

Date: July 14, 2004

To: **Executive Committee and Council** of Botanical Society of America
David Spooner, **Secretary** of Botanical Society of America (dspooner@facstaff.wisc.edu),
and Linda Graham, **President** of Botanical Society of America (lkgraham@facstaff.wisc.edu)

From: **2003-2004 Financial Advisory Committee**: Greg Anderson (2004; ander@uconnvm.uconn.edu), Russell Chapman (2004; 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 Linda Graham (President, ex officio, 2004; lkgraham@facstaff.wisc.edu)

Re: **2004 Annual Report of the Financial Advisory Committee (FAC)**

The FAC will be meeting on Sunday morning, August 1, 2004 from 8:00-10:00 am in the Cliff Lodge Board Room (see program for room location). A continental breakfast will be provided.

The FAC has the responsibility for managing the BSA Endowment Fund. The BSA assets are invested through Smith Barney citigroup (SBc) under a management group (managed funds). All of these funds are divided among the following accounts (as of June 30, 2004):

Managed money funds –

Account # 1-

Cash balance	\$	167.71	
Money fund	\$	69,266.16	
Accrued dividends.	\$	17.45	
Common stocks & options .		<u>\$1,732,780.65</u>	
			\$1,802,214.52

Account # 2-

Money fund	\$	7,781.43	
Accrued dividends.	\$	1.95	
Accrued interest.	\$	3,028.95	
Corporate bonds.	\$	141,580.70	
Government bonds.	\$	<u>87,497.00</u>	
			\$ 239,890.00

Account # 3-

Money fund.	\$	10,582.93	
Accrued dividends	\$	2.61	
Common stocks & options .		<u>\$ 302,465.87</u>	
			<u>\$ 313,051.41</u>

Endowment Fund as of 06/30/04 \$2,355,155.93

- On December 09, 2003 the FAC had a conference call with the SBc representatives in Des Moines, Iowa. Many issues were covered regarding the investment of funds within the Endowment. The FAC approved dissolving the unmanaged fund category and including it with a portion of the managed funds to increase the return over the return being made with the

unmanaged fund. Changing this arrangement did not reduce access to any portion of the managed funds for unusual or emergency purposes.

- The FAC instituted a guideline in the BSA/SBc Portfolio ‘Statement of Investment Policy Objectives & Guidelines’ that requires SBc to invest the endowment funds in only ‘socially responsible’ investment vehicles (General Investment Principles, # 3, page 5). This item reads {“The Fund shall be monitored on an ongoing basis for securities that may be considered “socially irresponsible”. The Board [FAC] of BSA will be notified of any securities that meet this description to determine if exclusion from the portfolio is necessary.} This issue has not been a problem in all 10.5 years BSA has invested with SBc but the formal inclusion of this guideline insures the BSA membership/Society that its Endowment investments are only in socially responsible companies.
- \$300,000 were transferred from the BSA Business Office and the BSA Treasurer’s Office in April 2004, and invested in the endowment fund. The invested portion of the endowment fund increased by an additional \$287,208.21 during 2003-2004, for a total increase of \$587,208.21.
- The present BSA Endowment fund (\$2,355,156) is 33.2% greater than June 30, 2003 (\$1,767,948). The fund has grown 166.3% since its inception 10.5 years ago (12/93; \$884,317). This represents, with this year’s increase, an average increase of 15.8% per year.

Recommendation 1: The FAC recommends that **\$25,000** be used from the Endowment Fund for the ‘special initiatives’ during the 2004-2005 fiscal year, as determined by the Executive Committee and Council per Guideline 4 (see Guidelines below).

Rationale for Recommendation 1: In the two previous years, the amount recommended by the FAC was tempered by the downturn in economic conditions. During the past year these conditions have improved enough to increase the <2% allocations from the past two years to 4.26% for this year.

Recommendation 2: The FAC recommends that the Executive Committee and Council establish long-term goals for use of the money provided by the FAC each year.

Rationale for Recommendation 2: In the previous seven years that the FAC has provided money to the EC and Council, it has generally gone unspent, and has reverted to the Endowment Fund. Even though these monies have not been large annually, they will increase in the future to the point where financial support of long-term goals by the EC/Council could greatly benefit the BSA.

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 (adopted in 1999 and amended in 2001):

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