

THE GEOLOGICAL SOCIETY OF AMERICA
ANNUAL REPORT OF THE TREASURER, FISCAL YEAR 2014,

OPERATING RESULTS, FY2014 (July 1, 2013 to June 30, 2014)

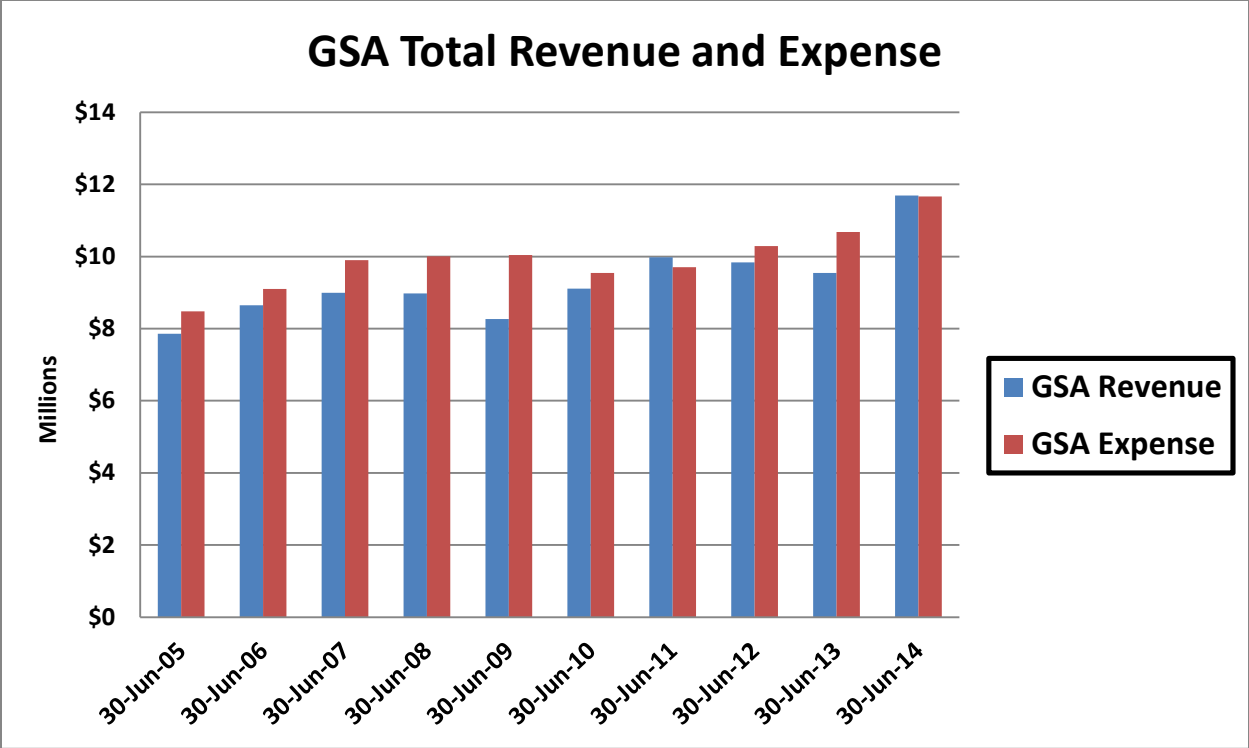
The Geological Society of America (GSA) completed another financially strong fiscal year on June 30, 2014, reporting a total of \$11.7M in operating revenues, and \$11.6M in operating expenses for the period. The primary sources of revenue for GSA were:

Publications	\$3.6M
Technical Meetings	\$3.1M
Education & Outreach	\$1.8M
Member dues	\$0.79M
Sections and Divisions	\$0.50M
Support from GSA Foundation	\$0.96M

Compared to the FY2014 budget, actual revenues were nearly \$1M greater than budgeted, and actual expenses were \$1,100 less than budget. As a result, the Society ended the year with a comfortable surplus rather than the small deficit originally projected in the 2014 budget. Publications and technical meetings continue to operate with surpluses and the Education and Outreach activities nearly broke even for the year. Approximately \$2.0M in Grants and Awards were made by GSA during FY2014.

Compared to the prior year, revenues grew by 27% while expenses grew by only 9%. The major improvements from the prior year were in the areas of E&O program revenue, which grew from \$0.9M to \$1.6M, and the Annual Meeting revenue, which grew from \$1.8M to \$2.6M. This was, of course, the year of the 125th Anniversary Annual Meeting in Denver, and it was indeed financially quite successful. However, major anniversary meetings do not come along every year, so we cannot count on such improvements year-over-year on an ongoing basis.

The graph below shows the trends for revenue and expenses over the past 10 years. The Society continues to grow at a relatively steady pace, although the impact of the 2008 Recession can be seen clearly in the revenues of GSA. Not surprisingly, the expenses of the Society did not go down much in the few years after the Recession, primarily because we did not cut back in the level of services to our members. The 2014 jump in revenues is clearly visible, but the budget for 2015 does not assume that the 125th Anniversary-level revenues will continue into the next fiscal year.



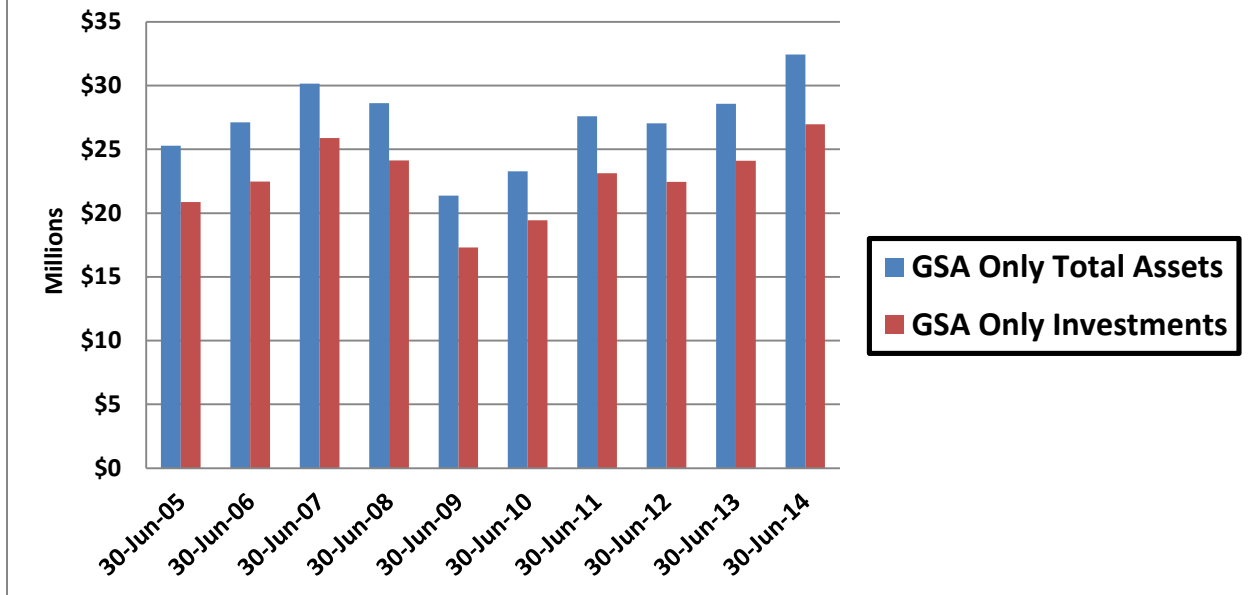
BALANCE SHEET

During FY2014, the GSA balance sheet improved substantially. Total Assets rose from \$28, 569,282 on July 1, 2013 to \$32,447,536 on June 30, 2014. The gain of \$3.9M was largely the result of the Society’s successful investments, together with an increase in cash on hand as a result of the strong operating performance during the fiscal year. Total liabilities were nearly unchanged at year-end, at slightly less than \$2.3M.

The Society’s assets include an investment portfolio of approximately \$27M, consisting primarily of the Penrose (\$19.6M) and Pardee (\$7.4M) Funds. Income from the Pardee fund is instrumental in providing the money to support the Society’s research grants and awards; income from the Penrose Fund pays for a number of other uses that benefit members directly. In addition, the GSA Foundation holds approximately \$16M in investments, and during FY2014 contributed a net \$869,313 to the Society’s programs. The assets from GSA and GSAF are invested together by the Investments Committee in a common portfolio, including cash, the total of which was valued at nearly \$43M as of June 30, 2014, up from \$38M at the beginning of the fiscal year.

The changes in the level of assets and invested portfolio for GSA only (not including GSAF) are shown in the graph below. Both total assets and investments were down substantially after the 2008 recession, and it was a few years before those balances recovered to pre-recession levels. In 2014, both total assets and the Society’s investment portfolio rose to record levels. Again, the good performance was related to the careful management of operating revenues, and a strong investment climate that was reflected in the gains in our investment portfolio.

Temporal Changes in GSA's Total Assets and Investments



CHANGES IN INVESTMENT PORTFOLIO

Funds that are not actively being used by GSA are invested in a portfolio managed by the Investments Committee, which consists of members from both the Society and GSAF who have been approved by GSA Council. The Investments Committee meets in person or by telephone at least 4 times per year to review the portfolio and the changes recommended by an external Investment Advisor. The portfolio is invested in accordance with a written investment policy approved jointly by the GSA Council and the GSAF Board of Directors. The policy forces a substantial diversity of the assets by requiring that the investments be restricted to mutual funds or their equivalents in the public equity, bond, hedge fund, real estate, and private equity markets.

During FY2014, the Investments Committee undertook a detailed review of our Investment Advisor (Innovest, Inc. of Denver, CO) and solicited proposals from several competing investment advisory firms. Following a round of written questions and answers, together with face-to-face interviews with several of the strongest firms, the Committee selected Watershed Investment Consultants, of Greenwood Village, CO to be the Society's Investment Advisor, beginning January 1, 2014.

The effect of the change in advisors was to cause a substantial change in the specific investments held in the Society's portfolio. Well over half of the old investments were sold and replaced by new investment vehicles. Many of the changes were not completed until the fourth quarter of this fiscal year (April-June 2014). However, even with the changes, the cumulative value of the portfolio's investments increased by 15.2% during the year. The healthy increase was primarily the result of a relatively high percentage of the assets being invested in the capital markets under both Investment Advisors.

More details are included in the Annual Report of the Investments Committee.

FISCAL YEAR 2015 BUDGET

The FY2015 Budget was prepared by the GSA Finance Committee in the latter half of FY2014, and approved by the Committee in July 2015. The 2015 Budget anticipates modest increases in revenue of \$10,944,074 compared to \$10,815,819 for the 2014 Budget, but lower than the actual revenues in 2014 of \$11,710,597. As we noted above, the actual revenues were buoyed up in FY2014 by a very successful 125th Anniversary Annual Meeting in Denver in October. Those anniversaries do not come around every year, and the Finance Committee believes that a more modest estimate of revenue for 2015 is appropriate.

The FY2015 Budget also anticipates expenses of \$12,101,647 as opposed to the FY2014 Budget figure of \$11,591,211, and an actual value for FY2014 of \$11,538,572. The difference in the 2015 Budget between revenues and expenses of \$1,157,573 will be covered by a number of positive additions to the budget, primarily from a) a surplus from FY2014 (\$278,000), b) a payment to cover part of the Strategic Budget from the investment portfolio (\$428,000), a payment for an additional part of the Strategic Budget from the Pardee Fund (\$325,000), and payments for Investment Advisor fees directly from the investment portfolio (\$65,000) rather than from operating funds. Thus the FY2015 Budget is effectively balanced.

While the investment portfolio is larger than ever before, there is a limit to the amount of that portfolio that can be spent in each fiscal year. The amount available for FY2015 is capped at \$490,000, up from approximately \$455,000 for FY2014. Since much of the investment portfolio consists of endowments for the funds, only a portion of the income from those funds is available to the Society in any one fiscal year. Those funds must be spent on “strategic initiatives” that are not covered by regular operating funds, but those initiatives are included in the Society’s annual Budget.

CLOUDS ON THE HORIZON

In FY2014, the scale of the financial impact of the Federal Government’s decision to proceed with requiring Open Access publication became a bit more clear. GSA has 5 major publications that will be impacted by the requirement for Open Access for papers whose research is supported by Federal funds. Currently the periodical publication revenue exceeds the cost for publication by approximately \$1M annually. Those excess funds help keep membership dues low and support some other activities of the Society. A new business model for handling publications and other expenses within GSA will be required, in order to adjust to the new reality of Open Access publication requirements. During FY 2015, GSA leadership and Council will need to address these issues as a part of the strategic planning for the future of the Society.

Respectfully submitted,

Bruce R. Clark
Treasurer