



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

Rotary International

30 June 2016 and 2015

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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 2016 and 2015, 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 2016 and 2015, 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.

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 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 established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Chicago, Illinois
21 September 2016

Rotary International
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
30 June 2016 and 2015
(In thousands of U.S. dollars)

ASSETS	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 64,998	\$ 78,667
Club and other accounts receivable, net	3,777	3,574
Pledges receivable, net	7,654	8,237
Deferred charges, prepaid expenses and other assets	8,902	7,257
Investments	1,013,986	1,064,070
Foreign currency contracts	24	-
Split-interest agreements	35,529	36,157
Property and equipment, net	36,083	37,071
	<u>1,170,953</u>	<u>1,235,033</u>
TOTAL ASSETS	\$ 1,170,953	\$ 1,235,033
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 30,160	\$ 29,096
Split-interest agreements payable	20,879	21,003
Accrued program awards	52,962	97,323
Deferred revenue	9,997	4,859
Foreign currency obligations	234	-
Pension obligation	-	8,215
	<u>114,232</u>	<u>160,496</u>
Total liabilities	114,232	160,496
NET ASSETS		
Unrestricted	703,307	721,157
Temporarily restricted	59,944	73,081
Permanently restricted	293,470	280,299
	<u>1,056,721</u>	<u>1,074,537</u>
Total net assets	1,056,721	1,074,537
	<u>1,170,953</u>	<u>1,235,033</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 1,170,953	\$ 1,235,033

The accompanying notes are an integral part of these statements.

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	\$ 133,985	\$ 114,626	\$ 16,043	\$ 264,654
Split-interest agreements	-	-	672	672
Dues	67,459	-	-	67,459
Net investment return	(6,579)	(3,030)	-	(9,609)
Services and other activities	33,571	-	-	33,571
Other revenues, net	220	-	(1,007)	(787)
Net assets released from restrictions	127,434	(124,897)	(2,537)	-
Total revenues	356,090	(13,301)	13,171	355,960
Expenses				
Program awards and expenses	331,787	-	-	331,787
Development expenses	19,421	-	-	19,421
General administration	22,675	-	-	22,675
Total expenses	373,883	-	-	373,883
Change in net assets before non-operating activities	(17,793)	(13,301)	13,171	(17,923)
Change in fair value of foreign currency contracts and obligations	(210)	-	-	(210)
Foreign currency exchange (losses) gains	(7,561)	164	-	(7,397)
Pension-related changes other than net periodic benefit cost	7,714	-	-	7,714
Change in net assets	(17,850)	(13,137)	13,171	(17,816)
Net assets				
Beginning of year	721,157	73,081	280,299	1,074,537
End of year	\$ 703,307	\$ 59,944	\$ 293,470	\$ 1,056,721

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended 30 June 2015
(In thousands of U.S. dollars)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues				
Contributions	\$ 131,276	\$ 117,329	\$ 18,418	\$ 267,023
Split-interest agreements	-	-	1,561	1,561
Dues	65,386	-	-	65,386
Net investment return	(565)	1,380	-	815
Services and other activities	22,822	-	-	22,822
Other revenues, net	148	(281)	(656)	(789)
Net assets released from restrictions	127,401	(127,015)	(386)	-
Total revenues	346,468	(8,587)	18,937	356,818
Expenses				
Program awards and expenses	320,234	-	-	320,234
Development expenses	15,804	-	-	15,804
General administration	20,556	-	-	20,556
Total expenses	356,594	-	-	356,594
Change in net assets before non-operating activities	(10,126)	(8,587)	18,937	224
Foreign currency exchange losses	(10,736)	-	-	(10,736)
Pension-related changes other than net periodic benefit cost	(7,714)	-	-	(7,714)
Change in net assets	(28,576)	(8,587)	18,937	(18,226)
Net assets				
Beginning of year	749,733	81,668	261,362	1,092,763
End of year	\$ 721,157	\$ 73,081	\$ 280,299	\$ 1,074,537

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 program 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	1,658	471	4,511
General office and miscellaneous	45	333	1,073	1,451	213	342	2,006
Total expenses by natural classification	\$ 117,693	\$ 121,498	\$ 92,596	\$ 331,787	\$ 19,421	\$ 22,675	\$ 373,883
Expenses by activity							
Association activities	\$ -	\$ -	\$ 85,417	\$ 85,417	\$ -	\$ 17,428	\$ 102,845
Foundation activities	117,693	121,498	7,179	246,370	19,421	5,247	271,038
	\$ 117,693	\$ 121,498	\$ 92,596	\$ 331,787	\$ 19,421	\$ 22,675	\$ 373,883

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended 30 June 2015
(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	\$ 123,423	\$ 92,846	\$ 8,053	\$ 224,322	\$ -	\$ -	\$ 224,322
Salaries, benefits and payroll taxes	1,660	12,327	27,117	41,104	8,912	8,145	58,161
External services	194	1,442	4,779	6,415	1,163	1,321	8,899
Volunteer reimbursements	-	-	10,265	10,265	-	78	10,343
Travel	127	943	6,959	8,029	1,056	4,729	13,814
Conferences, conventions and meetings	8	60	6,361	6,429	509	1,278	8,216
Media and public relations	1	7	1,581	1,589	36	316	1,941
Information technology and communications	226	1,680	1,841	3,747	699	865	5,311
Publications and printing	8	56	1,654	1,718	369	310	2,397
Postage, shipping and freight	21	159	2,355	2,535	801	477	3,813
Donor recognition	-	-	122	122	790	144	1,056
Cost of sales	4	31	759	794	13	164	971
Occupancy	167	1,239	8,311	9,717	512	2,029	12,258
Insurance, finance fees and taxes	15	111	1,980	2,106	700	424	3,230
General office and miscellaneous	45	333	964	1,342	244	276	1,862
Total expenses by natural classification	\$ 125,899	\$ 111,234	\$ 83,101	\$ 320,234	\$ 15,804	\$ 20,556	\$ 356,594
Expenses by activity							
Association activities	\$ -	\$ -	\$ 75,026	\$ 75,026	\$ -	\$ 15,702	\$ 90,728
Foundation activities	125,899	111,234	8,075	245,208	15,804	4,854	265,866
	\$ 125,899	\$ 111,234	\$ 83,101	\$ 320,234	\$ 15,804	\$ 20,556	\$ 356,594

The accompanying notes are an integral part of this statement.

Rotary International
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended 30 June 2016 and 2015
(In thousands of U.S. dollars)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (17,816)	\$ (18,226)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Endowment Fund contributions	(16,043)	(18,419)
Contributed securities	(21)	(17)
Foreign currency translation losses	7,677	11,198
Realized and unrealized gains/losses on investments, net	20,199	10,654
Change in fair value of foreign currency contracts and obligations	210	-
Depreciation and amortization	7,122	7,338
Changes in operating assets and liabilities		
Pledges receivable, net	486	10,062
Deferred charges, prepaid expenses and other assets	(1,644)	448
Split-interest agreements	628	(2,360)
Club and other accounts receivable, net	(203)	204
Accrued program awards	(44,361)	33,082
Accounts payable and accrued expenses	1,063	(2,256)
Split-interest agreements payable	(124)	1,796
Deferred revenue	5,138	1,845
Pension obligation	(8,215)	7,816
Net cash (used in) provided by operating activities	(45,904)	43,165
Cash flows from investing activities		
Purchase of investments	(1,589,751)	(1,717,640)
Proceeds from sale of investments	1,591,645	1,763,199
Purchase of property and equipment	(6,134)	(6,379)
Change in short-term investments	28,012	(100,465)
Net cash provided by (used in) by investing activities	23,772	(61,285)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in Endowment Fund	16,140	17,777
Net cash provided by financing activities	16,140	17,777
Effect of exchange rates on cash	(7,677)	(11,198)
Decrease in cash and cash equivalents	(13,669)	(11,541)
Cash and cash equivalents, beginning of year	78,667	90,208
Cash and cash equivalents, end of year	\$ 64,998	\$ 78,667

The accompanying notes are an integral part of these statements.

Rotary International
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2016 and 2015
(In thousands of U.S. dollars)

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.

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 2016 and 2015
(In thousands of U.S. dollars)

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 \$10,152 and \$10,596 as of 30 June 2016 and 2015, respectively. Rotary maintains foreign and domestic cash accounts, including cash and cash equivalents of \$19,821 and \$16,942 as of 30 June 2016 and 2015, 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 2016 and 2015. 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 2016 and 2015, the present value discount is \$154 and \$157, respectively, and the allowance for uncollectible pledges is \$595 and \$229, 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 2016 and 2015
(In thousands of U.S. dollars)

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 \$9,119 as of 30 June 2015, subject to certain repatriation 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 2016 and 2015 resulted in an expense of \$613 and \$894, respectively.

Endowments

The Foundation's endowment (known as the Endowment Fund) is composed of donor-restricted and trustee-designated endowment funds. The primary objective of the Endowment Fund is to support the programs of the Foundation in perpetuity. Endowment funds are recorded in accordance with the Illinois-approved Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation interprets UPMIFA as

Rotary International
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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requiring that the historic value of the original donor-restricted endowment gift be preserved as of the gift date unless there are explicit donor stipulations to the contrary. The portion of the endowment that must be maintained permanently, not expended or otherwise exhausted, is classified as permanently restricted net assets. A portion of the fund's earnings are classified as temporarily restricted net assets until they have been appropriated for expenditure by the Foundation and have met any purpose restrictions. The amount of the fund that is trustee-designated is classified as unrestricted net assets. A portion of the Endowment Fund's investment earnings are used to finance the programs of the Foundation, based on the terms of the gift and the Foundation's spending policy. The Endowment Fund may make an annual distribution to the Foundation's program awards and expenses approved by the Foundation's Trustees.

The Foundation's Trustees have responsibility for formulating the Endowment Fund's investment policy. Funds are included in a consolidated endowment pool and invested in accordance with the investment policy approved by the Trustees and monitored by the Investment Committee. Assets of the Endowment Fund are invested to ensure that capital is preserved and enhanced over time. The investment policy for the Endowment Fund is to invest in a diversified asset portfolio that is expected to produce an average annual total return that at least equals inflation, plus endowment spending, without assuming undue risk.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the following estimated useful lives of the assets: building (31.5 years), building improvements (the lesser of 25 years or the useful life of the improvements), and furniture and equipment (3 to 10 years), 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:

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.

Rotary International
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
30 June 2016 and 2015
(In thousands of U.S. dollars)

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

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 or at the time of gift acceptance and in accordance with the spending policy approved by the Foundation Trustees. Non-current pledges and the unspent portion of the Endowment Fund's net investment return are classified as temporarily restricted.

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

Revenue Recognition

Contributions and unconditional pledges are recognized as revenue in the period received and recorded at estimated fair value. Dues are recognized as revenue in the membership year to which they relate. Prepaid dues 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 2016 and 2015.

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

The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain positions to be recognized in the 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. The fiscal years ended 2013, 2014, 2015 and 2016 are still open to audit for federal and Illinois purposes.

Rotary International
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
30 June 2016 and 2015
(In thousands of U.S. dollars)

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.

Rotary International
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
30 June 2016 and 2015
(In thousands of U.S. dollars)

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The fair values of Rotary's consolidated financial assets that are measured on a recurring basis are as follows as of 30 June 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
Investments at fair value				
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)	325,431	-	-	325,431
Mutual funds, measured at NAV (e)	-	-	41,036	41,036
Commingled funds (f)	-	-	41,842	41,842
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
Total investments at fair value	\$ 630,970	\$ 227	\$ 379,193	1,010,390
Investments not at fair value (k)				3,596
Total investments				\$ 1,013,986
Foreign currency contracts		\$ 24		\$ 24
Split-interest agreements				
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
Total split-interest agreements at fair value	\$ 34,049	\$ 1,480	\$ -	\$ 35,529
Foreign currency obligations		\$ (234)		\$ (234)

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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 2015:

	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 2015
Investments at fair value				
Invested cash and short-term				
investments (a)	\$ 155,715	\$ -	\$ -	\$ 155,715
Equity (b)	35,916	-	-	35,916
Fixed income (c)	126,030	1,029	-	127,059
Exchange traded funds (d)	19,185	-	-	19,185
Mutual funds, measured at NAV (e)	347,454	-	-	347,454
Mutual funds (e)	-	-	39,468	39,468
Commingled funds (f)	-	-	39,614	39,614
Limited liability companies (g)	-	-	105,665	105,665
Private equity funds (h)	-	-	33,037	33,037
Real estate funds (i)	-	-	62,225	62,225
Hedge funds (j)	-	-	86,637	86,637
Total investments at fair value	<u>\$ 684,300</u>	<u>\$ 1,029</u>	<u>\$ 366,646</u>	1,051,975
Investments not at fair value (k)				<u>12,095</u>
Total investments				<u>\$ 1,064,070</u>
Split-interest agreements				
Invested cash and short-term				
investments	\$ 841	\$ -	\$ -	\$ 841
Fixed income	-	1,022	-	1,022
Exchange traded funds	34,219	-	-	34,219
Mutual Funds	75	-	-	75
Total split-interest agreements at fair value	<u>\$ 35,135</u>	<u>\$ 1,022</u>	<u>\$ -</u>	<u>\$ 36,157</u>

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 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.

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

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

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

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

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

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

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

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

(j) Hedge funds include various hedge funds that pursue multiple global strategies to diversify risks and reduce volatility. The fair values of the investments in this category have been estimated using the NAV per share of the investments. A full redemption 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 2016 and 2015, a portion of the \$16,000 originally written off was recovered in the amounts of \$4,138 and \$1,717,

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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 a certificate of deposit.

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

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Mutual funds	\$ 41,036	\$ -	Daily	Daily
Commingled funds	41,842	-	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>\$ 379,193</u>	<u>\$ 30,982</u>		

Rotary investments reported at NAV or its equivalent as of 30 June 2015 include: certain mutual funds, commingled funds, limited liability companies, hedge funds, private equity funds and real estate funds, as defined above, and as summarized below:

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments				
Mutual funds	\$ 39,468	\$ -	Daily	Daily
Commingled funds	39,614	-	Monthly	22nd day of preceding month
Limited liability companies	105,665	-	Daily/twice monthly/monthly	8th or 22nd of current month/15 days
Private equity funds	33,037	27,709	-	-
Real estate funds	62,225	-	Quarterly	60-90 days
Hedge funds	86,637	-	Monthly/quarterly	30-65 days/not <5 days before end of month
Total	<u>\$ 366,646</u>	<u>\$ 27,709</u>		

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The components of investment return, net for the years ended 30 June 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 13,508	\$ 15,395
Realized gains, net	13,784	50,074
Unrealized losses, net	(33,983)	(60,728)
Investment and banking fees	<u>(2,918)</u>	<u>(3,926)</u>
Total	<u>\$ (9,609)</u>	<u>\$ 815</u>

NOTE D - PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net as of 30 June 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Property and equipment		
Land	\$ 2,231	\$ 2,231
Building	75,551	72,885
Furniture and equipment	<u>40,183</u>	<u>40,584</u>
Property and equipment	117,965	115,700
Less accumulated depreciation	<u>(81,882)</u>	<u>(78,629)</u>
Total	<u>\$ 36,083</u>	<u>\$ 37,071</u>

Depreciation expense for the years ended 30 June 2016 and 2015 was \$7,122 and \$7,338, respectively.

NOTE E - ENDOWMENTS

Based on the spending policy approved by the Trustees, annual spending occurs each year from those endowed gifts where the market 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 2016 and 2015.

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.

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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
Investment return				
Interest, dividends and investment fees, net	166	3,147	-	3,313
Realized and unrealized losses, net	(530)	(6,013)	-	(6,543)
Total investment return	(364)	(2,866)	-	(3,230)
Contributions	-	-	16,043	16,043
Transfer of funds	496	-	-	496
Conversion of split-interest agreements to endowment	-	-	170	170
Modifications to endowment agreements and pledge write offs	-	1,508	(2,537)	(1,029)
Appropriation of endowment assets for expenditure	-	(13,302)	-	(13,302)
Endowment net assets, end of year	<u>\$ 18,556</u>	<u>\$ 48,110</u>	<u>\$ 278,910</u>	<u>\$ 345,576</u>

Changes in endowment net assets for the year ended 30 June 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 17,622	\$ 73,762	\$ 246,861	\$ 338,245
Investment return				
Interest, dividends and investment fees, net	183	2,855	-	3,038
Realized and unrealized losses, net	(122)	(1,756)	-	(1,878)
Total investment return	61	1,099	-	1,160
Contributions	-	-	18,419	18,419
Transfer of funds	741	-	-	741
Conversion of split-interest agreements to endowment	-	-	340	340
Modifications to endowment agreements and pledge write offs	-	(130)	(386)	(516)
Appropriation of endowment assets for expenditure	-	(11,961)	-	(11,961)
Endowment net assets, end of year	<u>\$ 18,424</u>	<u>\$ 62,770</u>	<u>\$ 265,234</u>	<u>\$ 346,428</u>

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (208)	\$ 48,110	\$ 278,910	\$ 326,812
Trustee-designated endowment funds	<u>18,764</u>	<u>-</u>	<u>-</u>	<u>18,764</u>
Endowment net assets, end of year	<u>\$ 18,556</u>	<u>\$ 48,110</u>	<u>\$ 278,910</u>	<u>\$ 345,576</u>

Endowment composition by net asset class as of 30 June 2015 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (27)	\$ 62,770	\$ 265,234	\$ 327,977
Trustee-designated endowment funds	<u>18,451</u>	<u>-</u>	<u>-</u>	<u>18,451</u>
Endowment net assets, end of year	<u>\$ 18,424</u>	<u>\$ 62,770</u>	<u>\$ 265,234</u>	<u>\$ 346,428</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 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. Deficiencies totaled \$208 and \$27 as of 30 June 2016 and 2015, respectively.

NOTE F - BENEFIT PLANS

Pension Benefits

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Summary information for the Plan as of 30 June 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Plan assets at fair value	\$ -	\$ 63,661
Projected benefit obligation	<u>-</u>	<u>71,876</u>
Funded status	\$ <u>-</u>	\$ <u>(8,215)</u>
Net actuarial loss	\$ -	\$ 7,714
Amount recognized in unrestricted net assets	\$ <u>-</u>	\$ <u>7,714</u>

The weighted-average actuarial assumptions used to determine the benefit obligation as of 30 June 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	N/A	3.87%
Assumed rate of compensation increases	N/A	N/A

The amount recognized as pension-related changes other than net periodic benefit cost in the consolidated statements of activities for fiscal years 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Current year actuarial loss	\$ (1,133)	\$ (7,714)
Amortization of actuarial loss	15	-
Recognition of settlement loss	<u>8,832</u>	<u>-</u>
Total recognized as pension-related changes other than net periodic benefit cost	\$ <u>7,714</u>	\$ <u>(7,714)</u>

The amounts recognized by the Plan for fiscal years 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Benefits paid	\$ 73,860	\$ 1,939
Pension expense	125	102

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The net periodic benefit cost for fiscal years 2016 and 2015 is as follows:

	2016	2015
Service cost	\$ -	\$ 618
Interest cost	685	2,572
Expected return on assets	(575)	(3,088)
Amortization of loss	15	-
Net periodic benefit cost	<u>\$ 125</u>	<u>\$ 102</u>

The weighted-average actuarial assumptions used to determine net periodic benefit cost for the years ended 30 June 2015 are as follows:

	2016	2015
Discount rate	N/A	3.93%
Expected long-term rate of return	N/A	5.00
Assumed rate of compensation increases	N/A	5.00

The following fair value hierarchy table presents information about the Plan's investments measured at fair value as of 30 June 2015:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Invested cash and short-term investments (a)	\$ 30,622	\$ -	\$ -	\$ 30,622
Fixed income (b)	3,137	-	-	3,137
Commingled funds, measured at NAV (c)	-	-	-	6,720
Limited liability companies, measured at NAV (d)	-	-	-	23,182
Total	<u>\$ 33,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,661</u>

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

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

(b) Fixed income are invested in money market and fixed term deposits with maturities of less than one year, U.S. government obligations, fixed-income instruments, U.S. and non-U.S. equity securities, mutual funds, and exchange traded funds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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(c) Commingled funds are pools of assets commingled together to benefit from professional management and through economies of scale. Investors own shares of the fund and are provided a NAV on a regular basis. Commingled funds are regulated by the U.S. Office of the Comptroller of the Currency or by the state banking authority. Commingled funds are valued based on NAV per share, derived from the quoted prices in active markets of the underlying equity securities.

(d) The limited liability companies are investing vehicles whose interest is in a membership of the limited liability company. The membership has the same benefits of professional management and economies of scale that mutual and commingled funds do, and are provided with regular NAV reporting. Limited liability companies are invested in bond funds. Bond fund values are derived from the quoted prices in active markets of the underlying fixed income securities.

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 may also make further contributions to the 401(k) Plan via a points-based contribution. The match and points-based contribution expense to Rotary was \$3,269 and \$2,283 for the years ended 30 June 2016 and 2015, respectively.

NOTE G - LEASING ARRANGEMENTS

As lessee, Rotary International leases certain office facilities. The future minimum lease commitments under these non-cancelable operating leases as of 30 June 2016 are as follows:

Years ending 30 June

2017	\$	715
2018		599
2019		313
2020		181
2021		61
Thereafter		-
		<hr/>
Total future minimum lease commitments	\$	<u>1,869</u>

Rental expense was \$1,599 and \$1,554 for the years ended 30 June 2016 and 2015, respectively.

One Rotary Center is Rotary's world headquarters office building in Evanston, Illinois, USA, owned by Rotary International. At 30 June 2016, 55% of One Rotary Center space was available for lease to third parties. Of the available space for lease, 73% 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:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Years ending 30 June

2017	\$	5,830
2018		6,025
2019		6,102
2020		5,939
2021		5,737
Thereafter		<u>38,759</u>
Total future minimum rental income	\$	<u>68,392</u>

NOTE H - NET ASSETS

The components of Rotary's net assets as of 30 June 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted		
Undesignated	\$ 555,907	\$ 544,203
Board-designated	<u>147,400</u>	<u>176,954</u>
Total unrestricted net assets	703,307	721,157
Temporarily restricted		
Endowment Fund earnings awaiting appropriation	48,110	62,770
Areas of focus/term gifts	<u>11,834</u>	<u>10,311</u>
Total temporarily restricted net assets	59,944	73,081
Permanently restricted		
Annual fund	187,907	179,039
Rotary grants	89,222	84,262
PolioPlus program	200	200
Split-interest agreements	14,560	15,065
Other	<u>1,581</u>	<u>1,733</u>
Total permanently restricted net assets	293,470	280,299
Total net assets	\$ <u>1,056,721</u>	\$ <u>1,074,537</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Net assets released from temporary restrictions by incurring expenses that satisfied donor restrictions for the years ended 30 June 2016 and 2015 are as follows:

	2016	2015
PolioPlus	\$ 97,390	\$ 98,025
Endowment Fund earnings appropriated for use	10,087	9,099
Areas of focus/term gifts	17,925	19,147
Endowment modifications	(1,508)	183
Prior-year pledges due	1,003	561
Total	\$ 124,897	\$ 127,015

Net assets released from permanent restrictions through modifications to endowment agreements and pledge write offs and allowance for the years ended 30 June 2016 and 2015 are as follows:

	2016	2015
Endowment modifications	\$ 1,757	\$ 300
Pledge write offs and allowance	780	86
Total	\$ 2,537	\$ 386

NOTE I - SERVICES AND OTHER ACTIVITIES

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

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

NOTE J - THE BILL & MELINDA GATES FOUNDATION GRANT

Beginning in fiscal year 2008, the Foundation entered into 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

Rotary International
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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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 five years. The Foundation recorded a \$70,000 award as revenue in fiscal years 2015 and 2016.

NOTE K - SUBSEQUENT EVENTS

Management considered subsequent events through 21 September 2016, 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.

SUPPLEMENTARY INFORMATION

Rotary International
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
30 June 2016
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ASSETS	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
ASSETS								
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	\$ 159,669	\$ 5,547	\$ 1,993	\$ (3,118)	\$ 164,091	\$ 1,011,439	\$ (4,577)	\$ 1,170,953
LIABILITIES AND NET ASSETS								
LIABILITIES								
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	33,082	4,289	596	(463)	37,504	81,305	(4,577)	114,232
NET ASSETS								
Unrestricted								
Undesignated	114,759	1,258	1,397	(2,655)	114,759	441,148	-	555,907
Board designated	11,828	-	-	-	11,828	135,572	-	147,400
Total unrestricted net assets	126,587	1,258	1,397	(2,655)	126,587	576,720	-	703,307
Temporarily restricted	-	-	-	-	-	59,944	-	59,944
Permanently restricted	-	-	-	-	-	293,470	-	293,470
Total net assets	126,587	1,258	1,397	(2,655)	126,587	930,134	-	1,056,721
TOTAL LIABILITIES AND NET ASSETS	\$ 159,669	\$ 5,547	\$ 1,993	\$ (3,118)	\$ 164,091	\$ 1,011,439	\$ (4,577)	\$ 1,170,953

Rotary International
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
30 June 2015
(In thousands of U.S. dollars)

ASSETS	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
ASSETS								
Cash and cash equivalents	\$ 20,073	\$ 348	\$ 188	\$ -	\$ 20,609	\$ 58,058	\$ -	\$ 78,667
Club and other accounts receivable, net	3,182	-	392	-	3,574	-	-	3,574
Pledges receivable, net	-	-	-	-	-	8,237	-	8,237
Deferred charges, prepaid expenses and other assets	4,356	106	41	-	4,503	2,754	-	7,257
Due from affiliates	3,873	-	794	(797)	3,870	-	(3,870)	-
Investments	93,343	4,864	-	(2,521)	95,686	968,384	-	1,064,070
Split-interest agreements	-	-	-	-	-	36,157	-	36,157
Property and equipment, net	36,730	-	341	-	37,071	-	-	37,071
Total assets	\$ 161,557	\$ 5,318	\$ 1,756	\$ (3,318)	\$ 165,313	\$ 1,073,590	\$ (3,870)	\$ 1,235,033
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable, accrued expenses and split-interest agreements payable	\$ 23,823	\$ 3,568	\$ 441	\$ 500	\$ 28,332	\$ 21,767	\$ -	\$ 50,099
Accrued program awards	-	-	-	-	-	97,323	-	97,323
Deferred revenue	3,864	-	-	-	3,864	995	-	4,859
Pension obligation	4,601	-	-	-	4,601	3,614	-	8,215
Due to affiliates	753	523	21	(1,297)	-	3,870	(3,870)	-
Total liabilities	33,041	4,091	462	(797)	36,797	127,569	(3,870)	160,496
NET ASSETS								
Unrestricted								
Undesignated	111,229	1,227	1,294	(2,521)	111,229	432,974	-	544,203
Board designated	17,287	-	-	-	17,287	159,667	-	176,954
Total unrestricted net assets	128,516	1,227	1,294	(2,521)	128,516	592,641	-	721,157
Temporarily restricted	-	-	-	-	-	73,081	-	73,081
Permanently restricted	-	-	-	-	-	280,299	-	280,299
Total net assets	128,516	1,227	1,294	(2,521)	128,516	946,021	-	1,074,537
TOTAL LIABILITIES AND NET ASSETS	\$ 161,557	\$ 5,318	\$ 1,756	\$ (3,318)	\$ 165,313	\$ 1,073,590	\$ (3,870)	\$ 1,235,033

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
Revenues								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,944	\$ (290)	\$ 264,654
Split-interest agreements	-	-	-	-	-	672	-	672
Dues	67,459	-	-	-	67,459	-	-	67,459
Net investment return	(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	98,180	1,097	2,297	(3,500)	98,074	258,176	(290)	355,960
Expenses								
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	85,417	-	-	-	85,417	246,370	-	331,787
Development expenses	-	-	-	-	-	19,421	-	19,421
General administration	18,046	1,066	2,106	(3,500)	17,718	5,247	(290)	22,675
Total expenses	103,463	1,066	2,106	(3,500)	103,135	271,038	(290)	373,883
Change in net assets before non- operating activities	(5,283)	31	191	-	(5,061)	(12,862)	-	(17,923)
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)
Pension-related changes other than net periodic benefit cost	4,320	-	-	-	4,320	3,394	-	7,714
Equity investment in subsidiary	134	-	-	(134)	-	-	-	-
CHANGE IN NET ASSETS	(1,929)	31	103	(134)	(1,929)	(15,887)	-	(17,816)
Net assets								
Beginning of year	128,516	1,227	1,294	(2,521)	128,516	946,021	-	1,074,537
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
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended 30 June 2015
(In thousands of U.S. dollars)

	Rotary International	PPH	Infotech	Eliminating entries	Association subtotal	Foundation	Eliminating entries	Consolidated total
Revenues								
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,342	\$ (319)	\$ 267,023
Split-interest agreement	-	-	-	-	-	1,561	-	1,561
Dues	65,386	-	-	-	65,386	-	-	65,386
Net investment return	(2,565)	90	3	-	(2,472)	3,287	-	815
Services and other activities	22,822	-	-	-	22,822	-	-	22,822
Other revenues, net	213	819	1,928	(2,960)	-	(789)	-	(789)
Total revenues	85,856	909	1,931	(2,960)	85,736	271,401	(319)	356,818
Expenses								
Program awards and expenses								
PolioPlus program	-	-	-	-	-	125,899	-	125,899
Rotary grants	-	-	-	-	-	111,234	-	111,234
Other programs	75,026	-	-	-	75,026	8,075	-	83,101
Total program awards and expenses	75,026	-	-	-	75,026	245,208	-	320,234
Development expenses	-	-	-	-	-	15,804	-	15,804
General administration	16,388	862	1,731	(2,960)	16,021	4,854	(319)	20,556
Total expenses	91,414	862	1,731	(2,960)	91,047	265,866	(319)	356,594
Change in net assets before non-operating activities	(5,558)	47	200	-	(5,311)	5,535	-	224
Foreign currency exchanges losses	(2,600)	-	(51)	-	(2,651)	(8,085)	-	(10,736)
Pension-related changes other than net periodic benefit cost	(4,320)	-	-	-	(4,320)	(3,394)	-	(7,714)
Equity investment in subsidiary	196	-	-	(196)	-	-	-	-
CHANGE IN NET ASSETS	(12,282)	47	149	(196)	(12,282)	(5,944)	-	(18,226)
Net assets								
Beginning of year	140,798	1,180	1,145	(2,325)	140,798	951,965	-	1,092,763
End 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>

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

Revenues		
Dues		\$ 67,459
Net investment return		(2,956)
Services and other activities		33,571
	Total revenues	98,074
Expenses		
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		4,930
	Total operating expenses	75,285
Services and other activities		27,560
Contribution to The Rotary Foundation		290
	Total expenses	103,135
	Excess expense before non-operating activities	\$ (5,061)

SERVICES AND OTHER ACTIVITIES

	Revenue	Expense	Excess revenue/ (expense)
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	1,938	17	1,921
Total	\$ 33,571	\$ 27,560	\$ 6,011

Rotary International
ASSOCIATION ACTIVITIES
Year ended 30 June 2015
(In thousands of U.S. dollars)

Revenues		
Dues	\$	65,386
Net investment return		(2,472)
Services and other activities		22,822
Total revenues		85,736
Expenses		
Senior leader, governance and executive		5,211
Programs and member services		24,700
Communications		10,386
Polio, development and partnerships		305
IT, operations and administration		11,253
Finances		4,647
Strategy and enterprise projects		1,273
International operations		7,270
Human resources, legal and audit		2,722
Total operating expenses		67,767
Services and other activities		22,961
Contribution to The Rotary Foundation		319
Total expenses		91,047
Excess expense before non-operating activities	\$	(5,311)

SERVICES AND OTHER ACTIVITIES

	Revenue	Expense	Excess revenue/ (expense)
Council on Legislation	\$ 230	\$ 230	\$ -
International Convention	6,678	7,877	(1,199)
Magazine	6,213	4,884	1,329
One Rotary Center	6,056	7,657	(1,601)
Publications and supplies	605	1,020	(415)
U.S. clubs insurance program	1,281	1,305	(24)
License fees and miscellaneous	1,759	(12)	1,771
Total	\$ 22,822	\$ 22,961	\$ (139)