

Financial State of the Sigma Xi ("the Society")
Fiscal Year 2014 (ending June 30, 2014)
A Report to Delegates and Members
Annual Delegate Meeting
Glendale, Arizona
November 4-9, 2014

This annual financial report covers fiscal year 2014; the period from July 1, 2013 through June 30, 2014. The Society's Treasurer is pleased to present this report on behalf of the Committee on Finance (COF), and with the assistance of the Society's administrative staff (esp. Director of Finance & Administration and CEO).

Quarterly COF Teleconference Meetings: A quorum of the COF* met following each calendar quarter on (July 24, 2013, October 25, 2013, December 5, 2013, January 30, 2014, and April 28, 2014) to review the Society's investment policy and make recommendations for changes, if any, the Board of Directors, and to review assets, liabilities, cash flow, and the investment portfolio performance and projections. These meetings included consultations by the investment team and bankers at Goldman Sachs, Inc. (Atlanta and New York) and at Goldman Bank (Chicago).

Due Diligence Actions:

Competitive Review of Investment Advisers: The COF met in person at the Society's headquarters in Research Triangle Park, North Carolina on August 31, 2013 to evaluate competitive bids & presentations from 4 investment management groups (UBS Investment Solutions, Goldman Sachs & Co., Morgan Stanley/Sizemore Group, Certus Wealth Management) seeking to retain or gain the Society's investment portfolio business. The COF decided to continue with the current investment manager, Goldman Sachs & Co. and their management fee was negotiated downward to 63 basis points.

Exploration of Mortgage Re-Finance: The COF also solicited and received mortgage re-finance bids and engaged *pro bono* external financial consultants (HomrichBerg-Atlanta and SunTrust Bank-Raleigh) to evaluate the risks and benefits of these offers for re-financing the outstanding mortgage on the Society's headquarters building in Research Triangle Park, North Carolina. Both firms recommended, "do not refinance at this time". The COF at its December 5, 2013 special teleconference decided to decline the mortgage re-finance offers made by US Bank negotiated by the Treasurer. The COF decision was based in the external risk analysis reports, but reserved the option to revisit this issue at a later date when mortgage conditions might become more favorable to the Society. In January 2014, the Society's headquarters building, previously listed "For Sale" or "For Lease" during 2013, was removed from the real estate marketplace.

Divestment of ACM REIT Fund: An ACM REIT Fund investment of \$650,000 was made in 2008 and was held outside the general Investment portfolio. Independent external *pro bono* analyses by HomrichBerg Financial Advisors (Atlanta, GA) and by all 4 investment teams (see above) interviewed on August 31, 2013 recommended that the Society liquidate the ACM holdings and combine these with the investments managed by Goldman Sachs & Co. The COF concurred with these recommendations and ordered the Society's CEO to complete the transactions necessary. The ACM Fund was liquidated and the net proceeds of \$798,639 were transferred to the general investment account (unrestricted) during FY2014. During the 5-year period, from purchase to liquidation, the AMC REIT Fund dividend returned a total of \$148,639 to the Society.

Review of the FY2015 Budget: The COF met on February 29-March 1, 2014 to discuss five alternative FY2015 budget scenarios prepared by the Society's management, and to

select one with appropriate revisions for recommendation to the Board of Directors. The COF recommended a FY2015 (July 1, 2014 to June 30, 2015) budget to the Board of Directors for review and action at its Spring 2014 meeting. This budget was considered consistent with and enabling of the newly unveiled long-term strategic plan. Subsequently, the Board of Directors, at its April 2014 meeting, approved a revised FY 2014 budget and a revised FY2015 budgets with commitments to invest significant investment portfolio returns to assure future growth and vitality of the Society as envisioned by the long-term strategic plan.

Changes in Investment Policy: After review of the previous investment policy (50% equities : 50% fixed income) and in consultation with various internal and external advisors and experts during the first half of the fiscal year, the COF recommended and the Board of Directors approved the following changes in the investment policy and conflict of interest statements at its meeting at the Society's headquarters on November 8, 2013.

- *To achieve its investment objectives, assets in the Investment Fund portfolio shall be allocated in accordance with the asset class allocation target percentages shown below:
Equities: 15% minimum to 85% maximum
Fixed Income: 15% minimum to 85% maximum
Cash: no more than 5%*

In addition to the allocation policy, the following statement addressing potential conflicts of interest by the manager of invested funds was added to the existing conflict of interest section of the investment policy.

- *The investment manager shall not place any of the Society's funds in its own institutional financial instrument(s) unless such financial instruments yield greater returns (net of fees) than other available like-kind investment instrument. An investment of the Society's funds can occur in the manager's institutional fund(s) after a justification with analytical documentation is provided by the investment manager to the Society for review and approval by the Committee on Finance, Treasurer, and Executive Director.*

These policy changes took effect on January 1, 2014, and the investment portfolio allocation was adjusted accordingly, and the manager complied with the conflict of interest policy.

GIAR Awards: A total of 2,003 applications were received for Grants-in-Aid of Research (GIAR) review in October 2013 and March 2014. Of these a total of 335 awards were made. Awards ranged in value from \$300 to \$5,000. Financial support for GIAR awards was provided by the Society's restricted/designated GIAR funds (\$133,998) partnered with funding from the National Academy of Sciences (\$160,783).

Chapter Support: The Society disbursed, in 3 separate payments (September 2013 and January 2014 and June 2014), a total of \$172,795 in chapter support and locally collected dues to a total of 280 Chapters. Based on chapter activity the disbursements to each chapter ranged from less than \$100 to more than \$1,000.

Gifts: A total of \$391,822 in unrestricted gifts were received from the Society's members and supporters. In addition, \$100,000 donation was received from DirecTV as a major underwriting sponsor of the Society's new online original science and engineering research journal, *The Chronicle of the New Researcher*.

Board Approves New Partnership Financing for SX-ISGP conferences: The Board of Directors approved an expenditure of \$500,000 over FY2014 and FY2015 for a co-

sponsorship of campus-based and Sigma Xi national meeting-based conferences on timely science and engineering topics and on science policy positions related thereto.

Summary of Major Assets as of June 30, 2014:

Sigma Xi Headquarters Building (as of October 2013 market evaluation):	\$10,000,000
Invested Portfolio (Goldman Sachs & Co.):	\$12,980,699

Summary of Major Liabilities as of June 30, 2014:

Sigma XI Headquarters Building Mortgage (as of June 30, 2014): \$6,382,775

Net Worth: The net worth of the Society (major assets minus major liabilities) was \$11,893,679 on July 1, 2013. The net worth had increased by 8.88% to \$12,950,520 by June 30, 2013.

External Financial Audit and Internal Audit Committee Review Outcomes:

The major observations and recommendations made by the external auditors of the FY13 financials included the following:

- (1) Segregation of Duties due to limited staffing in finance.
- (2) Restrictions of net assets

The Internal Audit Committee has reviewed the report and recommended that management make necessary changes to address each of the major findings to assure best practice compliance in all the Society's financial matters.

The major findings of the FY14 external audit report included the following:

- (1) Segregation of Duties due to limited staffing in finance.
- (2) Vacation Accrual
- (3) Restrictions to net assets

The Internal Audit Committee has reviewed the report and recommended that management make necessary changes to address each of the major findings to assure best practice compliance in all the Society's financial matters.

COF Membership FY14: G. Atkinson, Ph.D., D. Baker, J. Baker, Ph.D. (ex officio), J. Froula, Ph.D., P. Lebednik, Ph.D., K. Houchens, Ph.D. L. Meadows, Ph.D., R. Millard, Ph.D. (Chair), A. Stalcup, and B. Walters. M.D.