2001 Annual Report of the Financial Advisory Committee (FAC)

Date: July 27, 2001

To: Executive Committee and Council of Botanical Society of America
Jennifer Richards, Secretary of Botanical Society of America (richards@fiu.edu)
Patricia Gensel, President of Botanical Society of America (pgensel@biomass.bio.unc.edu)

From: 2000-2001 Financial Advisory Committee: Russell Chapman (2000; btruss@unixl.sncc.lsu.edu), Charles Daghlian (2001; daghlian@dartmouth.edu), Jack Horner (Chair, 2001; hth@iastate.edu), Judy Jernstedt (2001; jjernstedt@ucdavis.edu), Edith Taylor (2002; etaylor@ukans.edu), and Ed Schneider (Treasurer, ex officio, 2001; eschneider@sbbg.org)**


**The FAC will be meeting on Saturday, August 11, 2001 from 3:30 – 6:00 pm in the Hyatt Regency, room Enchantment A-B.

The FAC has the responsibility for managing the BSA Endowment Fund. The BSA assets are invested through Salomon Smith Barney (SSB). In the fall of 2000, the majority of endowment funds were reorganized under a management group (managed funds) within SSB and about 15 percent of the endowment was retained in an unmanaged money market fund within SSB. All of these funds are divided among the following categories (as of June 30, 2001):

Managed money funds –
- Cash balance ............... $ 469.65
- Money funds ............... $ 20,529.79
- Accrued dividends. ........ $ 48.74
- Common stock & options . $1,662,434.34

Unmanaged money funds
- Money funds ............... $ 318,116.37
- Accrued dividends. ........ $ 695.45
Total $2,002,294.34

- The BSA Endowment fund has grown 7% since June 2000 ($1,867,492.41) and has grown 126.4% since its inception 7.5 years ago (12/93; $884,317). This represents an average increase of about 16.86% per year.

- The BSA received the final payment ($32,596.42) to the endowment fund of a total gift of $232,596.42 from the estate of Drs. Richard and Deana Klein, longtime members of the BSA. Acknowledgement of this gift has been recorded with the estate officials and in the PSB.

- The stock market has been quite volatile this year. The timely change to both an SSB managed account and an unmanaged money market account last fall greatly reduced losses to the endowment. An SSB representative will be meeting with the FAC on Saturday prior to the
Council meeting (see above** for meeting time and location) to provide this assessment, and make recommendations about the Endowment Fund for this coming year. Based on this past year’s market losses and increases from transfers and gifts, the FAC recommends the following:

**Recommendation 1**: The FAC recommends that $27,400 be used from the Endowment Income for the ‘special initiatives’ during the 2001-2002 fiscal year, as determined by the Executive Committee and Council per Guideline 4. (see Guidelines below).

**Recommendation 2**: The FAC recommends that the section and special accounts with $2,500 or more annual balances, receive an interest rate of 8 percent, except in a year when the endowment fund interest falls below this level. In that year the interest rate will be 2 percent less than the endowment interest rate. (note italicized paragraph at the end of this report)

- At the 2000 BSA Annual Meeting, the Council approved: 1) money be spent to prepare a brochure and letter to be sent to selected members of BSA; and 2) pursue and evaluate the need to hire a development firm to aid in increasing contributions to the Endowment Fund.

1) Last fall, 431 letters and brochures (389 USA and 42 foreign) were sent to individuals who had been members for 25 years or more (1975 or earlier). As of this report, the Business Office has received little response and has estimated that increased giving (as of April 2001) to the endowment fund increased only $792 over the previous year. No assessment of the long-term impact of this approach has been made. However, the FAC realized that this approach, given time and resources, was the least likely to receive a positive response.

2) Since last fall, the FAC has solicited two proposals from development officers/firms (Charitable Fund Raising, Inc. and Daniller + Company). It has evaluated the proposals and the costs for hiring a firm during at least a three-year period. The FAC believes that this approach is a viable way to significantly enhance the BSA Endowment Fund to support a variety of areas that the Executive Committee (EC) has identified in its deliberations this spring and summer, regarding a strategic plan. Details and costs related to the following recommendation will be presented to the Council in relation to the EC strategic plan.

**Recommendation 3**: The FAC recommends that Daniller + Company (Mae Daniller, President: consulting team, Mae Daniller and David Northington) be hired for a period of up to three years (with the option of extending this term) to serve as the development firm to raise funds for the BSA Endowment.

*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 twice; in August, 1998 and August 1999:

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):

Section cash accounts with the balance of over $1,000 will earn 2% quarterly; 8% per year.

All special funds with a balance of $2,500 or greater will earn the same percentage market rate as the Society's Salomon Smith Barney portfolio. Please note that in some quarters this may result in an actual loss of funds, but based on historical averages, each section should enjoy improved growth of their special fund account(s). Those sections whose balance in below $2,500 may wish to move the special fund balance into the cash account fund and take advantage of the 8% yearly rate of return.