

## Report of the GSA Treasurer and Chair of the Finance Committee Fiscal Year 2010 (1 July 2009 through 30 June 2010)

### A. Report on Status of GSA Investments and Budgets

In fiscal year 2010, GSA regained some of the investment worth that was lost during fiscal year 2009. The market value of GSA’s investment portfolio, including those funds of the GSA Foundation that are combined with GSA’s investments and a separate Foundation “Pooled Income Fund” (which holds investments that generate income for the donors as part of their planned giving), rose approximately 15%, from \$25,557,594 on 30 June 2009 to \$29,436,122 on 30 June 2010. For reference, the market value was \$32,806,082 on 30 June 2008. Of the 2010 market value, GSA’s investments amounted to approximately \$19,446,288; the Foundation’s investments amounted to \$9,989,834. Included in this latter figure, the Foundation’s Pooled Income Fund had \$620,041 (up from \$574,650 on 30 June 2009).

GSA’s total assets (excluding those of the GSA Foundation), which include investments, our headquarters property in Boulder, equipment, inventory of publications, and contributions and accounts receivable, rose to \$22,908,481 on 30 June 2010, compared with \$21,370,151 on 30 June 2009 and \$28,616,837 on 30 June 2008, at the beginning of the recession (Figure 1). The bulk of the Foundation’s assets (\$10,664,781 in total) are its investments.

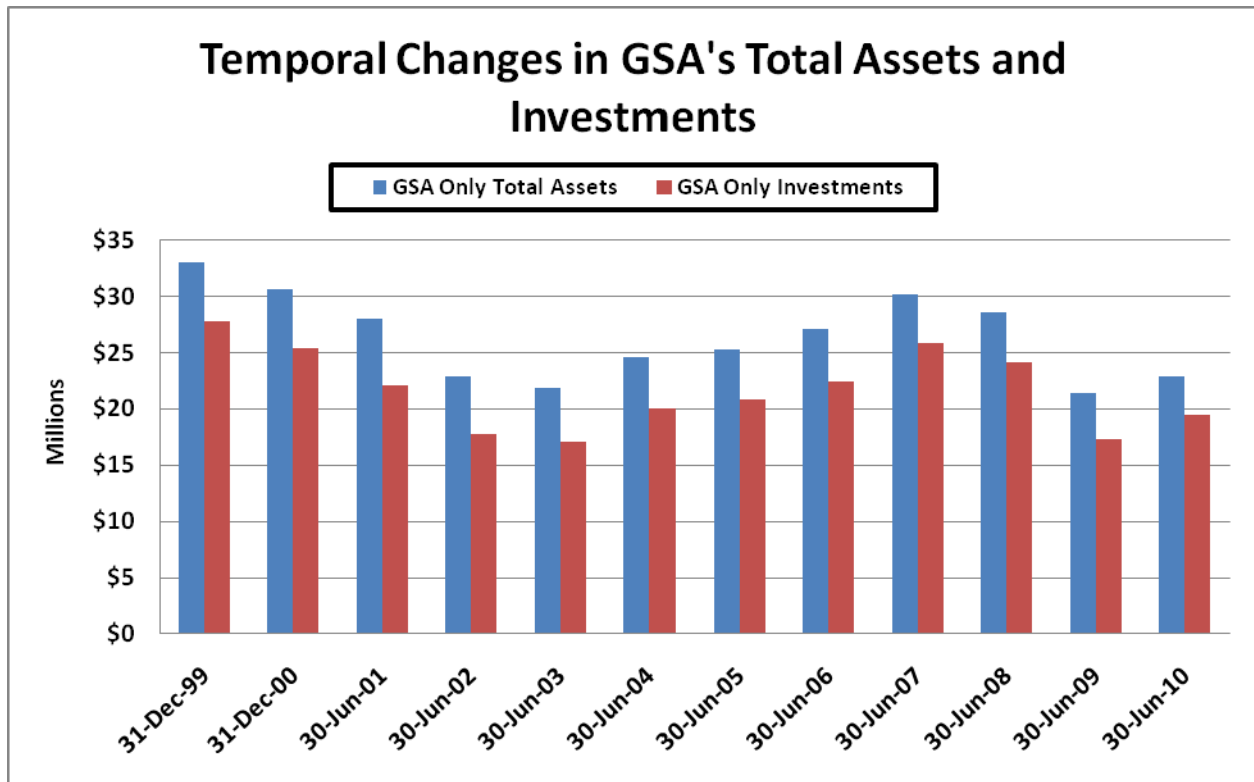


Figure 1. Changes in GSA’s total assets and investments (not including those of the GSA Foundation), 1999 through 30 June 2010.

GSA's expenses for operations (supporting publications, technical meetings, field trips, grant programs, travel support for students, etc.) totaled \$9,540,194 during fiscal year 2010, down from \$10,003,672 in fiscal year 2009. The 2010 expense figure is an average of approximately \$418 per member (with 22,798 members as of 31 December 2009, up from 22,065 members as of 31 December 2008). Revenues during the fiscal year amounted to \$9,106,457, which means we needed another \$433,737 to make ends meet. Fortunately, total investment income (combined interest and dividends, realized losses, and unrealized gains on investments in fiscal year 2010) were \$2,412,705. In 2010, we paid back a \$300,000 line of credit used in managing cash flow during fiscal year 2009.

GSA's Controller, Tom Haberthier, reported that at the end of the fiscal year, prior to the audit,

- cash basis net income was approximately \$938,600 (99%) above budget;
- revenue was below budget by \$402,700 (4%), and
- expenses were \$1,341,300 (19%) below budget.

Major contributions to the positive were not needing to use a \$270,000 contingency and \$318,500 in higher than expected page charges.

Despite the tough economic times, the GSA Foundation raised approximately \$1.38 million in fiscal year 2010. Contributions per the audit report (\$1.77 million) are comprised of additional funds that are not included as contributions in the Foundation's statements. Although the two organizations operate somewhat separately, the purpose of GSA Foundation is to support good causes approved by GSA Council, and GSA Council approves a potential slate of nominations to be Trustees of GSA Foundation. GSA Foundation staff are housed in the GSA headquarters.

In fiscal year 2010, the Foundation contributed a gross total of \$622,967 to GSA for good causes and GSA supported the Foundation with \$386,689 (\$200,677 in payroll, \$72,324 in fringe benefits, and \$113,688 in general and administrative overhead expenses covering the Foundation's portion of building operation and maintenance and other costs). The \$533,328 net contribution from the Foundation as reported by GSA is equal to the gross amount given by the Foundation to GSA for good causes minus \$59,639 given to the Foundation by GSA Sections and Divisions (surplus from meetings) and \$30,000 given to the Foundation by GSA Publications for the information technology fund. Although it is easy to compare the annual contributions from the Foundation to the amount of money needed to support it, Council recognizes that many of the Foundation's fundraising efforts result in building endowments for the long-term strength of GSA.

In late June 2009, GSA Council approved a policy to keep all funds donated to individual endowments in the corpus of those endowments. In times like the current recession, when investment portfolios shrink, the endowment funds may drop below their corpus values, in which case GSA would need to rebuild the corpus with other, unrestricted funds or allow the revenues on those investments to rebuild the corpus and therefore spend less of the revenue on good causes. In flush times, when investment revenues greatly exceed the expenditures for good causes from an endowment, Council has the ability to use some of this excess revenue to build the endowments themselves, not just move the funds into a temporarily restricted category. I suggest that Council periodically review the status of all endowments, related funds spent for

good causes, and related funds in temporarily restricted or unrestricted categories. To assist in this effort, the table below lists the GSA endowments and other investment funds.

**Table A. Investment funds of GSA for the fiscal year from 1 July 2009 to 30 June 2010.**

	Penrose	Pardee	Lipman	Total
<b>BEGINNING BALANCE</b>				
a. Permanently restricted	3,884,385			3,884,385
b. Temporarily restricted	0	4,991,110	19,990	5,011,100
c. Unrestricted	8,401,446			8,401,446
d. Total at beginning of fiscal year	12,285,831	4,991,110	19,990	17,296,931
<b>INCOME (LOSSES)</b>				
e. Investments gains (or losses)	1,692,927	711,771	4,659	2,409,357
f. Contributions/perm. res.				
g. Transfers from other funds/res.				
h. Contributions/temp. res.				
i. Contributions/unre.				
j. Transfers from other funds/unre.				
k. Additions by Council/res.				
l. Additions by Council/temp. res				
<b>EXPENSES</b>				
m. Good causes	(9,628)	(225,722)	(24,649)	(260,000)
n. Other expenses				
<b>ENDING BALANCE</b>				
o. Permanently restricted	3,884,385			3,884,385
p. Temporarily restricted	0	5,477,159	0	5,477,159
q. Unrestricted	10,084,744			10,084,744
r. Total at end of fiscal year	13,969,129	5,477,159	0	19,446,288

**Footnotes:**

- a. Permanently restricted funds are the corpus, or original endowment plus additional contributions made to the endowment over time. When stipulated by the donor, investment income generally goes to the temporarily restricted portion of the fund. When not otherwise stipulated, investment income goes to the unrestricted portion of the fund. Some details about the purposes and donor intent for individual funds are given in this report.
- b. Temporarily restricted funds are those earmarked to be expended for a specific purpose, as designated by the donors to the fund.
- c. Unrestricted funds may be used for any GSA program or initiative upon approval by Council.
- e. Investment gains (or losses) are the sum of investment fees (a negative number), interest and dividends, realized gains and losses, and unrealized gains and losses attributed to the fund during the fiscal year.
- f, h, and i. Donors may contribute to permanently restricted endowments, temporarily restricted funds, or unrestricted funds.

g, j, k, and l. Council may choose to move unrestricted funds from one fund to another, as long as donor intent is still fulfilled. Council may choose to add to the permanently restricted portion of funds.

Through his will, Dr. Richard A. F. Penrose, Jr. (1863-1931, GSA President in 1930, Harvard-educated economic geologist with the USGS, later co-founder of the Utah Copper Company, which developed the Bingham Canyon deposit, then professor at the University of Chicago) donated \$3,884,385 to GSA (according to GSA's audited records). The gift is to be "considered endowment funds the income of which only to be used and the capital to be properly invested." Because there were no further restrictions on the use of the funds, other than for the use by GSA, the income is considered unrestricted and comprises a large portion of GSA's assets and source of investment income. Using the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) inflation calculator ([http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm)), the 1932 Penrose gift would have had a buying power of \$62 million in 2010.

A memorial fund in honor of Joseph T. Pardee (1871-1960, Presbyterian College and Berkeley-educated geologist with the USGS, renowned for his work on glacial Lake Missoula, GSA Fellow, and President of the Geological Society of Washington) was established in 1994 "to be held, invested or reinvested as the members of council of the Society may determine . . . and to be used as the members of the council . . . may determine for research, study and educational advancement in the field of geology and science." His wife's will stipulated that "it is my express wish and desire that no portion of the proceeds so received be used by the Society to pay or defray the general administrative expenses of the Society, but that rather all income and the fund itself be used for research, study and educational advancement in the field of geology and science." The entire fund (initially approximately \$2.7 million), and the revenue generated from it, is considered temporarily restricted for the purposes stated in the will. By GSA Council's resolution, up to 4.5% of the Pardee Fund can be used each year, based on the value of the fund on December 31, with 4% allocated to research grants and 0.5% to Pardee sessions at the GSA annual meeting. Using the CPI inflation calculator, the 1994 Pardee gift would have a buying power of approximately \$3.98 million in 2010.

Dr. Peter Lipman (Emeritus Scientist with the USGS, expert in volcanology and geologic mapping, past GSA Councilor and chair of the audit and investment committees) and the Lipman Family Foundation, in an agreement dated September 25, 2006, established the Lipman Research Fund as "a restricted endowment fund," from which the income is "to be disbursed for support of student research grants in volcanology and petrology, as designated by the GSA Committee on Research Grants." The agreement states that the Lipman Family Foundation's "contributions to GSA can be fully expended to support student research grants in the year of receipt or they can be carried forward to a future budget year, at the discretion of GSA Executive Director." It further states that "costs of managing and administering grants from the Lipman Fund will be born by GSA and/or the GSA Foundation." The contributions to GSA are considered temporarily restricted, to be spent to support the student research grants. The Lipman Fund managed by GSA is only part of the overall Lipman Research Fund. The endowment is managed by the GSA Foundation. The remaining funds administered by GSA were expended on good causes during fiscal year 2010.

Council has approved a standing withdrawal of up to 4.5% from the Pardee Fund, with up to 4% for Graduate Student Research Grants and up to 0.5% for Pardee Sessions.

In April 2010, GSA Council amended its policies regarding draws from investments in the Penrose Fund. To maintain about a year's worth of GSA operating funds in its unrestricted investments, Council required that

- Draws on the investment portfolio for strategic initiatives be allowed only when the value of GSA's unrestricted funds, adjusted as explained in the next bullet, exceeds the rolling average of the current and prior two years of annual operating expenses.
- The amount of 'unrestricted investment' funds be adjusted to exclude GSA unspent unrestricted operating funds that are held in the investment pool as money for which commitments have been made, such as the employee-benefit reserve, any carry-forward surplus, and any temporary mid-year deposits from operating-budget cash flow.
- Approved strategic draws from unrestricted funds will be no more than 4% per year of the previous 12-quarter rolling average of GSA total unrestricted investments on December 31 of the current fiscal year, provided the balance in 'total unrestricted investments' exceeds the minimum amount defined above.
- Finance Committee will identify to Council the amount of total unrestricted investments on the books, and the resulting maximum strategic draws available at the end of each calendar year, so budgets for the coming fiscal year can be completed.
- Funded projects shall support programs that Council approves. Approved projects must have a financial plan and be reviewed annually. Continuing projects must plan a move to funding from the operational budget.

Our auditors defined as "temporarily restricted" what GSA has traditionally considered unrestricted funds in the Penrose Fund. Whereas the auditors have considered the Penrose funds that are not "restricted" as "temporarily restricted," GSA has, for the purposes of the policy on investment withdrawals, considered these temporarily restricted Penrose funds as "unrestricted." This part of the Penrose Fund has been credited with most overall GSA investment gains over the years, whether they have been directly attributed to the Penrose endowment or other income, such as revenue from meetings and publications. In an attempt to make the policy regarding investment withdrawals clearer to Council, we show the current method of calculating an "adjusted unrestricted investment amount." This equals the temporarily restricted part of the Penrose funds (\$10,084,744 as of 30 June 2010) minus funds expected to be used for surplus expenses (\$160,532), contingency (\$270,000), capital expenditures (\$23,906), and a reserve to cover anticipated future employee benefits (\$85,002). The "adjusted unrestricted investment amount" stood at \$9,545,304 on 30 June 2010. This is the amount which must be above the previous three-year rolling average of annual operating expenses for us to make withdrawals from investments for new programs or projects (termed "strategic initiatives").

When preparing the budget for fiscal year 2011, as of 31 December 2009, the "adjusted unrestricted investment amount" was \$9,797,849, a bit lower than the previous three-year rolling average of annual operating expenses (\$10,106,590, using the actual operating expenses for fiscal year 2008 (\$10,003,205) and 2009 (\$10,039,691) and the then-forecast expenses for fiscal year 2010 (\$10,276,874). Therefore no strategic withdrawals were budgeted for fiscal year 2011. Although optimistic that investment gains may improve in the next few months, we

anticipate that we may not be able to plan for strategic initiatives in the budget for fiscal year 2012, when the necessary analysis is done with information on investments as of 31 December 2010.

On 31 December 2009 (midway through fiscal year 2010), the 12-quarter rolling average of GSA total unrestricted investments was \$11,755,319, 4% of which, or \$470,213, would have been available for strategic initiatives in fiscal year 2011, had the amount of unrestricted investments exceeded the operating expenses.

In building the fiscal year 2011 budget, we projected revenues of \$9,191,951 and expenses of \$10,270,783, and we anticipated meeting the shortfall of \$1,078,832 partly through use of the available surplus (\$184,438), contingency fund (\$270,000), employee benefits reserve (\$54,950), and withdrawals from the Pardee Fund (\$230,000). In addition, at its April 2010 meeting, Council further approved taking an additional \$200,000 from investments as a rainy day fund, if needed, to meet operational expenses in fiscal year 2011. The final fiscal year 2011 budget projects a surplus or net bottom line of \$29,181.

The GSA Finance Committee and Jack Hess will be monitoring the status of investments and how well actual revenues and expenses are tracking the budget then make recommendations to Council for adjustments as needed.

Council has authorized the Investment Committee to adjust strategic allocations within each asset class, in collaboration with the recommendations of our investment consultants. Council approves new asset classes and the lower and upper limits of the asset-class groups, of which there are currently three (bold lettering in Table B).

**Table B. Distribution of GSA's investments by asset-class group.**

<b>Asset-Class Group*</b>	Lower limit	Upper limit	As of 30 June 2010
<i>Asset Class</i>			
<b>Equity Funds</b>	<b>40%</b>	<b>65%</b>	<b>53.83%</b>
<i>Domestic large cap equity</i>	<i>21%</i>	<i>31%</i>	<i>28.39%</i>
<i>Domestic mid-small cap equity</i>	<i>5%</i>	<i>15%</i>	<i>11.66%</i>
<i>International equity</i>	<i>9%</i>	<i>19%</i>	<i>13.78%</i>
<b>Fixed income &amp; cash-equivalents</b>	<b>15%</b>	<b>35%</b>	<b>24.66%</b>
<i>Core fixed income</i>	<i>10%</i>	<i>20%</i>	<i>13.34%</i>
<i>High-yield bond funds</i>	<i>0%</i>	<i>10%</i>	<i>5.23%</i>
<i>Bank-loan funds</i>	<i>3%</i>	<i>13%</i>	<i>6.09%</i>
<i>Cash and cash-equivalents<sup>#</sup></i>			<i>\$784,711</i>
<b>Alternative investments</b>	<b>10%</b>	<b>30%</b>	<b>21.52%</b>
<i>Absolute return (hedge fund-of-funds)</i>	<i>5%</i>	<i>15%</i>	<i>12.24%</i>
<i>Commodity funds</i>	<i>0%</i>	<i>8%</i>	<i>4.87%</i>
<i>Private-equity funds</i>	<i>0%</i>	<i>9%</i>	<i>4.41%</i>
<i>Real-estate investment funds</i>			<i>0</i>

Footnotes:

\* The numbers reported in italics are those reported by Innovest in their 2<sup>nd</sup> Quarter 2010 Portfolio Review; these ranges are adjusted by the Investment Committee. The asset class of real-estate investment funds was added by Council, and funds were transferred to this asset class after 30 June 2010.

# Cash and cash-equivalents are not included in the Innovest calculation of percentages.

GSA's investment goal of earning at least 5.0% more than inflation generally had, until recently, been met (Figure 2).

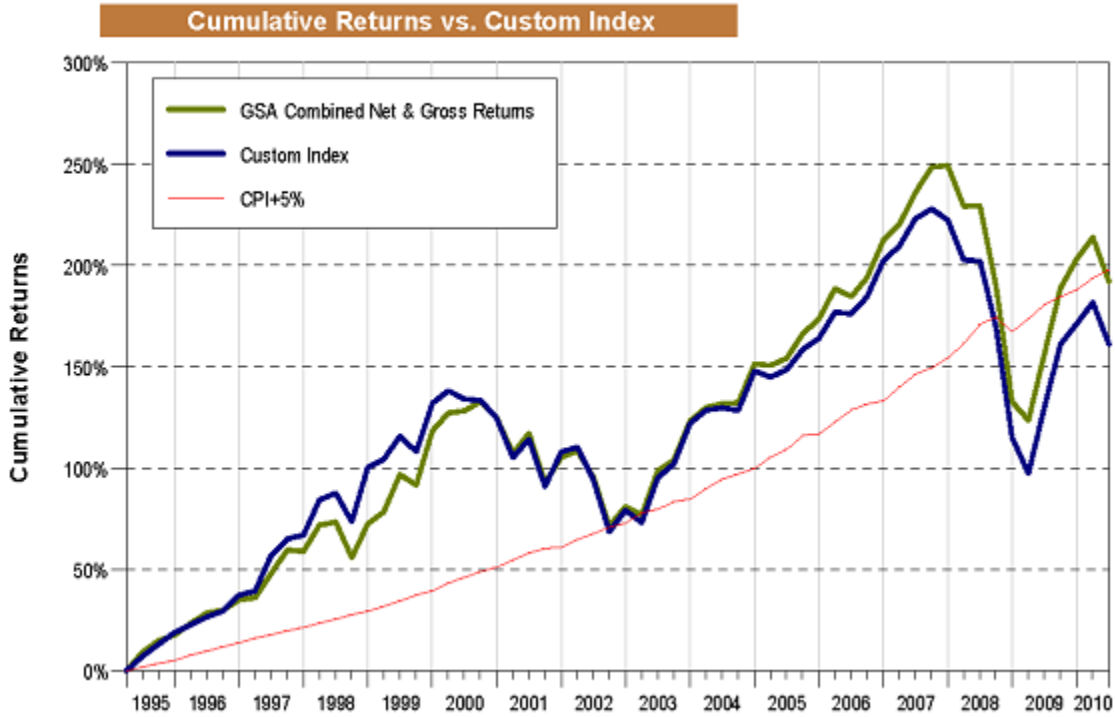


Figure 2a. Cumulative returns from the GSA portfolio compared with the goal of inflation (Consumer Price Index) plus 5.0% and with a custom index, March 1995 through June 2010, the timeframe in which Innovest has been GSA’s investment advisors (from Innovest).

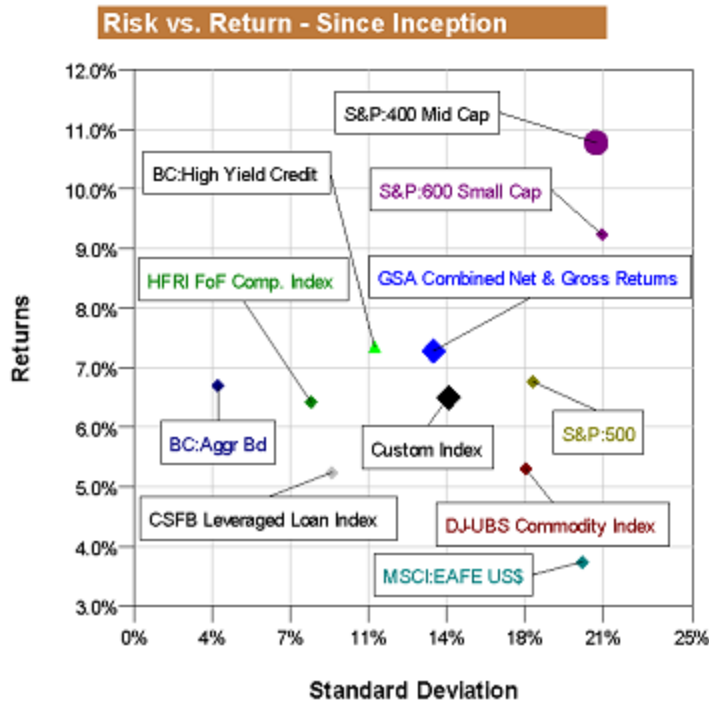


Figure 2b. Risk (measured by standard deviation) versus return for the GSA portfolio compared with the custom index and other indices (from Innovest).



Council is currently using JDS Professional Group, Englewood, Colorado for the fiscal year 2010 audit, as they did for the previous three years.

**B. Finance Committee Recommendations and Findings**

GSA Council adopted the Finance Committee's recommendations regarding the fiscal year 2011 budget at the mid-year meeting in April 2010. No further recommendations are needed at this time.

**C. Response Regarding Recommendations of the Audit Committee**

Responses to recommendations of the Audit Committee were incorporated in the Treasurer's report for the mid-year meeting in April 2010. No further action is required at this time.

I thank Tom Haberthier, Jack Hess, and Geoff Feiss for their assistance in providing data and answering questions concerning this report.

Respectfully submitted, Jonathan G. Price, 30 October 2010.