

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

Members serving on the 2009-2010 Audit Review Committee are listed below:

Dr. Raymond P. Lutz, Chairman
Dr. C. Clifton Chancey
Dr. S. Gaylen Bradley

The Committee met via conference call on Monday, October 4, 2010 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2010. 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 (Audit Engagement Partner) and Ms. Erin Goodson (Audit 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 to address this matter are 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, 2010, 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. In addition, the Committee requested the auditors to add an explicit statement and explanation on the sale of a portion of the Sigma Xi Center land and the disposition of the income.

The Committee had subsequent closed sessions with the auditors.

A management letter with the following recommendations was distributed to the Committee:

1. Unrestricted net assets

As of June 30, 2010 unrestricted net assets has a negative balance of \$2,528,675. This balance has been decreasing steadily over the last five years, improving slightly in the past year. 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 further reduce operating costs and continue to explore additional revenue sources to be more in line with anticipated annual revenues. Failure to take appropriate steps at this time could have significant effects on the Society's ability to continue operating in the future. .

Further, we believe the Society may continue to be at risk for violating donor restrictions in future years. When the Society has a negative unrestricted net asset balance, it means that the Society has used restricted funds for unrestricted purposes. We strongly advise management to review and evaluate this matter and take the appropriate steps now to ensure that restricted funds do not continue to be used to pay for expenses other than their intended purpose.

2. Board composition and advisors

It is our understanding that the Board of Directors, per Society by-laws can only be comprised of Society members. We suggest it may be in the best interest of the Society to solicit input from professionals with not-for-profit background to assist the Society on various strategic decisions of the organization. The prior year passage of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is one example of how current changes have made issues for not for profit organizations with endowment funds more complicated than ever. It is necessary for an organization of the size of Sigma Xi to have the structure in place to best deal with the changing environment not for profit organizations operate in. We suggest the organization seek council from an attorney, independent investment advisor, and CPA on a recurring basis. This can be done through the board structure, potentially without voting rights, or as an advisory committee for the executive director.

3. Cash position

Over the past several years, the Society has been using future year revenue sources to fund current year operating costs. We recommend that the Society develop and monitor its operating budget in order to improve its cash position.

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

Furthermore, while the current audit firm has done excellent work, it has served Sigma Xi for seven years. It is appropriate and prudent to put next year's audit out for bid. The Committee members agreed to review the bids upon its receipt and recommend a new audit firm for conducting the FY2011 Financial audit to the Board of Directors.

Respectfully submitted,
Raymond P. Lutz, Chairman
Committee on Audit Review