

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

Members serving on the 2008-2009 Audit Review Committee are listed below:

Dr. John H. Moore, Chairman  
Dr. Raymond P. Lutz  
Dr. Normand St.-Pierre\*

The Committee met via conference call on Tuesday, November 24, 2009 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2009. Joining the Committee on the call 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 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 informed the Committee that the Society has incurred recurring operating losses resulting in a current year deficiency in unrestricted net assets and that the Management's plans regarding this matter is described in Note 1.

In sum, the Auditors offered the opinion that: "... the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sigma Xi, The Scientific Research Society, Incorporated as of June 30, 2009, 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.

The Committee had subsequent closed sessions with the auditors.

\* On sabbatical and did not participate

A management letter with the following recommendations was distributed to the Committee on December 2, 2009:

1. Unrestricted net assets

As of June 30, 2009 unrestricted net assets had a negative balance of \$2,674,110. This balance has been decreasing steadily over the last five years. Management has developed a plan to retain current members, has been evaluating additional revenue sources, and has reviewed the budget 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 while continuing to explore additional revenue sources. Failure to take appropriate steps at this time could have significant effects on the Society's ability to continue operating in the future. .

The existence of a negative unrestricted net asset balance implies that the Society has essentially used restricted funds for unrestricted purposes. The auditors stated that the Society may continue be at risk for violating donor restrictions in future years. It was strongly advised to review and evaluate this matter and take appropriate steps to ensure that restricted funds used to pay for expenses other than their intended purpose.

2. Board composition and advisors

The auditors suggested that it may be in the best interest of the Society to solicit input from professionals with backgrounds in not for profit organizations to advise the Society on strategic decisions. The passage this year of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is one example of how current changes have created new and highly complex issues for not for profit organizations with endowment funds. It is necessary for an organization of our size to have a structure in place to deal effectively with the changing environment in which not for profit organizations operate. It was suggested that the organization seek counsel from an attorney, independent investment advisor, and CPA on a regular basis. This could be done through the broad structure of the Board of Directors, without voting rights on the Board, or as an advisory committee for the executive director.

The Committee members unanimously agreed to accept the recommendations made by the auditors.

Respectfully submitted,  
John H Moore, Chairman  
Committee on Audit Review