,470	-	613	-	36,083	-	-	36,083
Total assets	<u>\$ 159,669</u>	<u>\$ 5,547</u>	<u>\$ 1,993</u>	<u>\$ (3,118)</u>	<u>\$ 164,091</u>	<u>\$ 1,011,439</u>	<u>\$ (4,577)</u>	<u>\$ 1,170,953</u>
<b>LIABILITIES AND NET ASSETS</b>								
<b>LIABILITIES</b>								
Accounts payable, accrued expenses and split-interest agreements payable	\$ 24,493	\$ 3,877	\$ 575	\$ 365	\$ 29,310	\$ 21,729	\$ -	\$ 51,039
Accrued program awards	-	-	-	-	-	52,962	-	52,962
Deferred revenue	8,194	-	-	-	8,194	1,803	-	9,997
Foreign currency liabilities	-	-	-	-	-	234	-	234
Due to affiliates	395	412	21	(828)	-	4,577	(4,577)	-
Total liabilities	<u>33,082</u>	<u>4,289</u>	<u>596</u>	<u>(463)</u>	<u>37,504</u>	<u>81,305</u>	<u>(4,577)</u>	<u>114,232</u>
<b>NET ASSETS</b>								
Unrestricted								
Undesignated	114,759	1,258	1,397	(2,655)	114,759	441,148	-	555,907
Board designated	11,828	-	-	-	11,828	169,172	-	181,000
Total unrestricted net assets	<u>126,587</u>	<u>1,258</u>	<u>1,397</u>	<u>(2,655)</u>	<u>126,587</u>	<u>610,320</u>	<u>-</u>	<u>736,907</u>
Temporarily restricted	-	-	-	-	-	56,874	-	56,874
Permanently restricted	-	-	-	-	-	262,940	-	262,940
Total net assets	<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>-</u>	<u>1,056,721</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 159,669</u>	<u>\$ 5,547</u>	<u>\$ 1,993</u>	<u>\$ (3,118)</u>	<u>\$ 164,091</u>	<u>\$ 1,011,439</u>	<u>\$ (4,577)</u>	<u>\$ 1,170,953</u>



**Rotary International**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2017**  
**(In thousands of U.S. dollars)**

	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
<b>Revenues</b>								
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	258	834	2,675	(3,767)	-	(2,529)	-	(2,529)
<b>Total revenues</b>	<b>106,985</b>	<b>944</b>	<b>2,678</b>	<b>(3,767)</b>	<b>106,840</b>	<b>399,898</b>	<b>(441)</b>	<b>506,297</b>
<b>Expenses</b>								
Program awards and expenses								
PolioPlus program	-	-	-	-	-	110,965	-	110,965
Rotary grants	-	-	-	-	-	125,729	-	125,729
Other programs	78,896	-	-	-	78,896	7,716	-	86,612
<b>Total program awards and expenses</b>	<b>78,896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78,896</b>	<b>244,410</b>	<b>-</b>	<b>323,306</b>
Developmental expenses	-	-	-	-	-	19,888	-	19,888
General administration	18,086	962	2,336	(3,767)	17,617	4,753	(441)	21,929
<b>Total expenses</b>	<b>96,982</b>	<b>962</b>	<b>2,336</b>	<b>(3,767)</b>	<b>96,513</b>	<b>269,051</b>	<b>(441)</b>	<b>365,123</b>
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	271	-	-	(271)	-	-	-	-
<b>CHANGE IN NET ASSETS</b>	<b>10,252</b>	<b>(18)</b>	<b>289</b>	<b>(271)</b>	<b>10,252</b>	<b>128,542</b>	<b>-</b>	<b>138,794</b>
<b>Net assets</b>								
Beginning of year	126,587	1,258	1,397	(2,655)	126,587	930,134	-	1,056,721
End of year	\$ 136,839	\$ 1,240	\$ 1,686	\$ (2,926)	\$ 136,839	\$ 1,058,676	\$ -	\$ 1,195,515

**Rotary International**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**Year ended 30 June 2016**  
**(In thousands of U.S. dollars)**

	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
<b>Revenues</b>								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,944	\$ (290)	\$ 264,654
Split-interest agreements	-	-	-	-	-	672	-	672
Dues	67,459	-	-	-	67,459	-	-	67,459
Net investment return (loss)	(3,079)	124	(1)	-	(2,956)	(6,653)	-	(9,609)
Services and other activities	33,571	-	-	-	33,571	-	-	33,571
Other revenues, net	229	973	2,298	(3,500)	-	(787)	-	(787)
Total revenues	<u>98,180</u>	<u>1,097</u>	<u>2,297</u>	<u>(3,500)</u>	<u>98,074</u>	<u>258,176</u>	<u>(290)</u>	<u>355,960</u>
<b>Expenses</b>								
Program awards and expenses								
PolioPlus program	-	-	-	-	-	117,693	-	117,693
Rotary grants	-	-	-	-	-	121,498	-	121,498
Other programs	85,417	-	-	-	85,417	7,179	-	92,596
Total program awards and expenses	<u>85,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,417</u>	<u>246,370</u>	<u>-</u>	<u>331,787</u>
Developmental expenses	-	-	-	-	-	18,427	-	18,427
General administration	18,046	1,066	2,106	(3,500)	17,718	5,247	(290)	22,675
Total expenses	<u>103,463</u>	<u>1,066</u>	<u>2,106</u>	<u>(3,500)</u>	<u>103,135</u>	<u>270,044</u>	<u>(290)</u>	<u>372,889</u>
Change in net assets before non- operating activities	(5,283)	31	191	-	(5,061)	(11,868)	-	(16,929)
Change in fair value of foreign currency contracts and obligations	-	-	-	-	-	(210)	-	(210)
Foreign currency exchange losses	(1,100)	-	(88)	-	(1,188)	(6,209)	-	(7,397)
Reserve against pledges receivable	-	-	-	-	-	(994)	-	(994)
Pension-related changes other than net periodic benefit cost	4,320	-	-	-	4,320	3,394	-	7,714
Equity investment in subsidiary	134	-	-	(134)	-	-	-	-
<b>CHANGE IN NET ASSETS</b>	<u>(1,929)</u>	<u>31</u>	<u>103</u>	<u>(134)</u>	<u>(1,929)</u>	<u>(15,887)</u>	<u>-</u>	<u>(17,816)</u>
<b>Net assets</b>								
Beginning of year	<u>128,516</u>	<u>1,227</u>	<u>1,294</u>	<u>(2,521)</u>	<u>128,516</u>	<u>946,021</u>	<u>-</u>	<u>1,074,537</u>
End 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>\$ -</u>	<u>\$ 1,056,721</u>

**Rotary International**  
**ASSOCIATION ACTIVITIES**  
**Year ended 30 June 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		106,840
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>

**SERVICES AND OTHER ACTIVITIES**

	Revenue	Expense	Excess revenue/ (expense)
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>

**Rotary International**  
**ASSOCIATION ACTIVITIES**  
**Year ended 30 June 2016**  
**(In thousands of U.S. dollars)**

<b>Revenues</b>		
Dues		\$ 67,459
Net investment return		(2,956)
Services and other activities		<u>33,571</u>
Total revenues		98,074
<b>Expenses</b>		
Senior leader, governance and executive		4,863
Programs and member services		23,100
Communications		11,245
Polio, development and partnerships		577
IT, operations and administration		14,559
Finances		4,814
Strategy and enterprise projects		1,170
International operations		7,148
Human resources, legal and audit		2,879
Pension settlement		<u>4,930</u>
Total operating expenses		75,285
Services and other activities		27,560
Contribution to The Rotary Foundation		<u>290</u>
Total expenses		<u>103,135</u>
Excess expense before non-operating activities		<u>\$ (5,061)</u>

**SERVICES AND OTHER ACTIVITIES**

	<u>Revenue</u>	<u>Expense</u>	<u>Excess revenue/ (expense)</u>
Council on Legislation	\$ 3,275	\$ 3,275	\$ -
International Convention	15,185	13,189	1,996
Magazine	6,191	4,770	1,421
One Rotary Center	5,009	4,366	643
Publications and supplies	540	490	50
U.S. clubs insurance program	1,433	1,453	(20)
License fees and miscellaneous	<u>1,938</u>	<u>17</u>	<u>1,921</u>
Total	<u>\$ 33,571</u>	<u>\$ 27,560</u>	<u>\$ 6,011</u>