

THE GEOLOGICAL SOCIETY OF AMERICA  
ANNUAL REPORT OF THE TREASURER, FISCAL YEAR 2016

OPERATING RESULTS, FY2016 (July 1, 2015 to June 30, 2016)

The Geological Society of America (GSA) successfully completed its fiscal year on June 30, 2016, reporting a total of \$11.60M in operating revenues, and \$11.42M in operating expenses on a cash basis for the period. The positive net income was stronger than budget for the year, and does not include an additional income of more than \$324,000 from the Pardee Fund (for research awards). The strong cash position will allow the Society to begin FY2017 with a small cushion to help adjust to the changes in publications revenue that we expect to begin in the coming fiscal year.

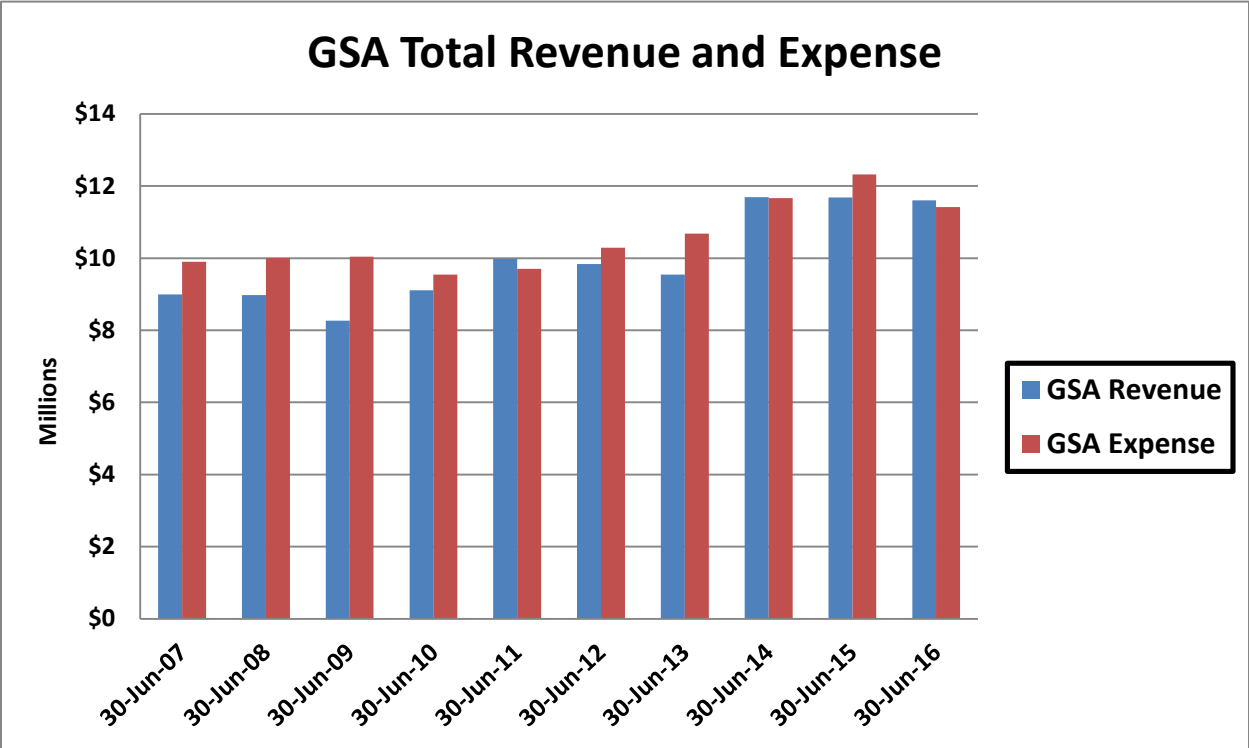
The primary sources of revenue for GSA were:

Publications	\$3.61M
Technical Meetings	\$3.04M
Education & Outreach	\$1.75M
Member dues	\$0.97M
Support from GSA Foundation	\$0.96M
Grants	\$0.80M

Compared to the Society's FY2016 budget, actual revenues were about \$0.35M less than budgeted, but actual expenses were approximately \$0.86M less than budgeted after adjusting for some expenses that will be paid in the early months of FY2017. The substantial reduction in expenses reflects the focus that GSA staff placed on controlling expenses as the programs, especially GeoCorps, changed in scope during the year. Publications continued to supply the largest share of revenue, although the actual revenue level continues to decline as our journals begin to see the effects of open access. We had a very strong year in both Annual and Section meeting revenues. Education and Outreach revenues dropped significantly as the Federal approach to funding GeoCorps changed drastically. Just under \$2.0M was spent on Grants and Awards by GSA during FY2016, down a bit from \$2.5M in FY2015. 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 greater by about 5% while expenses were less by approximately 5%. Publications revenue declined by about \$74k, while combined Meetings revenue grew by just over \$151k. This reflected the financial success of our Annual Meeting in Baltimore in October 2015. Member dues were also up by \$147k as the Society began the process of replacing some of the reduction of publication revenues with a small increase in individual member dues.

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 negative impact of the FY2009 recession and the positive impact of our 125th Anniversary celebration (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 as the revenue in those years, primarily because we did not make dramatic changes to the level of services for our members from year to year and simply absorbed the impacts of the revenue changes.



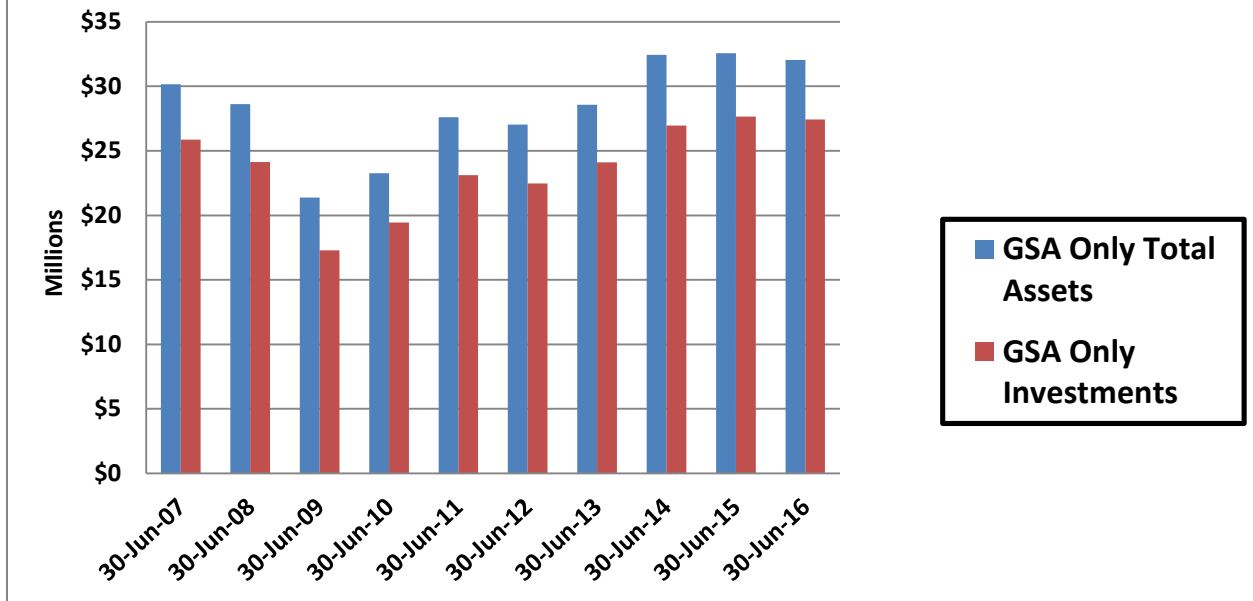
**BALANCE SHEET**

During FY2016, the GSA balance sheet showed a slight decrease in Net Assets for the year, from \$30.4M in June 2015 to \$29.9M at the close of June 2016. GSA Investments declined slightly during the year, largely because investment values within the Society’s investment portfolio declined in the relatively flat securities market. Total liabilities were virtually unchanged at approximately \$2.1M.

The Society’s assets include an investment portfolio of approximately \$27.4M, consisting primarily of the Penrose and Pardee 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 \$0.96M 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 \$43.4M at the beginning of the fiscal year and \$43.8M at year end.

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 2009 recession, and it was a few years before those balances recovered to pre-recession levels. In 2016, both total assets and the Society’s investment portfolio continued to be at solid levels. Again, the good performance was related to the careful management of operating revenues, and was not helped by the relatively weak investment climate during FY2016.

## 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 four 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 Ellwood Associates, Inc. of Greenwood Village, Colorado.

The cumulative value of the portfolio's investments decreased by 0.8% during FY2016, obviously well below the net return target of 4.5%+CPI set by the Investments Committee. The decrease was most pronounced in the Society's holdings in the international capital markets during the Fiscal Year.

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

### FISCAL YEAR 2017 BUDGET

The FY2017 Budget was prepared by staff and the GSA Finance Committee in the latter half of FY2016, and approved by the Committee in June 2016. The 2017 Budget anticipates a reduction in operating revenue to \$10.059M compared to actual operating revenue in 2016 of \$11.603M. The projected decrease includes a decline of approximately \$1.26M in revenue for the GeoCorps program, which has

been restructured by the Federal agencies that it benefits, primarily the National Park Service. Expenses for the program have declined by a similar amount.

The FY2017 Budget anticipates expenses of \$11.40M versus the actual expenses for FY2016 of \$11.42M. The difference in the Budget between operating revenues and expenses will be covered by a number of sources, primarily a) a cash surplus from FY2016 (\$962,000), b) a payment to cover part of the Strategic Budget from the investment portfolio (\$240,000), and c) a payment for an additional part of the Operating Budget from the Pardee Fund (\$317,000). Thus the FY2017 Budget is balanced.

The investment portfolio has been flat in FY2016, and there is a limit to the amount of that portfolio that can be spent in each fiscal year. The amount available for FY2017 is capped at \$531,165, and an amount of \$240,000 is included for expenditures in the FY2017 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 still included in the Society’s annual operating budget.

#### CLOUDS ON THE HORIZON

In FY2016 and the budget for FY2017, we were able to delay much of the financial impact of the Society’s decision to proceed with Open Access publication for its five major journals. However, periodical publication revenues continue to decline while we are still transitioning to open access. Fortunately, books and special papers provided strong additional revenue sources during FY2016. 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 include a modest increase in dues for the members, and a larger contribution from the GSA Foundation to cover some ongoing operating expenses. But the impact of making our publications free online to everyone will have a substantial impact on our financial health as a Society. GSA will need to stay focused on careful budgeting and financial management to assure that our future operations are secure.

Also during FY2016, the Society’s investment portfolio failed to grow in value at all, clearly well below the long-term growth target of 4.5% plus CPI (consumer price index), as did portfolios for most other non-profits. The alternative of selecting investments with a higher projected return would bring with it a higher risk profile to our portfolio, not considered prudent by the Investments Committee or by GSA Council. If this limited growth pattern extends through FY2017, then the income from the portfolio to fund the Society’s programs and its strategic objectives will continue to be curtailed. We have approved an operating budget that does not depend on the growth of our portfolio during this fiscal year.

Finally, our GeoCorps program, which puts students in the field under the direction of several Federal Government agencies, has been reorganized and will generate lower revenues (and expenses) for GSA. The changes were absorbed into our FY2017 budget, but the new program still has growing pains and could have future negative financial impacts. GSA is continuing to monitor this program closely.

Respectfully submitted,

Bruce R. Clark  
Treasurer