

Date: July 11, 2003

To: **Executive Committee and Council** of Botanical Society of America
Jennifer Richards, **Secretary** of Botanical Society of America (richards@fiu.edu)
Scott Russell, **President** of Botanical Society of America (srussell@ou.edu)

From: **2002-2003 Financial Advisory Committee**: Greg Anderson (Member; 2004; ander@uconnvm.uconn.edu), Russell Chapman (Member; 2003; chapman@lsu.edu), Jack Horner (Chair, 2004; hth@iastate.edu), Joe Armstrong (Treasurer, ex officio, 2004; jearmstr@ilstu.edu), William Dahl (Business Manager, ex officio; wdahl@BOTANY.ORG), and Scott Russell (President, ex officio, 2003; srussell@ou.edu)

Re: **2003 Annual Report of the Financial Advisory Committee (FAC)***

***The FAC WILL NOT be holding an annual committee meeting during the BSA Meeting this year in Mobile, AL because two of the committee members (G. Anderson and R. Chapman) will be on assignments out of the country. However, the committee has read and approved this report and will be conducting a conference call meeting this Fall with the Smith Barney investment manager for the Endowment Fund.**

The FAC has the responsibility for managing the BSA Endowment Fund. The BSA assets are invested in four different accounts through Smith Barney (SB) under a management group (managed funds). About 15.9 percent of the endowment is retained in a fixed income fund within SB, and 5.7 percent of the endowment is retained in an unmanaged money fund. Normally these two percentages are maintained between 10-20% percent. These four funds are divided among the following categories (as of the June 30, 2003 SB online summary):

Managed money funds –	
Cash balance	\$ (3,050.41)*
Money funds	\$ 58,441.34
Common stock.	\$1,330,195.66
Fixed income.	\$ 281,402.62
Unmanaged money funds	
Money funds	\$ 100,958.51
	Total \$1,767,947.72

*This negative balance is a temporary occurrence as stocks are bought and sold daily.

- The June 30, 2003 BSA Endowment fund (\$1,767,947.72) has increased since the end of June 2002 (\$1,732,289.23) but has not quite regained its peak level of \$1,867,492.41 (June 2000). However, the fund has grown 99.9% since its inception 9.5 years ago (12/93; \$884,317). This represents, with this past two years of economic losses in the stock market, an average increase of 10.5% per year.
- The inflation rate + energy for June 2002 through June 2003 was 1.5%; the growth of the Endowment Fund beat the inflation rate as it was at about 2%. For the same period of time the

S&P growth was (-1.3%) and the Dow growth was (-4.2%); the Endowment growth was +15.57% for the same period, and including through July 11 (report date).

- The economic events just prior to and following September 11, 2001, and the continuing volatility in the stock market, have affected the growth of the BSA endowment. However, financial restructuring of these funds in 2000 greatly reduced the impact of the events over the past two years. There is optimism that, without more major worldwide catastrophes occurring during this coming year, the market will begin to recover as investor confidence grows. Stocks will begin to increase in value and bonds will begin to decrease in value. Readjusting the portfolio beyond what the managers are presently doing is not recommended at this time.

Recommendation: The FAC recommends that **\$15,000** be used from the Endowment unmanaged money market portion of the endowment for the 'special initiatives' during the 2003-2004 fiscal year, as determined by the Executive Committee and Council per Guideline 4 (see Guidelines below).

Rationale for Recommendation: The continuing economic conditions of the past two years will continue to have an effect for at least the next six to twelve months. Fortunately, the BSA Endowment Fund was reasonably protected because of its reorganization and restructuring, and this year the Fund has increased enough to recommend a small increase for the 2003-2004 (**\$15,000**) fiscal year. The FAC feels that BSA 'initiatives', for the 2003-2004 fiscal year, are vitally important to the continued growth and development of the Society and need to be supported, even at a reduced level, through the Endowment Fund.

The Endowment Fund Guidelines and Interest Earnings for Special and Section Accounts are presented to clarify decisions related to the operating procedures of the FAC and the determinations by the BSA Treasurer of how 1) the annual amount for BSA initiatives is determined; and 2) the annual interest percentages for the special and section accounts are determined.

The Endowment Fund Guidelines -They were approved in August, 1997 and amended three times; in August, 1998, August 1999 and August 2001:

1. Purpose of Endowment Fund: The purpose of the Endowment Fund is to increase the monetary assets of the Society in order to provide income to fund major initiatives, travel grants, scholarships, and other activities that enhance the effectiveness of the Society to fulfill its Mission (see Bylaws). The Financial Advisory Committee (FAC) is responsible to and empowered by the Executive Committee and the Council to manage the Endowment Fund. The FAC makes no recommendations for use of the Endowment Fund.
2. Contributions to Endowment Fund: All monetary gifts, stocks, and bonds designated "Endowment Fund" shall be immediately deposited in either the Endowment Money Market Fund or in the Endowment Fund directly, and then invested in a timely fashion by the FAC. Other gifts, such as property, shall be individually handled by appropriate legal procedures to integrate it into the Endowment Fund.
3. Solicitation of Membership to Contribute to Endowment Fund: Solicitation shall be carried out in two ways: first, the membership will be provided 'purpose and giving' information in each issue of the PSB and on the annual membership dues form; second, a more select portion of the membership that includes long-time (=>20 years) members, and members whose ages are 50 years and older, will be individually solicited once every other year (odd-numbered).

4. Use of Endowment Fund Income: The value of the BSA Endowment Fund (all non-restricted, non-sectional funds) will be averaged over the previous twelve (12) quarters, in July of each year. The 'usable income' available for use during the next fiscal year will be 2% of the previous 12 quarters averaged total value, and this amount will be reported at the BSA annual Council Meeting. The FAC will annually evaluate the % used to generate income such that if growth goals are being met, or if growth is too slow, the % 'usable income' will be adjusted accordingly. Any 'usable income' unallocated or unused by the end of the fiscal year (June 30) shall revert to the Endowment Fund principle. As a means of checks and balances, the % allocated for annual use shall be determined by the FAC in keeping with its charge to increase the value of the Endowment Fund at a rate exceeding inflation. Use of the Endowment Fund 'usable income' shall be determined by the Council (see Guideline 5. of Endowment Fund Guidelines).

5. Approval of use of Endowment Fund: Any member, committee, section, or ruling body of the Society may submit a request to use the Endowment Fund for purposes outlined in 1. The request(s) must be submitted to the Executive Committee for consideration and recommendation to the Council. The Council at its regular meeting in August, or at a special called meeting, or by e-mail vote in unusual circumstances, will act on the recommendation(s). Approval of any recommendation(s) by the latter three ways will be determined by a majority (51%) of all eligible council members. If the recommendation(s) is/are approved, the Treasurer of the Society will be empowered to distribute the money according to the approved recommendation(s). If an individual member of either the Executive Committee or the Council submits a recommendation, that member is excused from voting on the recommendation.

Summary of How Interest Earnings for Section Accounts and Special Funds are Determined by (adopted in 1999 and amended in 2001):

Section and special accounts receive an interest rate equal to the endowment interest rate.