

THE GEOLOGICAL SOCIETY OF AMERICA  
ANNUAL REPORT OF THE TREASURER, FISCAL YEAR 2018

OPERATING RESULTS, FY2018 (July 1, 2017 to June 30, 2018)

The Geological Society of America (GSA) successfully completed its fiscal year on June 30, 2018, reporting an audited total of \$10.35M in operating revenues and \$11.13M in operating expenses for the period. The net income does not include additional funding of \$318,500 from the Pardee Fund (for research awards).

FY2018 primary sources of revenue for GSA compared to FY2017 were:

	<u>FY2018</u>	<u>FY2017</u>	<u>Variance</u>
Publications	\$3.57M	\$3.71M	\$138K less
Meetings	\$2.80M	\$2.62M	\$178K more
Sections and divisions	\$0.72M	\$0.67M	\$54K more
Member dues & services	\$0.90M	\$0.90M	\$4K less
Education & Outreach	\$0.92M	\$1.16M	\$240K less
Support from GSA Foundation, net	\$0.91M	\$0.81M	\$107K more
Grants	\$0.30M	\$0.39M	\$92K less

FY2018 primary expenses for GSA compared to FY2017 were:

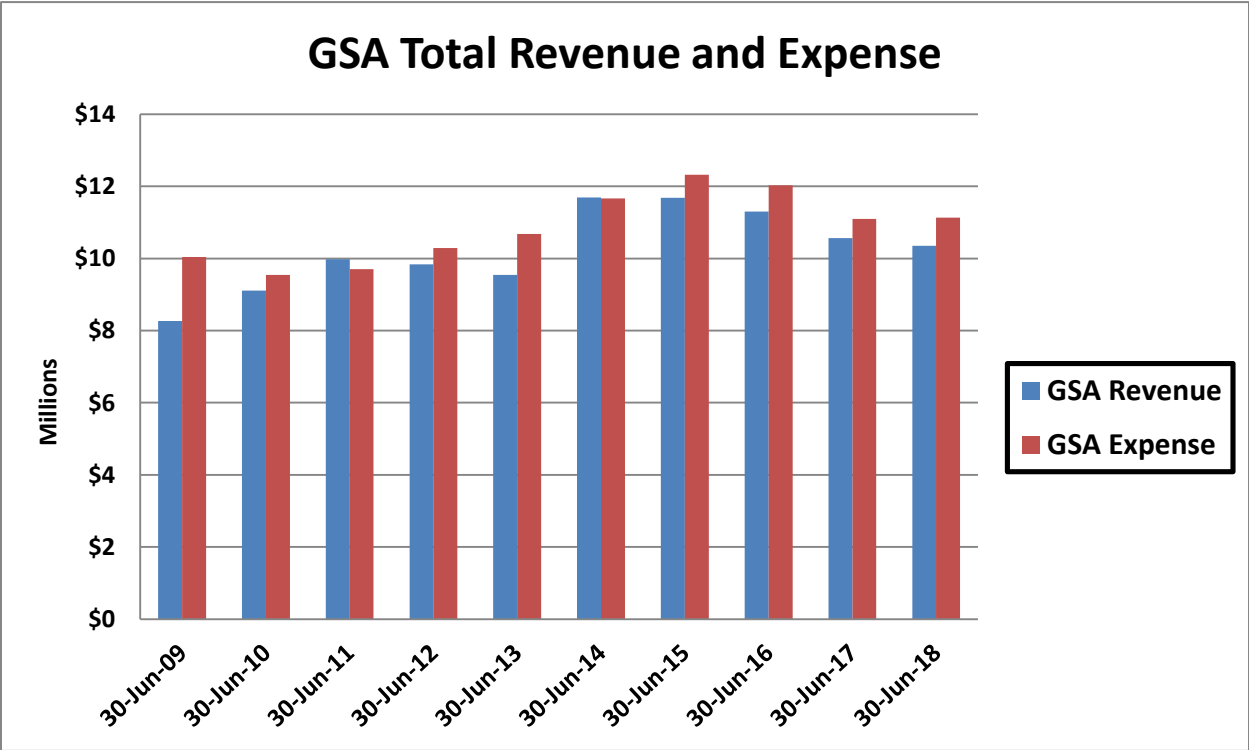
	<u>FY2018</u>	<u>FY2017</u>	<u>Variance</u>
Publications	\$1.77M	\$1.87M	\$94K less
Meetings	\$2.62M	\$1.88M	\$385K more
Grants and awards	\$1.13M	\$1.08M	\$42K more
Education and outreach	\$1.44M	\$1.78M	\$338K less
Membership	\$0.64M	\$0.58M	\$52K more

The above numbers reflect the expected reduction in revenue from publications, the revenue increase from the successful 2017 Annual Meeting and 2018 Section meetings, as well as the considerably added cost of meetings in FY2018. Compared to FY2017, FY2018 actual revenues from operations (\$10.35M) were \$207.8K less (2.0%) than in FY2017 (\$10.56M). FY2018 expenses were slightly greater than in FY2017 by \$33K (0.3%).

Noteworthy line-item revenues better than budgeted include the Education and Outreach Program, the Annual and Other Meetings, and Periodical Publications. Revenues less than budgeted include Member Dues, and Other Publications and Non-Periodical Publications. On the expense side, year-end Employee Expenses were lower than budgeted. Noteworthy Program Expenses lower than budgeted include Advertising, Furniture and Equipment Rental, Leases, Postage and Shipping, and Science Editors. Those noteworthy expenses greater than budgeted include Consulting Fees, Contract Services, Legal Services, Meetings, and Travel etc.

FY2018 budgeted versus actual revenue and expenses show that the total revenue that was budgeted for FY2018 was \$9.83M and total expenses were budgeted at \$11.10M. Therefore, actual audited revenues were \$522.8K more than budgeted, while expenses were \$32.5K more than budgeted, the net of which improved GSA's financial situation. The reduction in expenses reflects the continual efforts of GSA staff to control operating expenses

The graph below shows the trends for revenue and expenses since FY2009. The Society experienced fairly uniform growth for the first three years, and the negative impact of the FY2009 recession is clearly evident. Recovery began with the positive impact of the 125th Anniversary celebration (FY2014), and that continued through FY2015. However, from FY2015 to FY2018 there was a reduction in both revenue and expenses, as the effects of the NSF Steppe program, GeoCorps, and Publications were being realized. Interestingly, FY2018 shows revenues still declining, but expenses may have stabilized (at least for this one year).



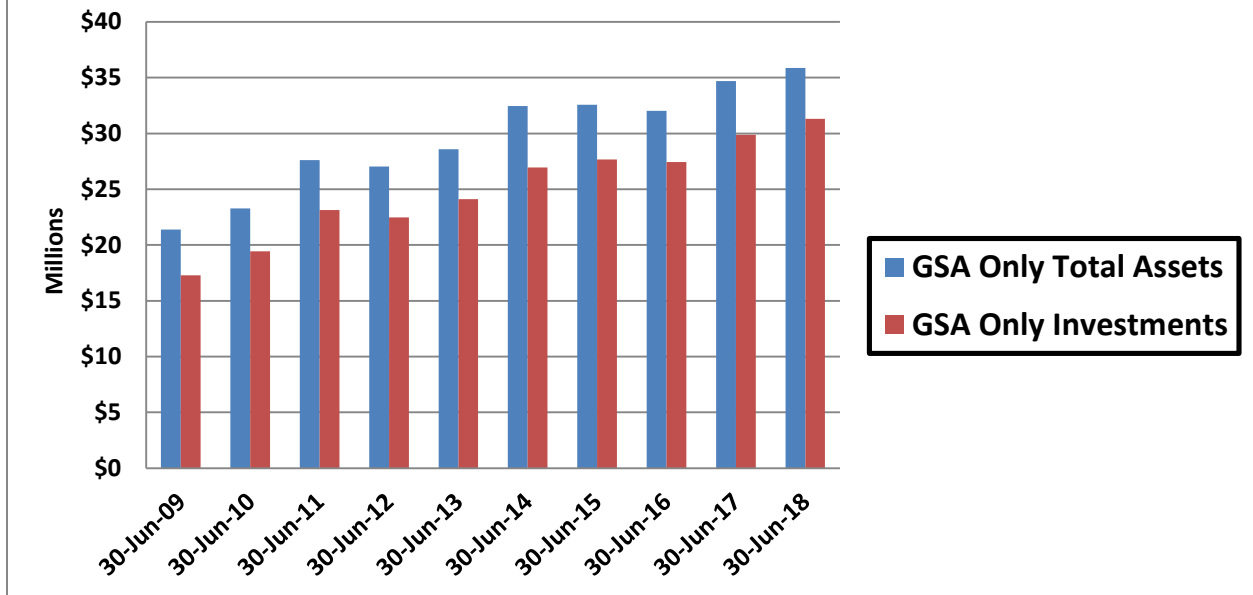
**BALANCE SHEET**

During FY2018, the GSA balance sheet showed a modest increase in Net Assets for the year, from \$32.2M in June 2017 to \$33.9M at the close of June 2018. GSA Investments rose during the year, largely because of a strong market, particularly during the first half of FY2018. Total liabilities decreased quite significantly from \$2.50M to \$1.95M over the same time period. This is due to lower accounts payable (\$356.4K) and lower deferred revenue (\$146.4K) than at the end of FY2017.

The Society’s assets include an investment portfolio which rose during this past year from approximately \$29.9M to \$31.3M. The portfolio as of June 30 2018 consists of the Penrose (\$23.1M), Pardee (\$7.6M), Building (\$.4M), and Technology (\$.2M) funds. Income from the Pardee Fund provides significant support for the Society’s research grants and awards; income from the Penrose Fund pays for many items that benefit members directly. In addition, the GSAF holds approximately \$20.4M in investments, and during FY2018 GSAF contributed a net \$913K 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 value of the portfolio was \$47.8M at the beginning of FY2017 and \$51.7M at year end.

Changes in the level of assets and invested portfolio beginning in 2009 for GSA only (not including GSAF) are shown in the graph below. Both total assets and investments understandably were down after the 2009 recession, and an upward progression to pre-recession levels is clearly evident through 2013. Then beginning in 2014, careful management of funds and a strong market resulted in very strong levels of GSA’s investment portfolio even though there was a relatively weak investments climate during FY2016. That climate changed during FY2017, with significant increases in both total assets and investments, and this continued through FY2018.

## 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 according to 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 increased by ~8.1% during FY2018 (from \$47.8M to \$51.7M), well above the net return target of 5%+CPI set by the Investments Committee. The increase was due to strong market returns, particularly U.S. Equity.

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

### FISCAL YEAR 2019 BUDGET

The FY2019 Budget was prepared by staff and the GSA Finance Committee in the latter half of FY2018, and approved by the Committee in June 2018. The FY2019 Budget anticipates a \$24K reduction from the actual operating revenue in FY2018 of \$10.35M to \$10.09M. Noteworthy revenue reductions include those for the Annual Meeting, publications, and member dues.

The FY2019 Budget anticipates an expense increase (~\$530K), from \$11.13M of actual expenses for FY2018 to \$11.66M budgeted expenses anticipated for FY2019. FY2019 budgeted expenses exceed revenues by \$1.57M and this reflects normal budgeting from year to year. However, by years end for FY2018 for example, the bottom line

loss was \$777.6K before investment gains, and was better than was budgeted. This was primarily due to the positive operating results from Publications, Meetings, and Grants and Awards that offset Membership revenues that were well below budget. The difference in the FY2019 Budget between operating revenues and expenses will be covered by a number of sources, primarily a) a cash surplus from FY2018 (\$766.7K), b) an investment to cover part of the Strategic Budget from the investment portfolio (\$390K), and c) an investment draw for an additional part of the Operating Budget from the Pardee Fund (\$353K). Thus the FY2019 Budget is considered balanced.

Throughout FY2018, there was discussion regarding GeoCorps since it changed during the previous year compared to both budget and what had occurred during the prior year. During FY2018 GeoCorps revenues exceeded the budget because of more participants, and expenses also were higher for the same reason. GeoCorps for FY2018 was budgeted to show a lower number of participants not knowing what to expect. However, for FY2019 it was budgeted based on the current actual number of participants during FY2018. Therefore, this program is becoming less uncertain, but it still depends on whether participating agencies will require any future changes.

The investment portfolio mainly consists of endowed and restricted funds, with only a portion of the income from those funds available to the Society in any one fiscal year, and those funds must be spent on “strategic initiatives” that are not covered by regular operating funds. The costs of those initiatives are included in the Society’s annual operating budget. For FY2018, new strategic funds supported the Society’s Strategic Plan, and this continues through FY2019.

The investment portfolio market value increased in FY2018, and there is a limit to the amount of that portfolio that can be spent for strategic spending in each fiscal year. The amount available for FY2019 is capped at \$539K, and an amount of \$390K was approved and is included for expenditures in the FY2019 Budget.

#### ISSUES TO CONSIDER

Similar to conclusions from the past few years, the financial impact of the Society’s decision to move forward with Open Access publications continues to be an issue, but the decision to transition its implementation provides the opportunity to assess impacts incrementally and at the same time assess other options. A large potential impact on GSA’s budget may be outcomes of the newly initiated Strategic Plan that will identify new programs and initiatives, all with a degree of uncertainty, risk, and associated cost, and all of which will be challenging to balance with existing programs and membership trends. Finally, there remains discussion concerning the GSA’s Headquarters property, its maintenance and other costs, total and partial sale/rental options, and relocation possibilities, all of which pose multiple financial scenarios.

During FY2018, the Society’s investment portfolio continued to grow (significantly during the first half of FY2018 and modestly during the second half), all in concert with national investment growth. The portfolio is designed with a long-term outlook with respect to the short-term anticipated market outlook, and is carefully managed to reduce risk and enhance returns.

Respectfully submitted  
Richard C. Berg  
Treasurer