

Endowment Fund Questions and Answers

What is an Endowment Fund?

An Endowment Fund (EF) is a fiscal vehicle made available to nonprofit organizations like EMGS in order to provide tax-free investment income to advance the mission of the organization. In practice, endowment contributions are made with the intent of creating a permanent fund for generating a permanent source of income. Depending on the size and configuration of the EF, the gift may be designated for specific “restricted” or “unrestricted” use. The EF should be viewed not only as a way of creating a new revenue stream but also as a way of securing future growth and financial stability of the Society. An EF provides a means of giving to the Society in perpetuity rather than just making a one-time contribution which is quickly expended. The types of investments allowed to be made and the maximum allowable annual spending are defined by a legal document, the Investment and Spending Policy, the goal of which is to preserve the principal investment (corpus) for perpetuity while providing a reliable annual distribution. Our spending policy allows for annual spending up to 4% of the three year rolling average value of the fund. Based on quarterly discussions between the EF Board and the investment managers however, it might be decided to reduce or forego the distribution during a poor investment period in order to preserve the corpus. As the EF matures, subsequent contributions to the fund will help to grow the fund and increase the amount of available money for distribution. It is envisioned that this growth will eventually allow the establishment of specific sub-funds perhaps honoring individuals with long-standing contribution to the Society. We have established our EF with Graystone Consulting, the same firm and persons administering the SOT endowment fund, acting through Morgan-Stanley/Smith-Barney (MSSB).

Where will the funds to establish the Endowment Fund come from?

Most of the funds for the endowment will come from personal donations made by EMGS members, both current and Emeritus. The plan is for member donations to be matched dollar for dollar from the EMGS general account, up to a maximum match amount of \$100,000. In addition, in order to demonstrate the support of the Executive Board for the EF, \$50,000 of EMGS general account funds will be used as “seed money,” making an initial total Society contribution of \$150,000 to the endowment principal. Additional funds will be sought from government agencies, private organizations, and outside individuals. There are many options available for fully tax-deductible donations to the EF. Categories for donations are:

- Platinum: \geq \$5,000, may include large estate bequeathals, securities
- Gold: \$2,500 to \$4,999
- Silver: \$1,000 to \$2,499
- Bronze: \$100 to \$999 (gifts less than \$100 are also appreciated)
- In tribute or memoriam

Unless a donor should request otherwise, gifts to the EF would be duly and publicly recognized by the Society. EF contributions will be accepted any time, and it is hoped that donors will support the EF annually.

Why not just use the money in our general fund to finance new initiatives and promote growth?

Our Society is fiscally healthy, currently having in excess of \$1 million in low-risk dividend- and interest-generating investments. However, it is necessary to maintain a certain level of investment resources, generally considered to be at least two years of operating expenses, to ensure the overall fiscal health of the Society. The operating expenses for the Society are approximately \$500,000 each year. One or two annual meetings “in the red” can strain the Society’s funds to levels uncomfortably close to those deemed necessary for healthy nonprofit organizations. Our income comes from three primary sources: annual meeting registration and external support; membership dues; and journal income. While journal income remains strong, a decline in federal and private sector support are producing increasingly challenging conditions and the Society is presently experiencing slow growth. If we wish to revitalize and expand in scope, as was mandated with the approval of the recent Society name change, we will need funds that are currently not budgeted. In fact, the Society does not presently have a vehicle through which monies can be obtained, protected, and applied to supporting growth and revitalization. Any such funds come out of our general investment fund which, as mentioned above, needs to be maintained at a healthy level.

The use of existing Society assets for funding new initiatives and growth opportunities might very well be effective on a year-to-year basis. But rather than run the risk of having little or no funds for such spending in a given year, and recognizing that any discretionary spending must be voted on by the Executive Board, a more prudent approach is to establish and maintain a fund that can be counted on to provide annual support independent of Society coffers.

What will the Endowment Fund income be used for?

The acceptable uses and limitations of an EF are strictly defined in the state and federal legislation governing the creation and administration of such a fund. This legislation protects against fund mismanagement and provides a clear framework within which the fund must operate. As described in more detail below, the governance of the fund is defined in the membership-approved By-Laws, which among other things establish the criteria for EF spending. At Fund inception, the precise uses of our EF income cannot be fully defined as the Society needs to retain flexibility to apply these funds where they can do the most good. Available monies, however, will not be used to support regular Society activities, such as administration, support for other societies, such as IAEMS, or general meeting expenses. Use will very likely include supplementing funds to allow more students, postdocs, and early career investigators to attend annual meetings, expansion of Hollaender fund activities, exploration of growth opportunities, and promoting increased visibility of the EMGS. For example, the Hollaender Outreach Committee activities are supported by EMGS through a line item in the annual budget. It needs to be voted on every year and is limited in amount. The endowment could provide the Hollaender Outreach Committee a more consistent source of funds to support Latin American students abroad and working in US laboratories, and in the establishment of meetings in Latin America. Projecting forward in time, growth of the EF will allow the Society to explore growth options not currently fiscally possible.

Individual contributions of sufficient size (eg. >\$50,000) may be used to establish sub-funds recognizing the contributions of particular past Society leaders. But, at least in the initial stages of formation of the EF, it will not be possible to specify or restrict use for smaller donations as this would dilute donations across so many sub-funds as to effectively preclude attaining a critical dollar size for any. Annually, the amount of monies available for distribution will be determined by the EF Board and will be made available to the Executive Board which has sole authority for making allocation determinations. General membership will also be able to suggest uses of these funds through normal Society channels.

What is the governance of the Endowment Fund?

The EF is established as a legal entity and is maintained and governed for the Society by an EF Board, the constitution of which is defined in the By-Laws. In order to prevent conflicts of interest, this governance is separate from the governance of the Executive Board and the Finance Committee, although it may include individuals from these other groups acting in non-leadership roles. The EF Board is, however, accountable to the Executive Board and Council and is required to provide periodic summaries of EF activities to the general membership. The legal document describing the initial establishment and continued maintenance of the fund as defined in the EF By-Laws serves as the basis for all EF activity and can be amended only by approval of the Executive Board. The present EF Board consists of Ronald Snyder (Chair), Graciela Spivak, Jack Bishop, Ofelia Olivero, Dave Wilson (outgoing), John Nicolette, and Hilde van Gijssel (incoming).

The EF Board in conjunction with Graystone Consulting, has established written policies for investment and spending. The investment policy clearly defines the overall strategy, choice of funds and manager(s), acceptable risk, and schedule for reporting. The EF Board will also determine on a case-by-case basis, the appropriateness of acceptance of gifts from sources not clearly aligned with the mission of the EMGS and how best to handle and process non-cash gifts most expeditiously. The spending policy includes the strategy for determining from year-to-year how much money may be distributed to EMGS missions in order to assure protection from inflation as well as to correct for years with poor market performance. The By-Laws, investment- and spending-policies provide the framework within which all EF activities will be administered. These documents are transparent and accessible to potential donors as well as the general membership.

Our management company, AIM, has experience with other organization EFs, such as that of the SOT, and will provide assistance in the initial establishment and administration of the Fund. In fact, the Society already has in place, processes for acceptance and handling of donations and for investment tracking and reporting, two primary EF requirements. The transition to a new EMGS management company will not affect the smooth running of the EF. The costs of EF administration are being requested of candidate companies to be included in their proposals.

Can we hope to receive enough support to ensure a successful Endowment Fund?

To be successful, the initial campaign including matching contributions and seed money from the EMGS general fund should be around \$250,000, although any shortfall would serve only to slow, not halt, the initiative. Personal donations adding up to \$100,000 would be required to reach this level. Pledges already made by past and present Society leaders provide a firm

foundation toward reaching this goal. Emeriti as well as current, long-standing, active members (together comprising a list of over 400 individuals), industry, philanthropic organizations, and friends of the Society are expected to contribute to the attainment of this target. It is anticipated that future giving, driven by estate bequeathals, will provide the necessary funding to see the EF grow to a much larger amount in the near future.

What if the Society “fails” in the future?

The Society has prospered through strong leadership for more than 44 years. We are fortunate to have among our ranks a mix of the most senior-level scientists in the world, younger scientists establishing themselves as the rightful heirs to the scientific future, and students, the lifeline of the entire process. Our leadership is committed to perpetuation of the Society and will succeed in that endeavor. There is actually no better time than the present to build an EF, providing resources to help assure the bright future of the Society. That said, it should be pointed out that endowment funds do not “disappear” upon dissolution of an organization. Rather those funds are redirected by Society By-Laws to other organizations with compatible missions. So unlike direct monetary gifts, your contributions to the EF will truly continue to produce desired outcomes for perpetuity even in the very unlikely situation in which the EMGS dissolves or merges with another organization.