

**Gennaro M. Cardinale, Treasurer, Rotary International**

**Report to the Convention, Osaka, Japan, May 2004**

President Majiyagbe, ladies and gentlemen, and fellow Rotarians. It is my honor to serve as your treasurer this Rotary year. Under the Rotary International By-laws, it is my duty to report to you on the current state of Rotary International's finances. As such, I will present the results of our past fiscal year ended 30 June 2003, the current status of this year's performance, and the future financial outlook.

**2002-03 Results**

Revenues: During 2002-2003, revenues totaled US\$60.5 million, an increase of \$4.1 million over the prior year, resulting primarily from improved investment earnings – a \$2.2 million gain in fiscal 2003 compared to a \$4.3 million loss in fiscal 2002. Revenues fell short of the budget by \$3.3 million, however, mainly because investment income and convention revenues were lower than expected. Although falling below budget, convention revenue did exceed expenses, thereby resulting in a profitable convention.

In 2002-03, 69 percent of our revenues, or \$41.6 million, came from membership dues. Services and other activities generated \$16.7 million—from publications (\$7.3 million), One Rotary Center (\$3.8 million), the International Convention and meetings (\$3.2 million), and licensing and other sources (\$2.4 million).

Investment income accounted for \$2.2 million in revenues.

Expenses: Our expenses during fiscal 2003 totaled US\$62.2 million, \$1.1 million less than the prior year and \$1.6 million below budget. Expenses were less than those of the prior year primarily because of reduced costs for the convention, membership services, World Headquarters occupancy costs, and the president and president-elect offices. However, these reductions were partially offset by increases in expenses for district governors and the cost of publications and supplies. Expenses for the convention and information systems were lower than anticipated, resulting in overall expenses coming in under budget. These reductions were also partially offset by higher than budgeted expenses for payments to district governors.

In 2002-03, \$13.1 million was spent for governance, which includes expenses for your district governors, officers, and directors; \$12.7 million went toward managing the Secretariat; \$12.2 million for producing publications; \$10.6 million for providing membership services; \$8.8 million for the International Convention and other meetings; and US\$4.8 million for One Rotary Center.

Despite a reduction in total spending of \$1.1 million from that of the prior year, we were unable to offset the revenue shortfall, resulting in a deficit of US\$1.7 million, which was financed from our operating reserves.

## **Current Status of Fiscal 2003-04**

After three successive years of operating deficits, we entered this fiscal year with a very aggressive budget that forced staff reductions and deferral of major information systems projects and Rotary's public image campaign. The general secretary and our dedicated staff have worked diligently this year to further reduce costs and improve administrative processes.

RI's revenues have increased dramatically in fiscal 2003-04. Your record attendance here in Osaka has generated strong revenue, exceeding our budget and ensuring a financially successful convention this year. Also, strong financial markets to date have contributed to gains in our investment earnings. Based on this positive financial performance through 30 April 2004 and provided the investment markets remain strong through 30 June, we expect that RI will end this fiscal year well within the approved budget, eliminating the need to tap into its reserves as was originally anticipated.

## **Future Financial Outlook**

While we are fortunate to enjoy record convention attendance and improved investment returns this year, the future outlook remains extremely challenging. The proposed budget for fiscal 2004-05 reflects a serious situation that we have experienced for the past three years: **Without strong membership growth and significant investment returns, our revenue is insufficient to support our**

**programs and the needs of Rotarians around the globe.** Your Board of Directors is proposing to the Council on Legislation an increase in dues in order to sustain a high level of service to the clubs, while maintaining a balanced budget. As we look to the future we must consider that

- Based on realistic assumptions, our Five-year Financial Forecast indicates that RI needs to increase dues by US\$12 per Rotarian over the next three years to meet its projected operating requirements.
- 69 percent of RI's revenue comes from membership dues, which have not been increased since 1995, and during this eight-year period, membership has remained relatively stable at around 1.2 million members.
- RI's operating costs have increased since 1995, due to both an expansion in programs and services -- including improved communications and publications, enhanced training and development tools, increased membership development support, and development of Web-based information and communication systems -- and inflationary factors beyond the general secretary's control.
- At the instruction of the Board, the general secretary has implemented many cost reductions over the past three years, including staff reductions, hiring and salary freezes, and cuts in travel budgets. These reductions have already adversely affected services to Rotarians and, without a dues increase, will impact programs and services even more severely in the future.
- To minimize deficits over the past three years, the general secretary has also deferred approximately \$6 million of information systems projects and

Rotary's public image campaign, both of which are essential to RI's future effectiveness.

- RI's operating reserves have dropped below the 100 percent target and are forecasted to fall below the 50 percent mark over the next three years if dues are not increased.

Rotarian leaders at all levels are working rigorously to develop and implement Rotary's strategic plan for the future. The plan is an essential blueprint for Rotary's success as we embark on our second century of service. But such success is not guaranteed—not without the funding RI needs to support and strengthen Rotarians' service efforts throughout the world. **It is our responsibility and duty to ensure that Rotary International is financially prepared to support its strategic vision in its next century of service.**

In closing, I wish to thank my fellow Board members for their full support. Also, I thank the general secretary and all of the staff involved in Rotary International's financial matters for their dedication and cooperation. I wish to also recognize the members of the RI Finance Committee for their valuable advice and support.

Mr. President and fellow Rotarians, this concludes my financial report.

Note: The audited financial statements for fiscal 2003, including the auditor's report, can be obtained at [www.rotary.org](http://www.rotary.org) or from the Secretariat.