

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

Members serving on the 2012-2013 Audit Review Committee are listed below:

Dr. David Lever, Chair
Mr. Tom Laming
Dr. Kenneth Audus

The Committee met via conference call on Monday, October 7, 2013 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2013. 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 Matt Barnette and Brandon Martin of the auditing firm of CliftonLarsonAllen. Copies of the financial statements and associated documents were reviewed by all participants prior to the conference call.

Mr. Barnette and Mr. Martin presented highlights of their report and satisfactorily answered most questions posed by the committee. One question remained unanswered, concerning the large negative balances in unrestricted endowment, and the auditors promised to subject this matter to further review and respond promptly to management with their findings.

In sum, the Auditors reported a clean audit, stating that "In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sigma Xi, The Scientific Research Society, Inc. and Subsidiary and Affiliate as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America."

The Committee on Audit Review unanimously accepted this judgment by the Auditors.

The auditors did identify a material weakness in internal control relating to segregation of duties, reported in a separate letter. This is the result of limited staffing in accounting and finance. The Committee on Audit Review is satisfied that management is taking the necessary steps to ensure adequate internal controls despite the challenge of limited staffing.

The Committee had a subsequent closed session during which further discussion was devoted to some additional concerns raised by the auditors:

"The Society has become increasingly reliant on earnings from investments to support operations and has continually reflected a negative change in unrestricted net assets." See also Note 3 on p. 14 of the consolidated financial statements.

This is, of course, an ongoing concern that has been discussed by the Board on many occasions. The committee urges the board and management to continue to work to address this issue.

A second conference call was held by the committee on Friday, October 25, 2013 to review the matter of the large negative balances in unrestricted endowment. It is the auditors' opinion that the spreadsheet recommended by the previous auditors was flawed, resulting in the improper division of endowment earnings between unrestricted and temporarily restricted endowment.

Management has corrected these errors going back to 2002 and updated the financial statements accordingly. The result is favorable for the Society as it greatly reduces the negative balance in unrestricted endowment. See note 16 of the consolidated financial statements.

Respectfully submitted,
David C. Lever, Chair
Committee on Audit Review