

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

Members serving on the 2010-2011 Audit Review Committee are listed below:

Dr. Clifton Chancey, Chairman
Dr. S. Gaylen Bradley

The Committee met via conference call on Tuesday, October 4, 2011 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2011. 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. Joseph Turchetti (Senior Manager) and Ms. Leah Nichols (Audit Associate) of the auditing firm of Clifton Gunderson, LLP. 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.

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, 2011, 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 a subsequent closed session with the auditors.

The Committee wishes to emphasize to the Board of Directors that the Society's reliance on endowment principal and income in its annual budget is an area of grave concern. In the Audit Committee's opinion, the Society is near the point where this redirection of endowment resources will be questioned by our auditors if it continues in future annual budgets.

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

Local Dues Liabilities

Sigma Xi receives prepayments of dues earmarked for members local chapters. These payments may be for the current period's chapter dues, or they might be a prepayment for future periods of chapter dues. The local chapters receive the funds, from Sigma Xi, periodically throughout the year.

Over the past decade, Sigma Xi has accumulated a significant amount of local dues for chapters that have become inactive and for chapters that are not inactive; but rather, there is not a responsible party at the chapter to take receipt of the funds.

The amount of local chapter dues held for inactive chapters is an issue that Sigma Xi needs to address. At June 30, 2011, Sigma Xi was holding approximately \$50,000 as a Local Dues Reserve for the dues received between the years 2000 and 2007, for inactive chapters. In addition, at June 30, 2011 Sigma Xi was holding approximately \$74,000 of Prepaid Local Dues for known inactive chapters.

It was recommended that Sigma Xi develop a proactive policy to address these liabilities. The auditors suggested that Sigma Xi determine whether North Carolina or other state's unclaimed property laws factor into the ultimate disbursement of these funds.

The Committee members unanimously agreed to accept the recommendation made by the auditors and developed a draft resolution, attached herewith, for consideration by the Board of Directors.

Respectfully submitted,
Clifton Chancey, Chairman
Committee on Audit Review