



## RI FIVE-YEAR FINANCIAL FORECAST

AT 4<sup>TH</sup> PLENARY SESSION

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Director, Rotary International 2008-10

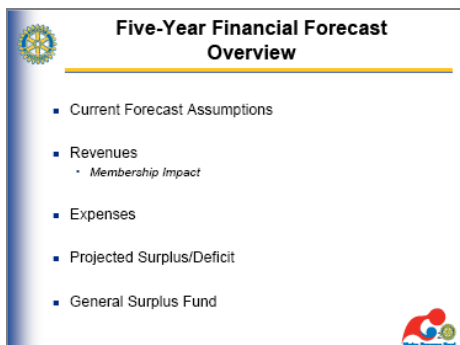
Convener, 2008 Taipei Rotary Institute

The Auditorium (10th Floor)

0925-0945, Sunday, Oct. 19, 2008

The Rotary International by-laws require presentation of the RI Five-Year Financial Forecast at Rotary Institutes. Rotary International maintains a five-year financial forecast that is updated and reviewed by both the RI Finance Committee and the RI Board twice a year.

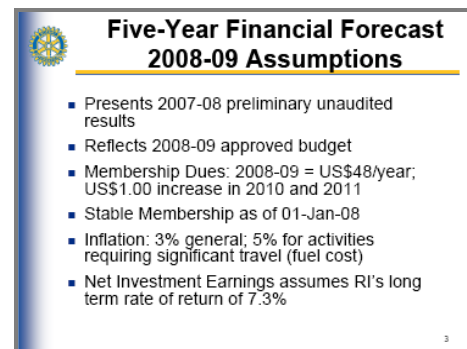
All 2007-08 numbers are preliminary and unaudited. The audited financial statements will be presented to the RI Board for their approval at their November 2008 meeting.



This presentation will cover –

The assumptions used in developing the forecast;  
 The revenue components including the impact of changes of membership on RI's revenue from dues  
 The expense components for fiscal 2009 through 2013;  
 The resulting surplus or deficit for each forecast year;  
 and

The projected General Surplus Fund at the end of each fiscal year.



This forecast begins with RI's operating results for fiscal year 2007-08 which presently are preliminary and unaudited.

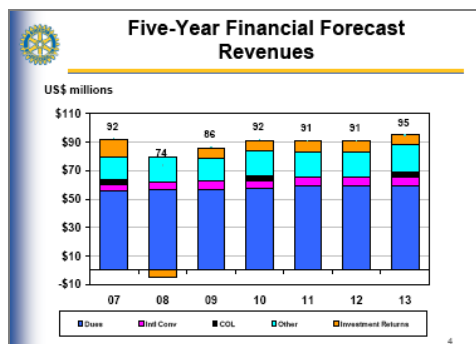
The first year of the forecast utilizes the approved fiscal year 2009 budget.

Membership dues are budgeted at US\$48 for fiscal year 2009, and the forecast includes a dues increase of US\$1.00 in fiscal years 2010 to 2011 as approved by the 2007 COL.

We assume that RI's membership will remain stable during the forecast period. (1,207,00 members includes RIBI as of 1 January 2008)

In general, the forecast assumes that costs will increase throughout the world at an average of 3%, except for major travel budgets that are assumed to increase at 5% to show higher fuel cost.

The forecasted net investment earnings assumes RI's expected long term rate of return which is currently 7.3%.



This slide displays RI's forecasted revenues by year: DUES are the major source of our revenues. This forecast assumes that:

- Membership remains stable.
- Per capita dues is US\$48 per year in 2008-09. Dues will increase US\$1.00 per year in 2010 and 2011 as approved by the 2007 COL. These are assumed to remain constant at US\$50 per year after 2011.

The second major component of revenues from RI's Service and Other Activities. Such as:

INTERNATIONAL CONVENTIONS Note that, Convention revenues will vary based on location, attendance, and registration fees.

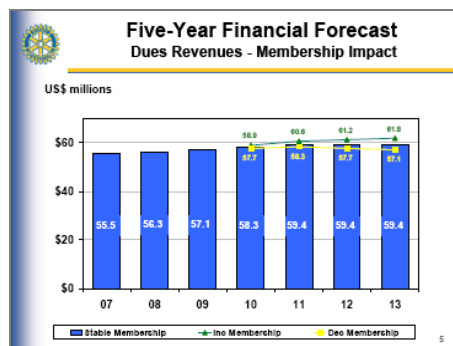
Also the revenues for the COUNCIL ON LEGISLATION occur every three years

Revenues from The Rotarian magazine; rental income from One Rotary Center; sale of publications, licensing fees and royalties are also included revenue.

There are also NET INVESTMENT RETURNS. This forecast assumes that our investments will generate, on average, a 7.3% net return in 2008 through 2013.

As investment markets can be unstable, it is important to note that in 2007, investment returns were especially high at approximately 14%, while 2008 returned a

-5.4% or US\$4.8 million loss—all of this occurring in a single month, June 2008. These current results reflect this year's financial market. Note, however, that these losses have not caused Rotary to liquidate any of its investments in order to operate the secretariat. Additionally, Rotary's investment earnings reserve of \$12.0 million more than safely covers this budget change.

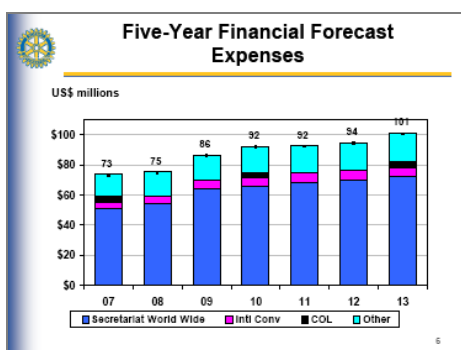


This slide displays RI's forecasted dues revenues at three membership levels; stable, increasing, and decreasing.

The blue bar represents dues revenue earned from stable membership, as represented on the previous slide.

The green line represents dues revenue with a 1% increase in membership per year. This graph shows that an increased membership of 1% in 2009-10, would result in an increase in dues revenue of US\$600 thousand. A 1% increase in membership yearly until 2012-13 would result in an increase in 2012-13 dues revenue of US\$2.4 million.

Conversely, the black line represents dues revenue when there is a decrease in membership by 1% per year. As you can see, a 1% decrease in membership in 2009-10 would result in a decrease in dues revenue by US\$600 thousand and a 1% decrease in membership each year would result in a decrease in dues revenue of US\$2.4 million by 2012-13.



This slide presents RI's forecasted expenses that are consistent with the revenues.

The expenses to operate the Secretariat worldwide are paid for by revenue from dues. These costs include your Board of Directors, District Governors' allocations, Committees, Programs and Meetings including the International Assembly, District Conference Representatives, our seven International Offices, Communications and Public Relations, Membership Services, Information Systems, Financial Services, and Office Support Services.

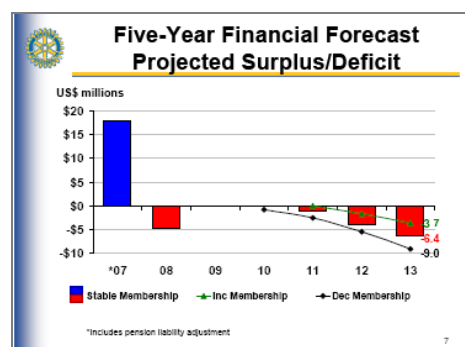
In the beginning of 2008, the Secretariat's actual expenses totaled \$75 million. These amounts were approximately \$10 million less than budget in 2007 and \$8 million less than budget in 2008. Deferring information technology spending, realizing lower levels of District Governor spending, and operating at lower staff levels than planned all contributed to these savings.

In 2009, total expenses are budgeted to increase based on using more information technology initiatives, increasing public relations and communications activities, increasing the District Governors' allocations, and filling vacant staff positions required to maintain service levels. Your Rotary senior leaders and the General Secretary will continue their watchful expense control while still maintaining excellence in service.

Again, expenses related to the International convention will vary from year to year based on the location and attendance.

Expenses related to the 2010 and 2013 Council on Legislation are forecasted to equal the COL revenue. This is consistent with the actual results in 2007. Since the new annual charge of US\$1.00 per Rotarian has effectively covered the cost of the past two councils it is expected to be sufficient for 2010.

Expenses related to Services and Other Activities are those that are covered directly by related revenues, as previously mentioned. These include the cost of The Rotarian magazine; operating One Rotary Center; publications; and the cost of Rotary's insurance company. These expenses have been fully covered by related revenue.



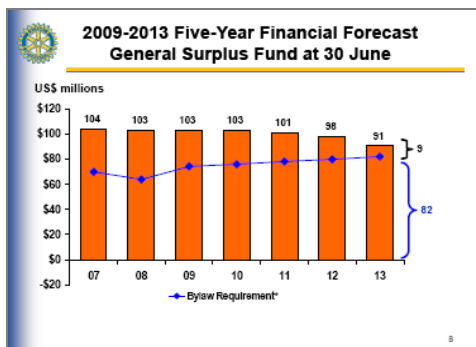
This slide presents the difference between revenues and expenses for each year from 2007 through 2013. The large surplus in 2006-07 is, again, the result of strong investment returns and cost containment efforts. In addition, the deficit in 2007-08 are driven by unrealized investment return losses.

The two additional lines on the graph show the projected surplus/deficit with an increasing and decreasing membership of 1%. Therefore, dues revenue from an annual increase in membership of 1% per year could decrease the deficit in 2012-13 by US\$2.7Million. Conversely, a decrease in membership

of 1% per year until 2012-13 could increase the deficit from US\$6.4million to US\$9.0million. It is assumed that the membership changes occur in existing clubs and districts. Increases in the number of clubs or districts would cause additional cost changes within the secretariat.

Note that, while the forecasted revenues include the US\$1.00 per capita dues increase in fiscal years 2009 through 2011, the forecasted expenses could exceed revenues from 2011 to 2013. The Board, the general secretary, and the secretariat staff are committed to continuing efforts to be more efficient and lower expenses without reducing services to Rotarians.

Also, the 2007 Council on Legislation recognized that the General Surplus Fund can be used to add to revenues when necessary. This is seen on the next slide.



This slide presents RI's forecasted general surplus fund

at the end of each year. This fund shows RI's investments and unrestricted cash. The general surplus fund is to provide for the long-term financial security of RI.

The blue line represents the forecasted minimum bylaw requirement. The general surplus fund must be at least 85% of the highest level of prior year expenses (excluding the IC and COL expenses which are self funded events.) These amounts below the blue line, are intended to be used for emergencies and unforeseen (unexpected) circumstances.

Funds over the minimum bylaw requirement, which are above the blue line, are the forecasted excess that will be available to fund operations, if required. As you can see, the General Surplus Fund can safely finance the projected deficits in 2010-11 through 2012-13.

You can see that even in these challenging economic times, the financial position of Rotary International remains strong and the General Surplus Fund is projected to remain above the minimum level required. It is through the combined efforts of your Board of Directors, our volunteer committees, the general secretary and the professional secretariat staff that RI's operations and related spending levels are often monitored throughout each year.

