

THE GEOLOGICAL SOCIETY OF AMERICA
ANNUAL REPORT OF THE TREASURER, FISCAL YEAR 2015

OPERATING RESULTS, FY2015 (July 1, 2014 to June 30, 2015)

The Geological Society of America (GSA) successfully completed its fiscal year on June 30, 2015, reporting a total of \$11.68M in operating revenues, and \$12.32M in operating expenses for the period. The difference was made up primarily by distributing some of the income from the Pardee Fund (for awards) and the application of strategic funds from investments, as directed by Council.

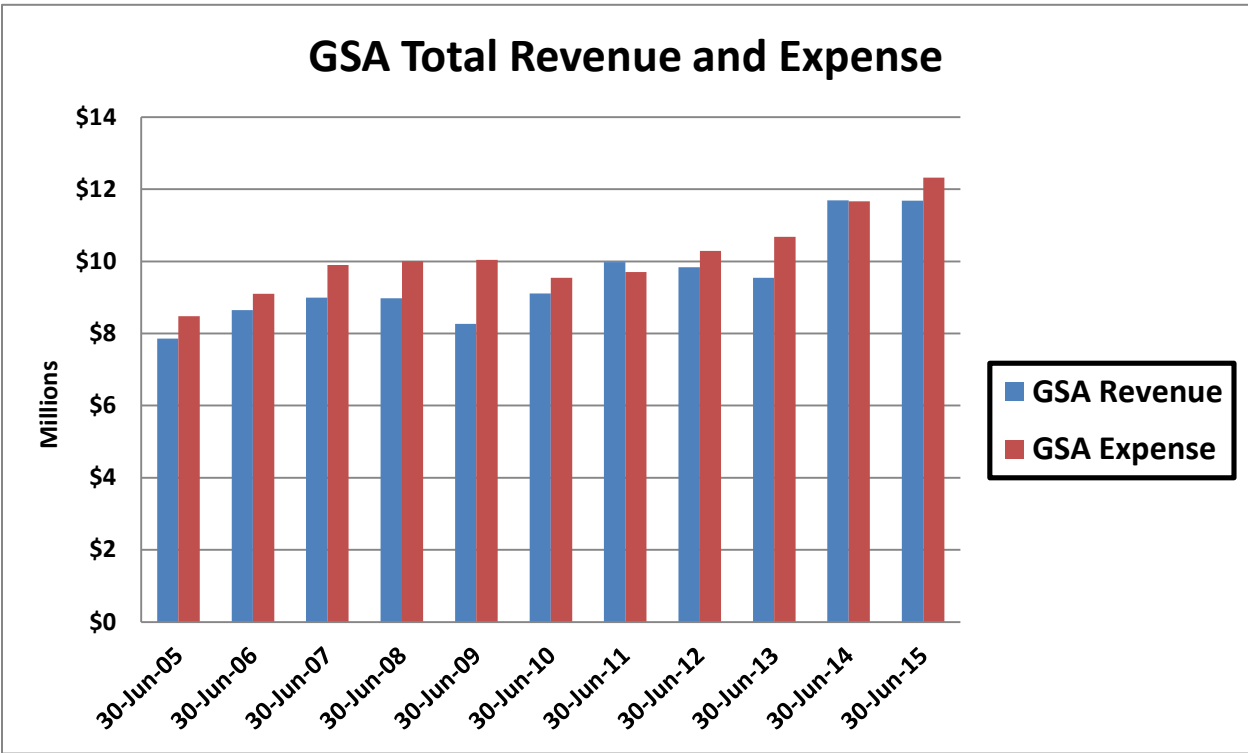
The primary sources of revenue for GSA were:

Publications	\$3.79M
Technical Meetings	\$2.40M
Education & Outreach	\$1.87M
Member dues	\$0.71M
Support from GSA Foundation	\$0.99M
Grants	\$0.58M

Compared to the Society's FY2015 budget, actual revenues were about \$700k greater than budgeted, and actual expenses were approximately \$200k more than budget. As a result, the Society ended the year ahead of our projected outcome for FY2015. Publications continued to supply the largest share of revenue, and Education and Outreach activities continued to grow. Nearly \$2.5M in Grants and Awards were made by GSA during FY2015, up from \$2.0M in FY2014. The bulk of this money came from investment income produced by donations and contributions to GSA, especially from the Pardee Fund.

Compared to the prior year, revenues from operations were less by about .1% while expenses grew by approximately 6%. Publications revenue declined by about \$200k, while combined Meetings revenue declined by just over \$460k. This reflected the financial success of the 125th Anniversary Annual Meeting in Denver in the previous year (FY2014), although this past year's meeting in Vancouver also exceeded the budget and was quite successful financially. These declines in revenue from both publications and the Annual Meeting were anticipated in the FY2015 budget, and thus were not surprises to the organization.

The graph below shows the trends for revenue and expenses over the past 11 years. The Society continues to grow at a relatively steady pace, although the impact of the FY2009 Recession and the 125th Anniversary (FY2014) can be seen clearly in the revenue patterns on the graph. Not surprisingly, the expenses of the Society did not vary nearly so much in those years, primarily because we did not make dramatic cuts to the level of services for our members from year to year.



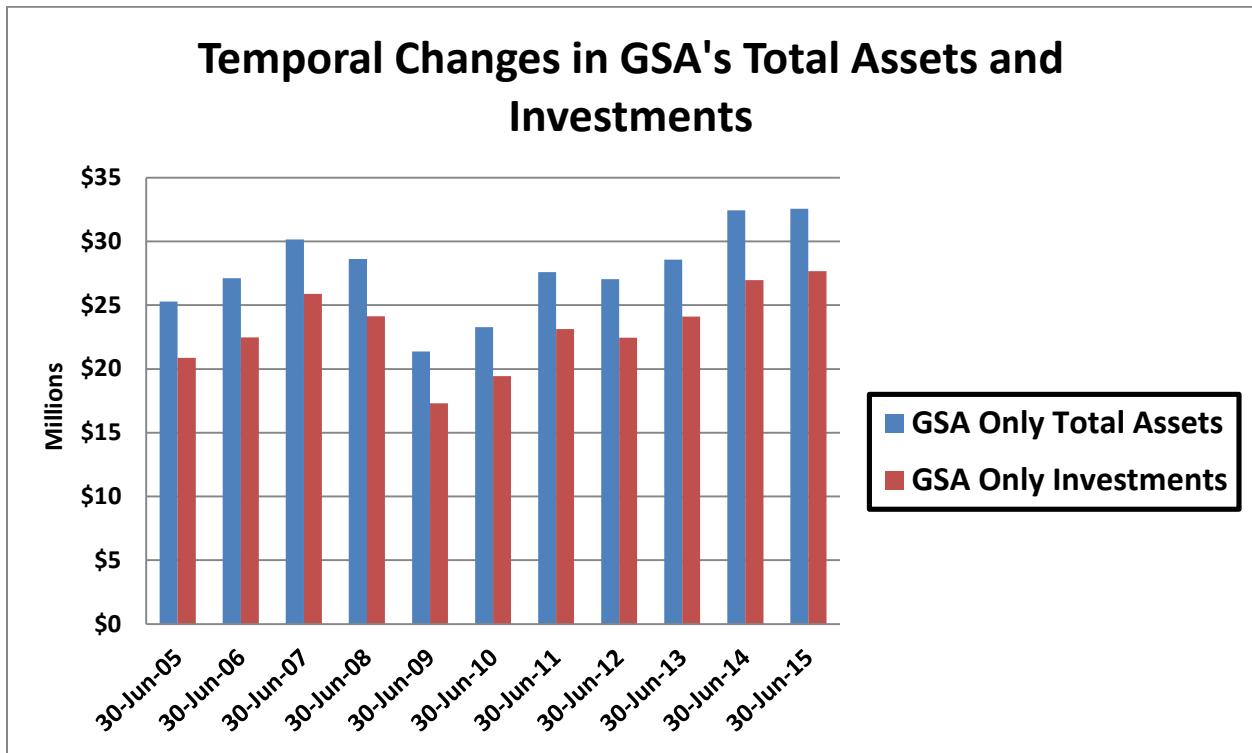
BALANCE SHEET

During FY2015, the GSA balance sheet showed a slight increase in Net Assets for the year, from \$30,129,858 in June 2014 to \$30,389,109 in June 2015. GSA Investments declined slightly during the year, largely because investment income failed to keep pace with the draws that we made from the Society’s investment portfolio in order to support research grants and awards. This decrease was offset by the transfer of Building and Tech Funds from the GSA Foundation (GSAF) to the Society. Total liabilities were also down slightly at year-end, at approximately \$2.2M.

The Society’s assets include an investment portfolio of approximately \$28M, consisting primarily of the Penrose (\$20M) and Pardee (\$7.5M) 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 items that benefit members directly. In addition, the GSAF holds approximately \$16M in investments, and during FY2015 GSAF contributed a net \$1.06M 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 \$44.2M as of June 30, 2015, up from \$43.4M 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 2015, 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 relatively weak but positive 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 assures a substantial diversity of our investments by requiring that they be spread among mutual funds or their equivalents in the public equity, bond, hedge fund, real estate, and private equity markets. Our current Investment Advisor is Watershed Investment Consultants, Inc. of Greenwood Village, Colorado.

The cumulative value of the portfolio's investments increased by 3.7% during FY2015, less than the 5%+CPI target set by the Investments Committee. The small increase was primarily the result of a relatively weak performance by both US and International capital markets during the Fiscal Year.

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

FISCAL YEAR 2016 BUDGET

The FY2016 Budget was prepared by the GSA Finance Committee in the latter half of FY2015, and approved by the Committee in July 2015. The 2016 Budget anticipates a significant increase in operating revenue to \$11,946,817 compared to actual operating revenue for 2015 of \$11,679,317. The projected

increase includes an increase of approximately \$1M in revenue for the highly successful GeoCorps program (but see below).

The FY2016 Budget anticipates expenses of \$12,626,429 versus the actual expenses for FY2015 of \$12,318,659. The difference in the Budget between operating revenues and expenses will be covered from a number of sources, primarily from a) a cash surplus from FY2015 (\$300,000), b) a payment to cover part of the Strategic Budget from the investment portfolio (\$275,000), c) a payment for an additional part of the Operating Budget from the Pardee Fund (\$330,000), and d) payments for Investment Advisor fees directly from the investment portfolio (\$66,000) rather than from operating funds. Thus the FY2016 Budget is effectively balanced.

While the investment portfolio has grown slightly again in FY2015, there is a limit to the amount of that portfolio that can be spent in each fiscal year. The amount available for FY2016 is capped at \$517,900, and an amount of \$275,000 is included for expenditures in the FY2016 Budget. Since much of the investment portfolio consists of endowed and otherwise restricted 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 the costs of those initiatives are included in the Society’s annual operating budget.

CLOUDS ON THE HORIZON

In FY2015 and the budget for FY2016, the financial impact of the Society’s decision to proceed with Open Access publication for its five major journals is beginning to be felt. Periodical publication revenues continue to decline, although books and special papers provided a strong additional revenue source during FY2015. Over the next three to five years, the new business model for handling the reduced income from periodicals will be put into place. From a financial standpoint, the changes will include a modest increase in dues for the members, and a larger contribution from the GSA Foundation to cover some ongoing operating expenses. The Society will need to stay focused on careful budgeting and financial management to assure that its future operations are secure.

Also during FY2015, the Society’s investment portfolio growth of approximately 3.7 percent was well below the long-term growth target of 5% plus CPI, as did portfolios for most other non-profits. An alternative of selecting investments with a higher return, but also higher risk profile, is not considered prudent by either the Investments Committee or by GSA Council. If the limited investment portfolio growth pattern extends through FY2016, then the income from the portfolio to fund the Society’s programs and its strategic objectives will be substantially curtailed.

Finally, the rapidly growing GeoCorps program is facing some reorganization within the Federal Government agencies, which might reduce both the growth rate and net return to GSA from that program. The changes have not yet been determined, but they could have some effect in FY2016 and a greater effect in FY2017.

Respectfully submitted,

Bruce R. Clark
Treasurer