Report of the GSA Treasurer and Chair of the Finance Committee
Fiscal Year 2011 (1 July 2010 through 30 June 2011)

A. Report on Status of GSA Investments and Budgets

In fiscal year 2011, GSA regained more of the investment worth that was lost during the recession. 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 21%, from $29,436,122 on 30 June 2010 to $35,583,602 on 30 June 2011 (compared with the recent fiscal yearend low of $25,557,594 on 30 June 2009 and the market value of $32,806,082 on 30 June 2008). Of the 2011 market value, GSA's investments amounted to approximately $23,126,110 (up from $19,446,288 as of 30 June 2010); the Foundation's investments amounted to $12,457,492 (up from $9,989,834 as of 30 June 2010). Included in this latter figure, the Foundation's Pooled Income Fund had $641,396 on 30 June 2011 (up from $620,041 on 30 June 2010).

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 $27,064,716 as of 30 June 2011, compared with $23,268,370 on 30 June 2010, and $28,616,837 on 30 June 2008, at the beginning of the recession (Figure 1). The bulk of the Foundation's assets, $13,059,950 in total as of 30 June 2011, compared with $10,664,781 on 30 June 2010, are its investments.

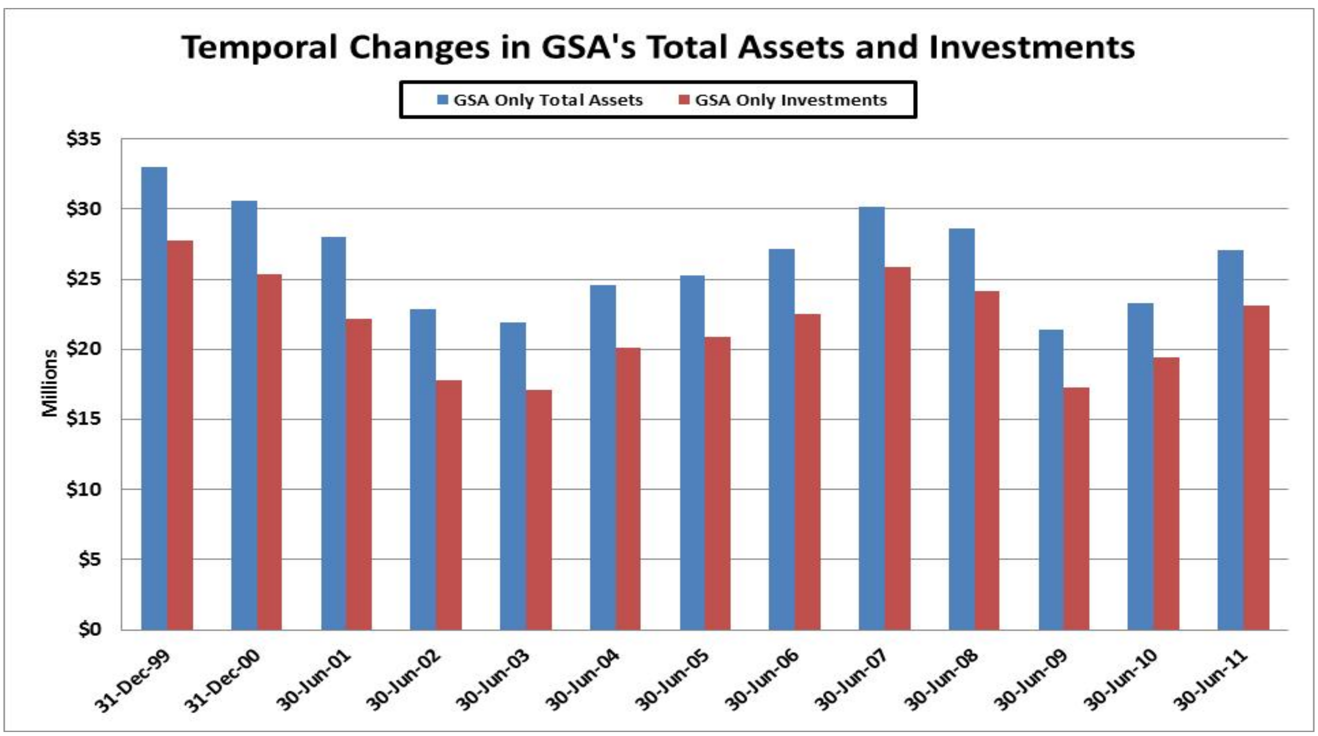

Figure 1. Changes in GSA's total assets and investments (not including those of the GSA Foundation), 1999 through 30 June 2011.

GSA's expenses for operations (supporting publications, technical meetings, field trips, grant programs, travel support for students, etc.) totaled $10,117,112 during fiscal year 2011, up from $9,540,194 during fiscal year 2010. The 2011 expense figure is an average of approximately $423 per member (with 23,937 members as of 14 December 2010, up from 22,798 as of 31 December 2009). The 2011 expense figure includes a $409,765 transfer to the Foundation to establish a Building Endowment Fund. Revenues during the fiscal year amounted to $9,876,981, which means we needed another $240,131 to make ends meet. Fortunately, total investment income (combined interest and dividends, realized losses, and unrealized gains on investments in fiscal year 2011) was $4,182,099.

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

- cash basis net income was approximately $241,900 (22%) above budget,
- cash basis revenue was below budget by $388,400 (4%), and
- cash basis expenses were $630,300 (6%) below budget.

The revenue was under budget principally due to a non-budgeted $409,765 transfer to the GSA Foundation to establish a Building Endowment Fund. Major positive contributions relative to the budget (for which differences between the actual and budgeted item was in excess of $50,000 and 10% of the budgeted amount) were not using a $270,000 contingency, higher than budgeted revenue for the Education and Outreach Program, advertising, and page charges from authors, and less than budgeted postage and catering expenses. A major negative was meeting expenses that were higher than budgeted.

Despite the tough economic times, the GSA Foundation raised approximately $1.32 million in fiscal year 2011. Contributions per the audit report ($1.73 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 2011, the Foundation contributed a gross total of $609,836 to GSA for good causes, and GSA supported the Foundation with $390,316 ($200,677 in payroll, $59,639 in fringe benefits, and $130,000 in general and administrative overhead expenses covering the Foundation's portion of building operation and maintenance and other costs). GSA Sections and Divisions donated $54,800 to the Foundation from their surpluses from meetings. 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 creating and adding to 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 or fluctuate widely, 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 reiterate a suggestion 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 2010 to 30 June 2011.

	Penrose	Pardee	Total
BEGINNING BALANCE			
a. Permanently restricted	3,884,385		3,884,385
b. Temporarily restricted	0	5,477,159	5,477,159
c. Unrestricted	10,084,744		10,084,744
d. Total at beginning of fiscal year	13,969,129	5,477,159	19,446,288
INCOME (LOSSES)			
e. Investments gains (or losses)	2,985,041	1,174,781	4,159,822
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/perm. res.			
l. Additions by Council/temp. res			
EXPENSES			
m. Good causes	(257,715)	(222,285)	(480,000)
n. Other expenses			
ENDING BALANCE			
o. Permanently restricted	3,884,385		3,884,385
p. Temporarily restricted	0	6,429,655	6,429,655
q. Unrestricted	12,812,070		12,812,070
r. Total at end of fiscal year	16,696,455	6,429,655	23,126,110

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 assests 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), the 1932 Penrose gift would have had a buying power of $64 million in 2011. The fund stood at $16.7 million as of 30 June 2011.

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 Graduate Student 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 $4.1 million in 2011. The fund stood at $6.4 million as of 30 June 2011. At the beginning of fiscal year 2011, 4.5% of the Pardee Fund amounted to $246,472, and $222,285 was withdrawn from the fund during the year. By GSA's accounting, this latter amount was transferred to the unrestricted portion of the Penrose Fund. A total of $480,000 (including the $222,285 transferred from the Pardee Fund) was withdrawn from the Penrose Fund during the fiscal year.

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. The figure shown as the unrestricted portion of the Penrose Fund on line q in Table A is the sum of what the auditors consider temporarily restricted "Penrose Endowment unappropriated earnings" plus other income that GSA has lumped together with the Penrose Fund. 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 ($12,812,070 as of 30 June 2011) minus funds expected to be used for surplus expenses ($84,233), contingency ($270,000), capital expenditures ($20,000), and a reserve to cover anticipated future employee benefits ($41,542). The "adjusted unrestricted investment amount" stood at $12,396,295 on 30 June 2011. 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 2012, as of 31 December 2010, the "adjusted unrestricted investment amount" was $11,414,447, appreciably higher than previous year ($9,797,849) and higher than the previous three-year rolling average of annual operating expenses ($9,950,223), using the actual operating expenses for fiscal year 2010 ($9,540,194) and 2009 ($10,039,691) and the then-forecast expenses for fiscal year 2011 ($10,270,783). Therefore strategic withdrawals were budgeted for fiscal year 2012. The 12-quarter rolling average of GSA total unrestricted investments on 31 December 2010 was $10,378,062, thereby allowing up to $415,122 (4%) for strategic withdrawals. Because of the recent volatility in the stock market, we are currently uncertain whether we will be able to plan for strategic initiatives in the budget for fiscal year 2013, when the necessary analysis is done with information on investments as of 31 December 2011.

In building the fiscal year 2012 budget, we projected revenues of $9,745,724 and expenses of $10,825,504, and we anticipated meeting the shortfall of $1,079,780 partly through use of the available surplus ($84,233), contingency fund ($270,000), employee benefits reserve ($41,542), withdrawals from the Pardee Fund ($264,000, which is less than 4.5% of the fund as of 30 June 2011), and withdrawals for strategic initiatives ($378,460, which is less than the amount permitted, $415,122). The final fiscal year 2012 budget projects a surplus or net bottom line of $78,330.

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 both asset class groups and asset classes and to determine lower and upper limits for each asset class, in collaboration with the recommendations of our investment consultants, Innovest Portfolio Solutions, LLC, Englewood, Colorado. Tables B1, B2, and B3 summarize changes in investment assets as percentages in the GSA investment portfolio over the last year.

Table B1. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 2nd Quarter 2010 Portfolio Review) as of 30 June 2010.

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

Footnotes:

* 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.

Table B2. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 4th Quarter 2010 Portfolio Review) as of 31 December 2010.

Asset-Class Group / *Asset Class*	Lower limit	Upper limit	As of 31 Dec 2010
Equity Funds			
Domestic large cap equity	*21%*	*31%*	*26.09%*
Domestic mid-small cap equity	*5%*	*15%*	*10.06%*
International equity	*9%*	*19%*	*14.09%*
Fixed income & cash-equivalents			
Core fixed income	*10%*	*20%*	*14.73%*
Floating-rate corporate loans	*3%*	*13%*	*7.10%*
High-yield bond funds	*0%*	*9%*	*4.29%*
Cash and cash-equivalents#			*$213,644*
Alternative investments			
Absolute return (hedge fund-of-funds)	*5%*	*15%*	*10.79%*
Commodity funds	*0%*	*10%*	*3.42%*
Private-equity funds	*0%*	*9%*	*3.71%*
Real-estate investment funds	*1%*	*11%*	*5.72%*

Footnotes:

Not included in the Innovest calculation of percentages.

Table B3. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 2nd Quarter 2011 Portfolio Review) as of 30 June 2011.

Asset-Class Group / *Asset Class*	Lower limit	Upper limit	As of 30 Jun 2011
Equity Funds			
Domestic large cap equity	*21%*	*31%*	*25.69%*
Domestic mid-small cap equity	*5%*	*15%*	*10.78%*
International equity	*9%*	*19%*	*14.22%*
Fixed income & cash-equivalents			
Core fixed income	*9%*	*19%*	*14.32%*
Floating-rate corporate loans	*3%*	*13%*	*6.91%*
High-yield bond funds	*0%*	*9%*	*4.24%*
Cash and cash-equivalents#			*$481,556*
Alternative investments			

Low-volatility hedge fund	*5%*	*15%*	*10.51%*
Commodity funds	*0%*	*10%*	*3.29%*
Private-equity funds	*0%*	*10%*	*4.29%*
Real-estate investment funds	*1%*	*11%*	*5.77%*

Footnotes:

Not included in the Innovest calculation of percentages.

GSA's investment goal of earning at least 5.0% more than inflation (recently reduced from 5.5%) generally had, until the current recession, been met (Figure 2). As of 30 June 2011, our investments were once again doing better than inflation.

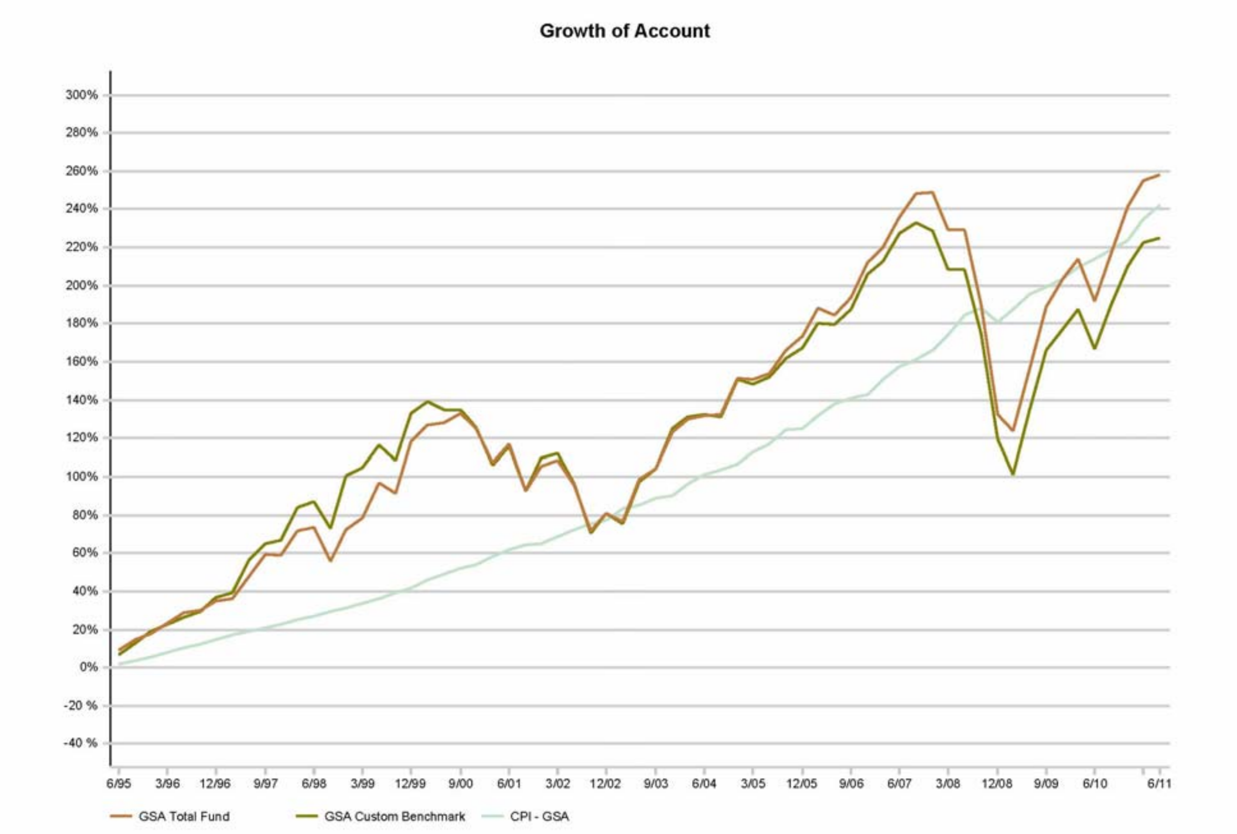

Figure 2a. Cumulative returns from the GSA portfolio compared with the goal of inflation (Consumer Price Index) plus 5.0% and with a custom index, March 1995 through June 2011, the timeframe in which Innovest has been GSA's investment advisors (from Innovest).

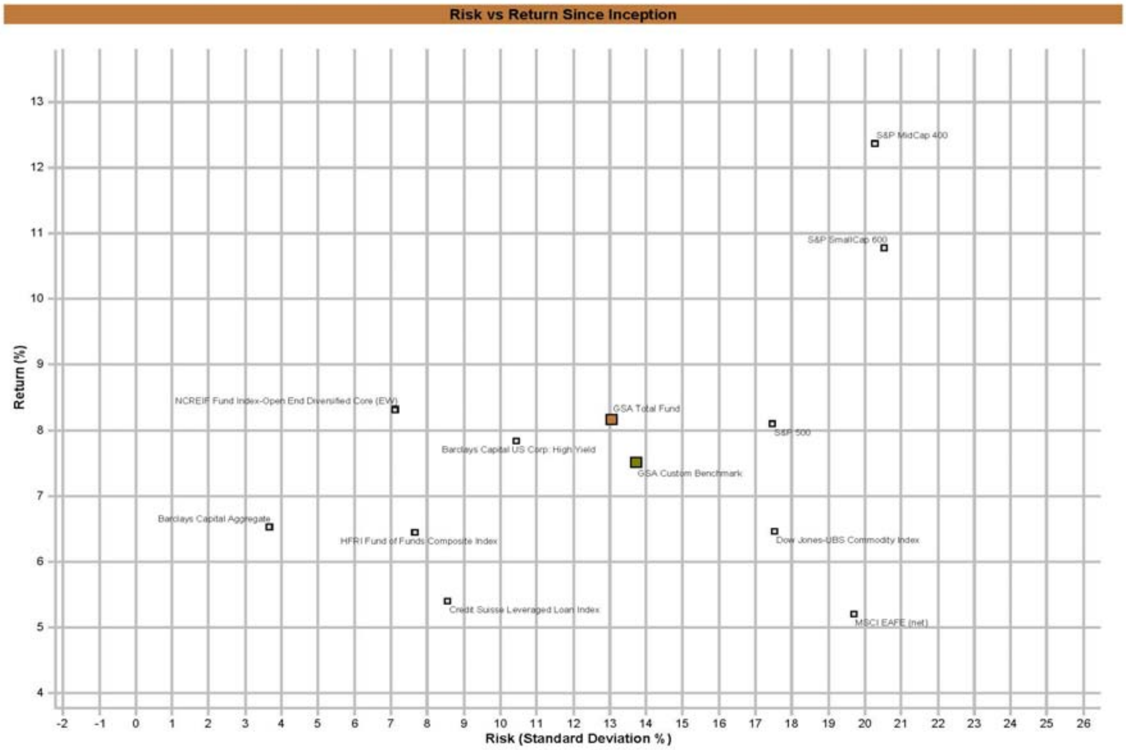

Figure 2b. Risk (measured by standard deviation) versus return for the GSA portfolio compared with the custom index and other indices (from Innovest).

Council is currently using a new auditor, Brock and Company, for the fiscal year 2011 audit.

B. Finance Committee Recommendations and Findings

GSA Council adopted the Finance Committee's recommendations regarding the fiscal year 2012 budget at the mid-year meeting in April 2011. 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 2011. 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, 14 September 2011.