

THE GEOLOGICAL SOCIETY OF AMERICA
ANNUAL REPORT OF THE TREASURER, FISCAL YEAR 2017

OPERATING RESULTS, FY2017 (July 1, 2016 to June 30, 2017)

The Geological Society of America (GSA) successfully completed its fiscal year on June 30, 2017, reporting an audited total of \$10.56M in operating revenues and \$10.99M in operating expenses for the period. The net income does not include an additional funding of \$313,400 from the Pardee Fund (for research awards).

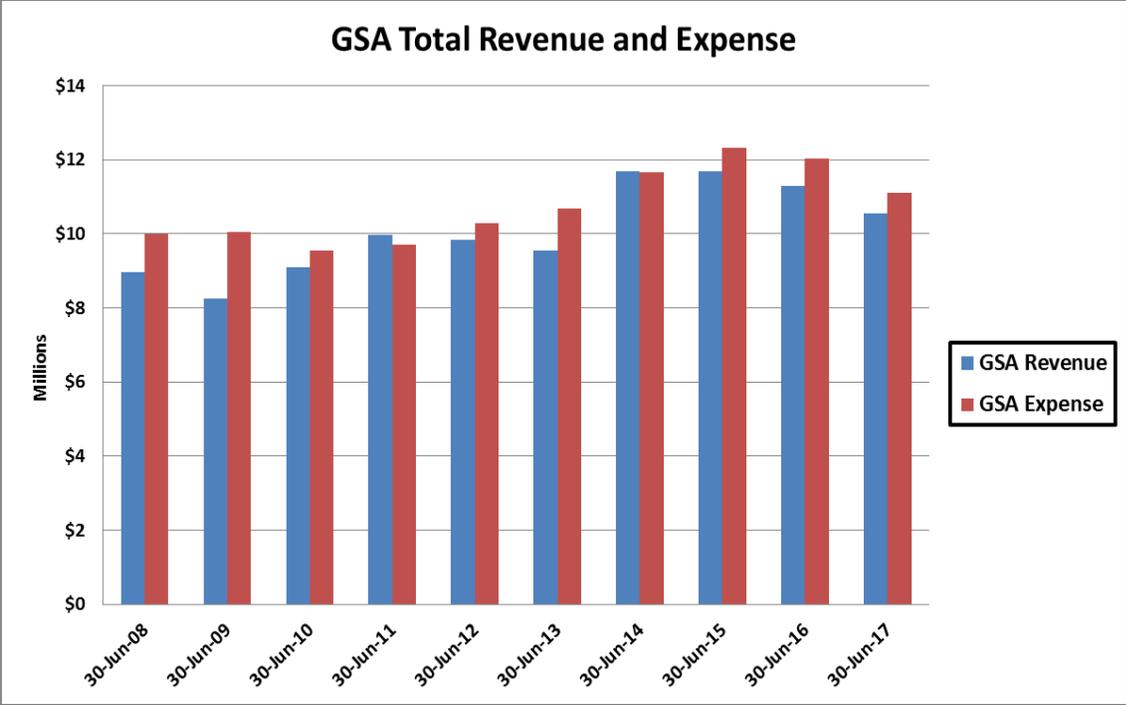
The primary sources of revenue for GSA were:

Publications	\$3.71M
Technical Meetings	\$3.17M
Education & Outreach	\$1.16M
Member dues	\$0.90M
Support from GSA Foundation, net	\$0.69M
Grants	\$0.39M

Compared to the Society's FY2017 budget, actual internally reported revenues (\$10.45M) were about \$0.40M more than budgeted (\$10.05M), and actual expenses (\$10.87M) were approximately \$0.52M less than budgeted (\$11.39M), both of which improved GSA's financial situation. There were some cost reductions associated with periodicals/non-periodicals, as well as meetings and technical programs, and ~ \$350K lower grants and awards cost, particularly associated with the NSF Steppe Program that ended. The reduction in expenses also reflects the continual efforts of GSA staff to control operating expenses. Additionally, GeoCorps changed in scope during the year compared to both budget and the prior year. Publications provided about 35% of GSA's revenue, but as has been the recent situation, the actual revenue level continues to modestly decline as subscription revenue decreases. Both the Annual and Section meeting revenues were strong, comprising about 30% of total revenue. Education and Outreach, about 11% of total revenues, again dropped significantly as a result of GeoCorps agency agreement changes and the elimination of GeoVenture and Geocaching activities.

Compared to FY2016, FY2017 actual revenues from operations were less by about 6.5%, and expenses were also less, by approximately 8.3%. Publications revenue declined by about \$24K, while combined Meetings revenue grew by about \$270K, and Education and Outreach declined by about \$249K. Membership net dues were up by \$81K.

The graph below shows the trends for revenue and expenses since FY2008. The Society experienced fairly uniform growth for the first five 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, FY2016 and FY2017 show a reduction in both revenue and expenses, as the effects of NSF Steppe program, GeoCorps, and cost of Publications were being realized.

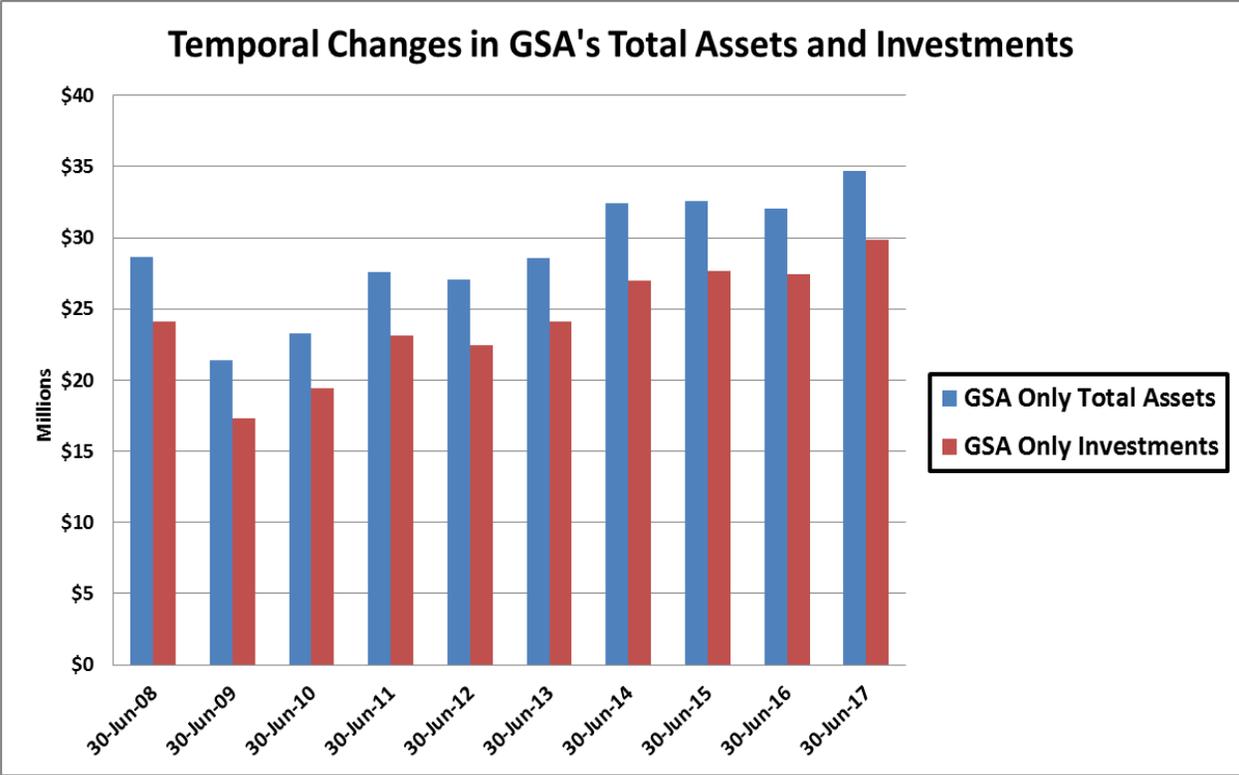


BALANCE SHEET

During FY2017, the GSA balance sheet showed a significant increase in Net Assets for the year, from \$29.5M in June 2016 to \$32.2M at the close of June 2017. GSA Investments rose during the year, largely because of a very favorable market. Total liabilities decreased very slightly from \$2.52M to \$2.50M over the same time period.

The Society’s assets include an investment portfolio which rose during this past year from approximately \$27.4M to \$29.9M. The portfolio as of June 30 2017 consists of the Penrose (\$21.9M), Pardee (\$7.4M), Building (\$.4M), and Technology (\$.2M), funds. In June 2017, there was a \$754K withdrawal from investments to primarily fund the research grant program, building roof and skylight replacements, an independent open access publications study, and two years of fees from GSA investment advisors. This is the first withdrawal from investments by GSA since the period ending June 30, 2015. Income from the Pardee Fund is instrumental in providing 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 \$17.9M in investments, and during FY2017 GSAF contributed a net \$0.69M 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 \$43.5M at the beginning of FY2017 and \$47.8M at year end.

Changes in the level of assets and invested portfolio beginning in 2008 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.



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 increased by ~9.9% during FY2017, well above the net return target of 4.5%+CPI set by the Investments Committee. The increase was most pronounced in the Society’s holdings in International and U.S. Equities during the Fiscal Year.

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

FISCAL YEAR 2018 BUDGET

The FY2018 Budget was prepared by staff and the GSA Finance Committee in the latter half of FY2017, and approved by the Committee in June 2017. The 2018 Budget anticipates a \$730,641 reduction from the actual operating revenue in FY2017 of \$10.562M to \$9.831M. Noteworthy revenue reductions include those for the GeoCorps program, grants, and publications. Open access fees are also anticipated for an increase due to GeoSphere and Lithosphere going open access the beginning of calendar 2018.

The FY2018 Budget anticipates an expense increase (\$113,069), from \$10.986M of actual expenses for FY2017 to \$11.099M budgeted expenses anticipated for FY2018. Therefore, FY2018 budgeted expenses exceed revenues by

\$1,267,906, which is ~\$70K better than the anticipated budgetary loss from the previous year. However, by years end for FY2017, the bottom line loss was \$914,411 better than was budgeted and this was primarily due to Publications, Meetings, and grants and awards positive operating results that offset Membership revenues that were well below budget. The difference in the Budget between operating revenues and expenses will be covered by a number of sources, primarily a) a cash surplus from FY2017 (\$1,000,784), b) a payment to cover part of the Strategic Budget from the investment portfolio (\$270,000), and c) a payment for an additional part of the Operating Budget from the Pardee Fund (\$319,895). Thus the FY2018 Budget is balanced.

The investment portfolio mainly consists of endowed and restricted funds, only a portion of the income from those funds is 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.

The investment portfolio market value increased in FY2017, 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 FY2018 is capped at \$525,585, and an amount of \$270,000 was approved and is included for expenditures in the FY2018 Budget.

ISSUES TO CONSIDER

Similar to conclusions for FY2016, the FY2017 financial impact of the Society’s decision to proceed with Open Access publication continues to loom, but the decision to transition to Open Access provides the opportunity to assess impacts more on a “piece-meal” basis, and at the same time evaluate other appropriate options. However, with publications comprising ~35% of the Society’s revenue, the overall impact of free online publications will have a substantial effect on the financial wellbeing of GSA. The Society must remain diligent to budget very carefully and to manage all financials with a very long-term outlook.

During FY2017, the Society’s investment portfolio grew by almost 10%, which was well above the long-term growth target of 4.5% plus the consumer price index (CPI), all in concert with significant national investment growth. There is concern regarding portfolio risk in the current market environment, and steps have already been taken for a wider view of the economic “landscape”, as well as testing GSA’s portfolio against various economic situations to best evaluate potential returns, costs, and risks. The portfolio currently is designed with a very long-term outlook with respect to the short-term anticipated market outlook.

Respectfully submitted,
Richard C. Berg
Treasurer