Report of the GSA Treasurer and Chair of the Finance Committee
Fiscal Year 2012 (1 July 2011 through 30 June 2012)

A. Report on Status of GSA Investments and Budgets

In fiscal year 2013, GSA earned money on its investment worth as the stock market showed substantial growth by the end of the year (Figure 1). **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), **increased approximately 11%**, from $34,579,480 on 30 June 2012 to **$38,413,229 on 30 June 2013** (compared with the recent fiscal yearend low of $25,557,594 on 30 June 2009 and $35,583,602 on 30 June 2011). Of the 2013 market value, GSA's investments amounted to approximately $24,106,629 (up from $22,460,908 as of 30 June 2012 and $23,126,110 as of 30 June 2011); the Foundation's investments amounted to $14,306,600 (up from $12,118,572 as of 30 June 2012 and $12,457,492 as of 30 June 2011). Included in this latter figure, the Foundation's Pooled Income Fund had $359,822 as of 30 June 2013 (down from $495,713 as of 30 June 2012 and $641,396 on 30 June 2011). The decline is mostly due to realization of one of the funds included in the Pooled Income Fund by a participant – these funds were moved to the Foundation's investment account.

GSA's total assets (excluding those of the GSA Foundation), which include investments, cash and cash equivalents ($295,172), our headquarters property in Boulder, equipment, inventory of publications, and contributions and accounts receivable, were **$28,569,282 as of 30 June 2013**, compared with $27,044,793 as of 30 June 2012, $27,595,967 as of 30 June 2011, $23,268,370 on 30 June 2010, and $21,370,151 on 30 June 2009, near the low point of the recession (Figure 1).

The bulk of the Foundation's assets, $15,540,544 in total as of 30 June 2013, compared with $12,625,780 in total as of 30 June 2012, are its investments. The Foundation had $536,359 in cash and cash equivalents as of 30 June 2013.

GSA's expenses for operations (supporting publications, technical meetings, field trips, grant programs, travel support for students, educational programs, etc.) totaled **$10,675,476**, compared to $10,289,702 during fiscal year 2012. The 2013 expense figure is an average of approximately $419 per member (with 25,475 members as of 31 December 2012), compared with $416 per member in fiscal year 2012 (with 24,714 members as of 31 December 2011).

Revenues during the fiscal year amounted to $9,540,799 in fiscal year 2013 (compared with $9,834,798 in fiscal year 2012), which means we needed another $1,134,677 to make ends meet. Total investment gain (combined interest and dividends of $649,178, realized losses on investments of $151,194, unrealized gains on investments of $2,205,389) was $2,703,373. **The top sources of revenue in fiscal year 2013 were periodical publications** ($3,206,507, particularly Geology and GSA Bulletin), **the annual meeting** ($1,627,585), revenue for education and outreach programs ($1,055,663), support from GSA Foundation ($837,517), membership dues ($677,477), and other meetings and technical programs ($414,673). GSA's ratio of operating expenses to membership dues was 16-to-1 in fiscal year 2013.

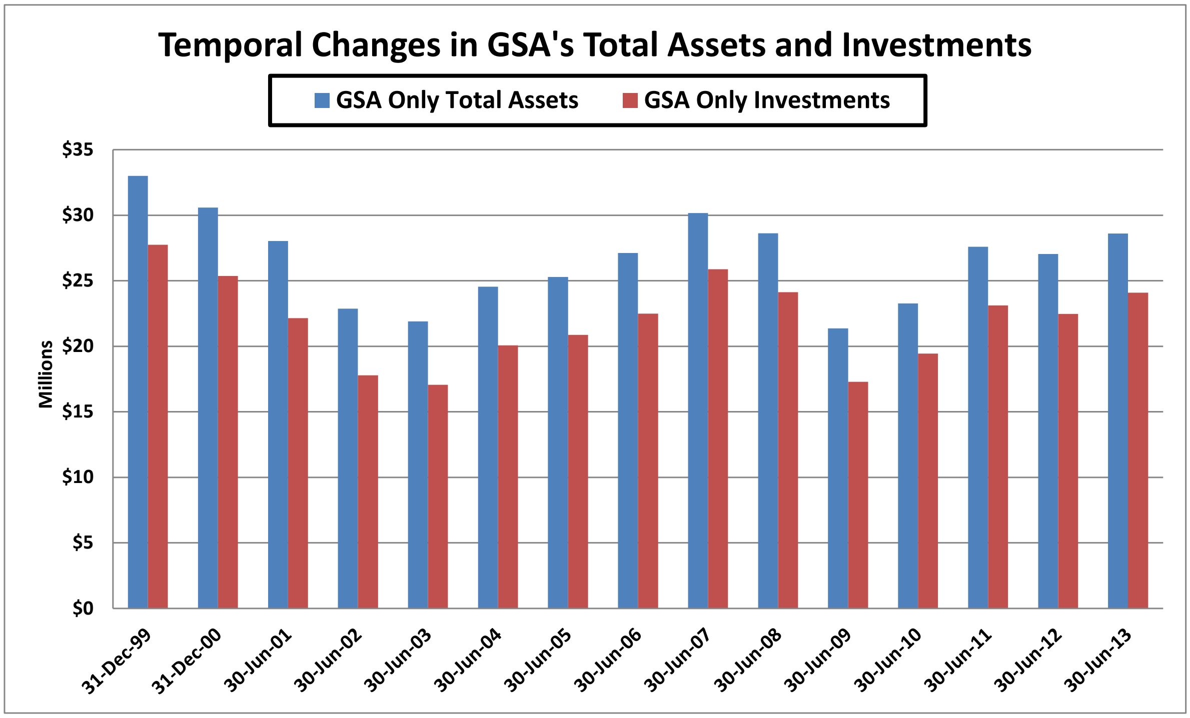

Figure 1. Changes in GSA's total assets and investments (not including those of the GSA Foundation), 1999 through 30 June 2013.

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

- net income was approximately $175,500 (16%) below the budgeted amount for the fiscal year,
- revenue was under budget by $354,000 (4%),
- program costs were $213,500 (4%) under budget,
- overhead costs were $1,200 (~0%) under budget, and
- employee expenses were $36,200 (1%) over budget.

Major variances from the previous year (changes of more than $100,000 and 5% from the previous fiscal year) include revenue increases in GSA Foundation support (up 22%); revenue decreases in education and outreach programs (down 35%), annual meeting (down 8%), and periodical publications (down 5%); and expense increases in wages and payroll taxes (up 5%).

The purpose of the GSA Foundation is to support initiatives approved by GSA Council, and GSA Council approves a potential slate of individuals nominated to be Trustees of the Foundation. The Foundation staff are housed in the GSA headquarters. GSA and the Foundation operate somewhat separately, with separate audits.

Despite the tough economic times, the GSA Foundation raised **$2,725,271** in contributions in fiscal year 2013, including $203,094 in contributions through annual dues payments. Total Foundation revenues and support per the audit report ($3,161,505) include additional funds that are not listed as contributions in the Foundation's statements, such as GSA's support of foundation activities and miscellaneous revenue. Foundation expenses for fiscal year 2013 totaled $1,768,006, including $983,066 in program services and $784,937 in supporting services for fundraising, general and administrative expenses.

In fiscal year 2013, the Foundation contributed a total of $891,004 to GSA for specific programs (good causes), and GSA supported the Foundation with $411,315 ($230,676 in payroll, $59,639 in fringe benefits, and $121,000 in general and administrative overhead expenses covering the Foundation's portion of building operation and maintenance and other costs). GSA sections and divisions donated $93,000 to the Foundation from their surpluses from meetings; this is money held for use by the sections and divisions and is not considered part of the contributions raised by the Foundation.

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. 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 status of GSA endowments and related investment funds, excluding those of GSA Foundation, are listed in Table 1. I recommend that Council consider moving funds from the temporarily restricted portion of the Penrose Fund to the permanently restricted portion. Assuming that the stock market stays strong, $1,000,000 to $1,250,000 could be moved at this time without jeopardizing the ability of Council to have funds for strategic initiatives. **Given the 125th Anniversary of GSA, I recommend that Council approve a motion to move $1,250,000 from the temporarily restricted portion of the Penrose Fund to the permanently restricted portion.**

As explained on pages 5 and 6 of this report, Council's policy for withdrawals from the Penrose Fund for strategic initiatives requires that we have a year's worth of operating funds in available, unrestricted investments. This policy is much more conservative than most nonprofit organizations. I suggest that the Finance Committee analyze this Council policy and, if appropriate, make recommendations to the Council for changes, such as holding only 6 or 9 months worth of operating funds in unrestricted investments. This would allow for limited withdrawals for strategic initiatives during times of market downturns.

I further recommend that Council approve a motion to formally designate $4,300,000 of the Pardee Fund as permanently restricted. This will not affect how withdrawals from the fund are managed, but it would demonstrate Council's commitment that the corpus of the fund should keep up with inflation, as explained on page 5 of this report.

Table 1. Investment funds of GSA for the fiscal year from 1 July 2012 to 30 June 2013.

	Penrose	Pardee	Total
BEGINNING BALANCE			
a. Permanently restricted	3,884,385		3,884,385
b. Temporarily restricted	0	6,144,943	6,144,943
c. Unrestricted	12,431,580		12,431,580
d. Total at beginning of fiscal year	16,315,965	6,144,943	22,460,908
INCOME (LOSSES)			
e. Investments gains (or losses)	1,915,380	732,622	2,648,002
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	(719,220)	(251,048)	(970,268)
n. Other expenses			
1. Investment advisor fees	(11,902)	(4,487)	(16,389)
2. Investment operating gain/(loss)	(11,282)	(4,342)	(15,624)
ENDING BALANCE			
o. Permanently restricted	3,884,385		3,884,385
p. Temporarily restricted	0	6,617,688	6,617,688
q. Unrestricted	13,604,556		13,604,556
r. Total at end of fiscal year	17,488,941	6,617,688	24,106,629

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.

r. Rounding can create an apparent error of $1 in the sums.

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 was 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 $66 million in 2013. The fund stood at $17.5 million as of 30 June 2013.

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. Using the CPI inflation calculator, the 1994 Pardee gift would have a buying power of approximately $4.3 million in 2013.

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. The fund stood at $6.6 million as of 30 June 2013. At the beginning of fiscal year 2013, 4.5% of the Pardee Fund amounted to $276,522, and $251,048 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 $970,268 (including the funds transferred from the Pardee Fund and other unrestricted money in Penrose Fund) was withdrawn from the GSA investment funds during the fiscal year, up from $589,000 the previous 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. **Beginning with the budget for fiscal year 2014, this adjustment also includes unappropriated and unspent strategic funds from previous years, which are available for Council to use as needed on strategic initiatives not specifically budgeted at the beginning of the fiscal year. As of 30 June 2013, these unspent strategic funds totaled $175,811.**

- 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.
- The 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 1 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 ($13,604,556 as of 30 June 2013) minus funds expected to be used for surplus expenses ($252,229), contingency ($270,000), capital expenditures ($0), and the unspent strategic funds from previous years ($175,811). The "adjusted unrestricted investment amount" stood at $12,887,444 on 30 June 2013. 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 2014, as of 31 December 2012, the "adjusted unrestricted investment amount" was $12,347,073, substantially higher than the amount in the previous year ($11,163,238) and higher than the previous three-year rolling average of annual operating expenses ($10,350,184), using the actual operating expenses for fiscal year 2011 ($10,117,112) and 2012 ($10,179,348) and the then-forecast expenses for fiscal year 2013 ($10,754,092). Therefore strategic withdrawals were budgeted for fiscal year 2014. The 12-quarter rolling average of GSA total unrestricted investments on 31 December 2012 was $11,406,087, thereby allowing up to $456,243 (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 2015, when the necessary analysis is done with information on investments as of 31 December 2013. However, if the stock market does not suffer another major downturn, the Finance Committee believes that Council can be optimistic that strategic initiatives can be funded again in fiscal year 2015.

In building the fiscal year 2014 budget, we projected revenues of $10,815,819 and expenses of $11,591,211, and we anticipated a shortfall of $775,392. This will be met through use of the available surplus ($252,229), funds for strategic initiatives ($411,500, which is less than the amount permitted, $456,243), and withdrawals from the Pardee Fund ($292,000, which is less than 4.5% of the fund as of 30 June 2013, $297,796). The final fiscal year 2014 budget projects a surplus or net bottom line of $212,777.

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. Innovest uses a prediction model that takes into account past performance and volatility of investments in individual asset classes. In its current model (summarized in Table 2a), Innovest targets an annual return of 7.75%, reflecting the Investment Committee's goal of being 5% above the consumer price index (CPI). Innovest's model yields a risk tolerance, which is stated as "expected downside risk of -15.3 to -18.3% per year based on statistical confidence of 95%," for which "there is a 5% probability that the 1-year modeled loss of -15.3 to -18.3% will be exceeded." Innovest cautions that "the 1-year modeled loss will vary from year to year depending on future capital market assumptions.

During fiscal year 2013, the Investment Committee slightly modified its asset allocations as reflected in Tables 2a, 2b, and 2c.

With advice from Innovest, the Investment Committee also defines the goal and risk tolerance for the Pooled Income Fund (Table 3). Because donors rely on this fund for income, a more conservative return is expected (CPI + 1%) and a lower risk is tolerated than for the main investments of GSA and GSA Foundation.

GSA's current investment goal of earning at least 5.0% more than inflation generally had, until the current recession, been met (Figure 2). As of 30 June 2013, our investments were performing close to the target.

The Investment Committee occasionally adjusts the investment goals. In 1995, the goal was CPI + 5% for the main account and CPI + 3% for the Pooled Income Fund. The goal for the main account was adjusted to CPI + 5.25% in July 2006, CPI + 6% in July 2009, CPI + 5.25% in July 2011, and CPI + 5% in April 2012. The goal for the Pooled Income Fund was adjusted to CPI + 1.5% in July 2011 and CPI + 1% in April 2012.

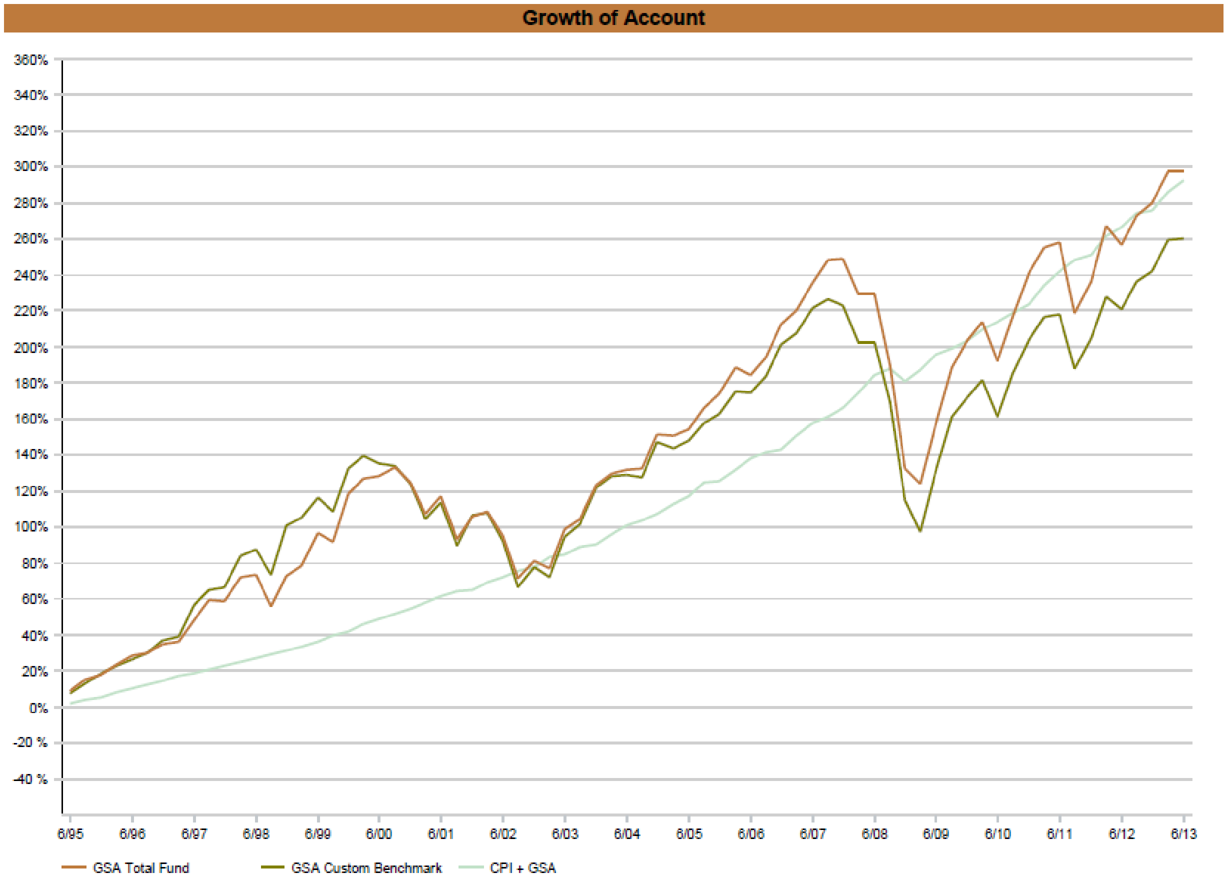

Figure 2. Cumulative returns from the GSA portfolio compared with a custom index and with the goal of inflation (Consumer Price Index) plus a percentage recommended by the GSA Investment Committee (currently 5.0%), March 1995 through June 2013, the timeframe in which Innovest has been GSA's investment advisors (from Innovest).

Table 2a. Distribution of GSA's and GSA Foundation's investments by asset-class group and asset class (from Innovest's Portfolio Review, 2nd Quarter 2013, *Investment Policy Summary, Asset Allocation vs. Target Allocation*, and *Table of Returns*) as of 30 June 2013.

Asset-Class Group / *Asset Class*	Lower limit	Target	Upper limit	As of 30 Jun 2013
Equity Funds	**34%**	**45%**	**62%**	**47.42%**
Domestic large cap equity	*21%*	*23%*	*31%*	*23.91%*
Domestic mid-small cap equity	*6%*	*9%*	*12%*	*9.77%*
International equity	*7%*	*10%*	*13%*	*10.70%*
Emerging markets	*0%*	*3%*	*6%*	*3.04%*
Fixed income	**17%**	**26%**	**35%**	**25.50%**
Core fixed income	*11%*	*14%*	*17%*	*13.65%*
Floating rate corporate loans	*3%*	*6%*	*9%*	*5.88%*
High-yield bond funds	*3%*	*6%*	*9%*	*5.97%*
Alternative investments	**17%**	**29%**	**41%**	**27.07%**
Low correlated hedge funds	*12%*	*15%*	*18%*	*14.57%*
Private equity funds	*1%*	*4%*	*7%*	*3.36%*
Real estate funds	*3%*	*6%*	*9%*	*5.97%*
Commodity funds	*1%*	*4%*	*7%*	*3.17%*
TOTAL		**100%**		**100%**

Table 2b. Distribution of GSA's and GSA Foundation's investments by asset-class group and asset class (from Innovest's Portfolio Review, 4th Quarter 2012, *Investment Policy Summary, Asset Allocation vs. Target Allocation*, and *Table of Returns*) as of 31 December 2012.

Asset-Class Group / *Asset Class*	Lower limit	Target	Upper limit	As of 31 Dec 2012
Equity Funds	**34%**	**45%**	**62%**	**47.14%**
Domestic large cap equity	*21%*	*23%*	*31%*	*23.56%*
Domestic mid-small cap equity	*6%*	*9%*	*12%*	*9.34%*
International equity	*7%*	*10%*	*13%*	*11.02%*
Emerging markets	*0%*	*3%*	*6%*	*3.22%*
Fixed income	**17%**	**26%**	**35%**	**25.41%**
Core fixed income	*11%*	*14%*	*17%*	*13.59%*
Floating rate corporate loans	*3%*	*6%*	*9%*	*5.85%*
High-yield bond funds	*3%*	*6%*	*9%*	*5.97%*
Alternative investments	**17%**	**29%**	**41%**	**27.44%**
Low correlated hedge funds	*12%*	*15%*	*18%*	*14.16%*
Private equity funds	*1%*	*4%*	*7%*	*3.49%*
Real estate funds	*3%*	*6%*	*9%*	*6.32%*
Commodity funds	*1%*	*4%*	*7%*	*3.47%*
TOTAL		**100%**		**100%**

Table 2c. Targets (strategic allocations) and ranges for GSA and GSA Foundation investments, according to the Investment Committee's instructions, effective June 2012, with a targeted return of 7.75% (CPI + 5%), using data from Innovest, as of 30 June 2012.

Asset Class *	Lower limit	Strategic allocation	Upper limit	Actual as of 30Jun2012
Domestic Equities				
Large Cap Value	8.5%	11.5%	14.5%	11.2%
Large Cap Growth	8.5%	11.5%	14.5%	11.4%
Mid Cap	1.5%	4.5%	7.5%	4.6%
Small Cap	1.5%	4.5%	7.5%	4.6%
International Equity	7%	10%	13%	10.1%
Emerging Markets	0%	3%	6%	3.4%
Domestic Fixed Income & Opportunistic Fixed Income	11%	14%	16%	13.8%
Floating Rate Corporate Loans	3%	6%	9%	5.9%
High Yield (bond funds)	3%	6%	9%	6.1%
Commodities	1%	4%	7%	3.8%
Real Estate	3%	6%	9%	6.3%
Private Equity	1%	4%	7%	4.1%
Low Correlated Hedge Funds	12%	15%	18%	14.5%
Cash & Cash Equivalents				0.2%
TOTAL		**100%**		**100%**

Table 3. Current targets (strategic allocations) and ranges for GSA Foundation's Pooled Income Fund, effective June 2012, with a targeted return of CPI + 1%, using data from Innovest's 2nd Quarter 2013 Portfolio Review, as of 30 June 2013.

Asset Class *	Lower limit	Strategic allocation	Upper limit	Actual as of 30Jun2013
Domestic Fixed Income & Opportunistic Fixed Income	39%	42%	45%	40.51%
Defensive Fixed Income	19%	22%	25%	21.05%
Floating Rate Corporate Loans	7%	10%	13%	9.46%
High Yield (bond funds)	7%	10%	13%	10.11%
REITs	5%	8%	11%	8.65%
Master Limited Partnerships	6%	8%	11%	9.16%
Cash & Cash Equivalents				1.07%
TOTAL		**100%**		**100%**

For each asset class, Innovest has identified a benchmark or index, which allows the Investment Committee to compare GSA's investments, which are actively managed by the managers of the funds chosen by the Investment Committee, using advice from Innovest, with non-managed indices. GSA's total fund performance is compared with several indices in Figure 3. Innovest also creates a "custom benchmark" to compare with GSA's total performance. Since beginning to work with Innovest in 1995, the Investment Committee has guided the growth of GSA's investments at a rate higher than and with a risk slightly lower than the custom benchmark.

Figure 3. Risk (measured by standard deviation) versus return for the GSA portfolio compared with the custom benchmark and other indices (modified by Innovest from their 2nd Quarter 2013 Portfolio Review).

GSA Council is using the same auditor, Brock and Company, for the fiscal year 2013 audit as was used in the previous year.

B. Finance Committee Recommendations and Findings

GSA Council adopted the Finance Committee's recommendations regarding the fiscal year 2014 budget at the mid-year meeting in April 2013. 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 2013. No further action is required at this time.

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

Respectfully submitted, Jonathan G. Price, 2 October 2013.