

REPORT OF THE COMMITTEE ON AUDIT REVIEW  
TO THE  
BOARD OF DIRECTORS

Members serving on the 2007-2008 Audit Review Committee are listed below:

Dr. John W. Prados, Chairman  
Dr. John H. Moore  
Dr. Raymond P. Lutz

The Committee met on Tuesday, October 7, 2008 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2008. Joining the Committee in the meeting were Dr. Jerome Baker (Executive Director) and Ms. Jasmine Shah (Director of Budget & Finance) representing Sigma Xi management and Mr. Eddie Burke (Partner) and Ms. Lisa Rower (Senior Manager) of the auditing firm of Cherry, Bekaert and Holland, L.L.P. Copies of the financial statements and associated documents were sent to all participants for their review prior to the meeting.

Committee members asked for clarification of some entries in the financial statements. Dr. Baker, Ms. Shah and the auditors satisfactorily answered all questions that were raised.

The Committee had subsequent closed sessions with the auditors.

Due to the worldwide market turmoil since June 30, 2008, the market value of Sigma Xi investments were down and the liquidity of the investments were threatened. The Committee decided to defer approval of the audit report until the October 31, 2008 market value of Sigma Xi investment portfolio was available. A conference call was held on November 12, 2008 with this information available, and the report was approved.

A management letter with the following recommendations was previewed by the auditors.

1. Unrestricted fund balance

As of June 30, 2008 unrestricted net assets has a balance of \$675,418. This balance has been decreasing steadily over the last four years. Management has developed a plan to increase membership, increase membership dues, and has taken steps to refinance the debt on its operating facility in order to reduce operational costs. While these steps are necessary and should help reduce recurring operating losses, the Society will also need to evaluate its current year operating budget and reduce operating costs to be more in line with anticipated annual revenues. We recommend that management consider taking the following steps:

- Immediately undertake a thorough review and comparison of the June 30, 2009 budgeted and actual revenues and expenses without taking into consideration of draw downs of funds from investments.

- Adjust the current year operating budget as deemed necessary to minimize any negative financial impact in the current year. For example, budgeted expenses should be based on estimated revenue that is anticipated to be earned in the current year. Any new or additional revenue sources being developed should be budgeted only when they are expected to be realized.
- Develop and implement a formalized reporting process whereby budgeted and actual revenues and expense are reported to management on a regular basis.

Failure to take appropriate steps at this time could have significant effects on the Society's ability to continue operating in the future.

It was further stated that the Society may be at risk for violating donor restrictions in future years. When the Society has a negative unrestricted net asset balance, the possibility exists that restricted funds could be used for unrestricted purposes. Once donor restrictions have been violated, donors could have the legal right to request the return of all donated funds that have not been used in accordance with their intended purpose. It was strongly advised that this matter be carefully reviewed and appropriate steps taken at once to ensure that restricted funds are not used for other than their intended purpose.

The Committee members unanimously agreed to accept the recommendations made by the auditors. The Committee members also decided to send a special letter to the Board of Directors to explain further the financial situation of the Society.

The Committee was pleased to receive an unqualified opinion on the financial statements from the Auditors. The high level of openness, availability and cooperation of the Society's financial managers with the auditors was noted. The Auditors also assured the Committee that there were no significant adjustments or reclassifications recorded or significant changes in accounting policies.

In sum, the Auditors offered the opinion that: "... the financial statements referred to above present fairly, in all material respects, the financial position of Sigma Xi, The Scientific Research Society, Incorporated as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America." The Committee on Audit Review unanimously accepted this judgment by the Auditors.

Respectfully submitted,  
John W. Prados, Chairman  
Committee on Audit Review