

Alpha Chi Sigma Fraternity

Professional in the Chemical Sciences

Office of the
GRAND RECORDER



John N. Stipp
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2019 Annual Report of the Grand Recorder January 15, 2020

Overview

Finances continue to be a concern for the Fraternity. Professional donations are up to their highest level in five years; however a reduced amount of pledges and initiates has impacted the budget significantly. Fortunately once the Spring numbers were in, the SC took steps at the Summer SC meeting to reduce expenses where possible to help mitigate the impact of the reduced income. The exact cause of the reduced pledge and initiate numbers is unknown, but is most likely related to the increased fees and negative publicity about Fraternities in general. That being said, with over 60% of the Fraternity's income coming from Collegiates, we have no way to reduce the fees and remain viable in the long term. Insurance fees have increased astronomically and now represent roughly 30% of the Fraternity's expenses. This situation will not change anytime in the foreseeable future, and will need to be managed so that we are able to pay for all of our operating expenses (including insurance costs) from the General Operating Fund instead of having to pull from the Reserve Fund. As such, we must continue to keep a close watch on expenditures.

The new Health and Safety Policy has been developed and implemented by the Supreme Council. The Health and Safety Policy is part of a process for ensuring that Fraternities are providing the proper focus and effort towards member safety. The overall program called 3P2E was developed by Holmes-Murphy, who is the insurance broker for Alpha Chi Sigma and numerous other fraternal organizations. The 3P2E program was a mandated condition for obtaining insurance from the carrier that was brokered through Holmes-Murphy. Unlike other Risk Management Policies that have generally been written for the Fraternity and provided to the organization in a completed format, the 3P2E process entailed the Fraternity authoring their own policy based off of an overall philosophy on keeping members safe. More information on the 3P2E process is available on the webpage and likely in the SC members' 2019 annual reports.

From an operations perspective, I have focused my efforts in three areas:

- 1) Efficiency and streamlining processes at the National Office
- 2) Compliance activities
- 3) Relationship building

Efficiency and process streamlining keep our employees happy and engaged, which reduces turnover and helps ensure continuing good service to our membership. Compliance activities are necessary to ensure that the Fraternity maintains compliant with the Constitution and Bylaws, prior SC Propositions, as well as maintaining our 501c3 tax exempt status. Relationship building is an essential business practice. Open and honest communication with our service providers (mAccounting and Holmes-Murphy), the Educational Foundation, and our Housing Corporations help ensure that we are able to work toward a common goal of preserving the long term viability of the Fraternity.

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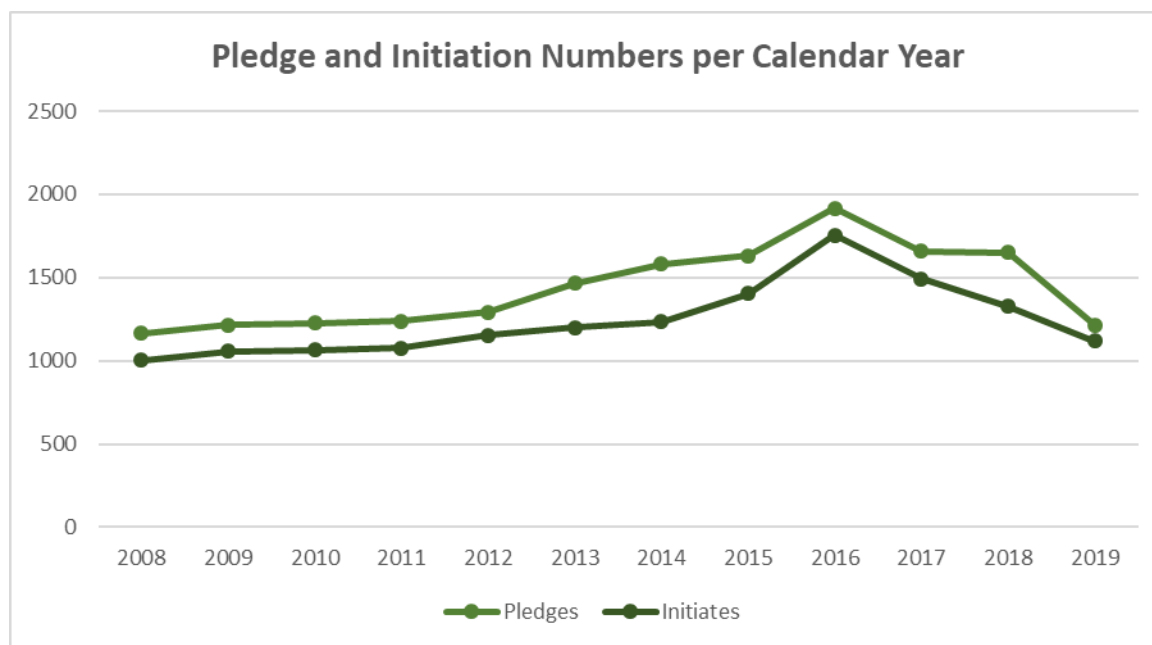
Alpha Chi Sigma by the Numbers

As of this writing the Fraternity has initiated 75,511 members since its' founding in 1902. The breakdown of our Active Chapters, Groups, and Colonies are as follows:

67 Active Collegiate Chapters*
2 Active Collegiate Colonies

9 Active Professional Chapters
14 Active Professional Groups

The Fraternity pledged 619 pledges in the Spring of 2019. Of those pledges, 564 were initiated in the Spring and recorded to date. The number of pledges for Fall 2019 were 597. Exact Fall initiate numbers are not available at the time of this writing as all chapters have not turned in their post initiation reports. Based on reports to date, estimates from the National Office, and DC input, the number of initiates for Fall 2019 should probably come in between 549 and 563. Pledge and initiation numbers continue to decline from the peak observed in 2016 and are coming in around at 2010 levels.



*Note = Fall 2019 initiate numbers were estimated based off the best estimate at the time of report writing as all chapters had not submitted their post-initiation paperwork.

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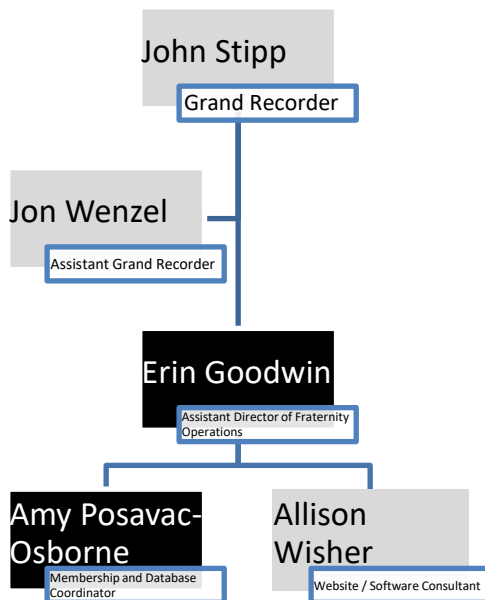
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National Office Operations

The National Office continues to function with one full time employee and one part time employee. Erin Goodwin's title was changed this year to Assistant Director of Fraternity Operations to more accurately reflect her duties. Amy Posavac-Osborne joined the staff this year as Membership and Database Coordinator. Amy comes to us with experience working for Blackbaud. Blackbaud has been the provider of the Fraternity's Raiser's Edge software, and Amy's experience with that software has already proven very beneficial to the Fraternity. In addition to Blackbaud, Amy has also worked in fundraising for Lambda Chi Alpha Educational Foundation. That experience has already proven valuable in our fundraising activities in 2019.

Allison Wisher is continuing her role as Website / Software Consultant. We are continuing having our bookkeeping / accounting services outsourced at mAccounting, and our IT services outsourced at Byte Café. The Fraternity has been receiving excellent service from both providers, and I intend to continue using them for the foreseeable future. This outsourcing not only saves costs to the Fraternity but also allows the office to continue to focus on its' core competency of membership services.

National Office Organization Chart – December 2019



Employees Located at 6296 Rucker Road, Indianapolis, IN
Employees or Consultants (Working Remotely)

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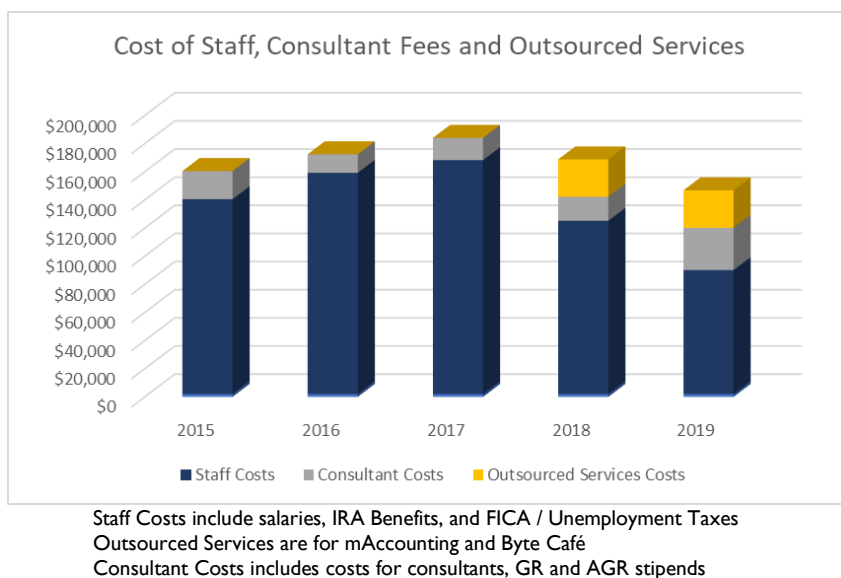
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A chart illustrating the reduction of operational costs to the Fraternity is shown in the following chart. We have reduced our staff members and outsourced more work to outside service providers. Some tasks have also been offloaded to the AGR and GR that were at times been managed out of the National Office. These changes are saving the Fraternity nearly \$20,000 from 2017 levels.



Process Streamlining at the National Office

Continuing efforts from 2018, the National Office has continued to work to streamline processes and improve efficiency where possible. One large change that occurred this year was a change in how Pledge Fees and Lifetime Membership Fees are collected from the chapters.

Prior to Fall 2019, chapters had the option for pledges to pay their pledge fees and lifetime membership fees through the website on an individual basis. Although this sounds like a convenient option, it actually created an inordinate amount of work for the National Office staff. To most members, the online individual payment method appeared automated and easy on the front end; however, behind the scenes it was an incredibly time consuming process for the office staff. Each individual payment needed to be entered into Raisers Edge, then that payment individually entered into Quickbooks under an individual chapter's invoice. Payments also needed to be processed when received, making batch processing difficult. Processing each pledge individually amounted to over 1500 transactions per year. Due to the amount of time that this was taking, the Office at some point prior to 2017 had started requiring pledges to pay both the Pledge Fee and Lifetime Membership Fee in one single payment. Although this made the processing easier, it was unfortunately, in conflict with Bylaw VII, section C,2. which states:

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"Immediately following the Pledge Ceremony, a pledge fee for each candidate shall be paid directly to the Grand Chapter or, alternatively, shall be collected by the Collegiate Chapter and forwarded promptly to the Grand Recorder. For each biennium the pledge fee shall be established by the Supreme Council with the concurrence of the Grand Chapter. From time to time, the Supreme Council also may assess a mandatory surcharge on the pledge fee for a period not exceeding two years. The pledge fee is non-refundable."

By moving back to the old system of having the chapters collect the fees and send those en masse to the National Office, that solved several issues. First, it made our processes compliant with the Constitution and Bylaws. Second, it freed up considerable staff time as the Office staff now processes roughly 268 payments per year (assuming 67 chapters holding 2 initiations per year) instead of 1500+ per year. Third, it allows the chapters to help cover membership fees or help offset membership costs with fundraising or other means that they wish to use.

Discussions with Collegiate members and District Counselors prior to making this change ensured us that the chapters were more than capable of making this change prior to implementation. That being said, change can be difficult, and some chapters have had some difficulties. Erin Goodwin will be recommending some adjustments at the upcoming SC meeting in January to help improve the process and to reduce confusion at the chapters.

The freed up staff time has been utilized to do things that benefit the Fraternity in other ways, such as assisting the GPA with the solicitation and with additional fundraising activities.

New Chapter EIN Issues

As a 501c3 corporation, each of the subordinate chapters are required to have their own EIN (Employment Identification Number) by the IRS. Those numbers are requested by the Grand Chapter (parent organization) when chapters are established, and the process takes four to six weeks after the application is received. Additionally, to prevent fraud, no more than one application can be sent in per week by each parent organization. In 2019 the IRS made multiple changes to that process and did not make those changes available to the public. Those changes included a provision where a social security number of the Responsible Person needed to be used on new applications instead of the parent organization EIN number. The IRS also has a process whereas if any mistakes are made in the application, that the application will be immediately discarded and the organization not notified of the issue, or the fact that the application was discarded. As such, the office had submitted several applications for new chapters and had never been notified of those applications being discarded. Knowing the new process, the National Office is working on obtaining EIN numbers for all new chapters.

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Budget and Finances

Increases to the Pledge and Lifetime Membership Fees were passed by the Grand Chapter at Conclave. Additionally a Health and Safety Surcharge was instituted at the beginning of 2019 to cover the increased costs of the Fraternity's General Liability Insurance coverage. Those increased costs are likely contributing to the reduced pledge and initiate numbers. However, the insurance costs still need to be covered and the Fraternity cannot afford this coverage without this surcharge.

Fraternity Fund Overview

The Fraternity has five funds where money is held.

- The General Operating Fund is the account used in day to day operations. This is located at the National Bank of Indianapolis.
- The Reserve Fund was established in the Constitution Article II Section B.I.g. The Reserve Fund is held in a managed investment account at Morgan Stanley. The funds in the Reserve Fund are available for use if needed to supplement the General Operating Fund.
- The House Fund was established in the Constitution Article II Section B.I.h. The House Fund is held in a managed investment account at Morgan Stanley. The House Fund is used to issue loans to Housing Corporations at the Prime Rate. No loans have been issued to date this biennium.
- The Short Term Savings Fund was established by SC Proposition 4682. The Short Term Savings Fund is held in a money market account at Morgan Stanley and will be used as a bridge account between the Reserve Fund and the General Operating Fund. It will also be used to hold monies set aside for Capital Expenses (CAPEX) and can also be used as the location for the Dormant Chapter Fund should any monies come to the Grand Chapter from any inactive chapters.
- The Dormant Chapter Fund was defined by SC Proposition 3336 to fulfill the requirements of Grand Chapter Bylaw II Section E3, which states that the Grand Chapter will hold monies from inactive chapters for five years in the event that the Chapter is reactivated. Following the five year period, any monies will become the property of the Grand Chapter. The Dormant Chapter Fund currently has a zero balance and as such, is not held in any location. Should funds become available to Alpha Chi Sigma from an inactive chapter, it would be held in the Morgan Stanley money market account.

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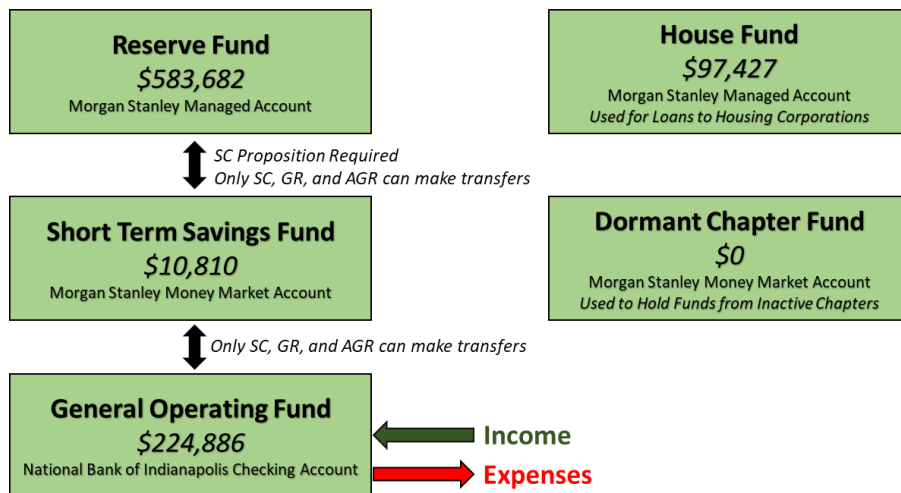
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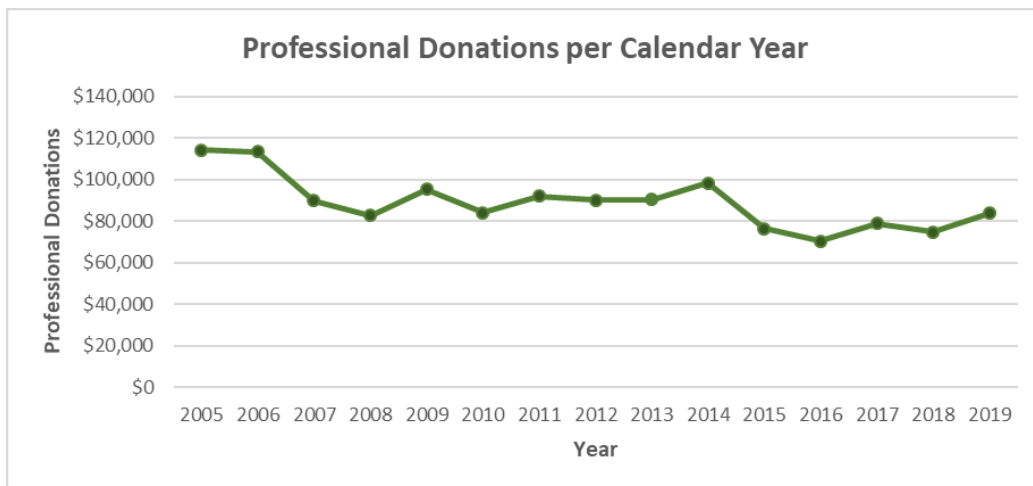
A breakdown of the Fraternity's fund structure and current balances is illustrated in the following diagram:



*All balances as of December 31, 2019. Balances are unaudited.

General Operating Fund Income Summary

Professional Donations for 2019 totaled \$83,817. These donations include a new initiative from the GPA and the National Office for Giving Tuesday. This took the form of the "Chapter Challenge, which pitted chapters against each other to raise funds for the Grand Chapter. That initiative raised \$2,861 for the Fraternity. Professional donations for the past fifteen years are shown in the following chart:



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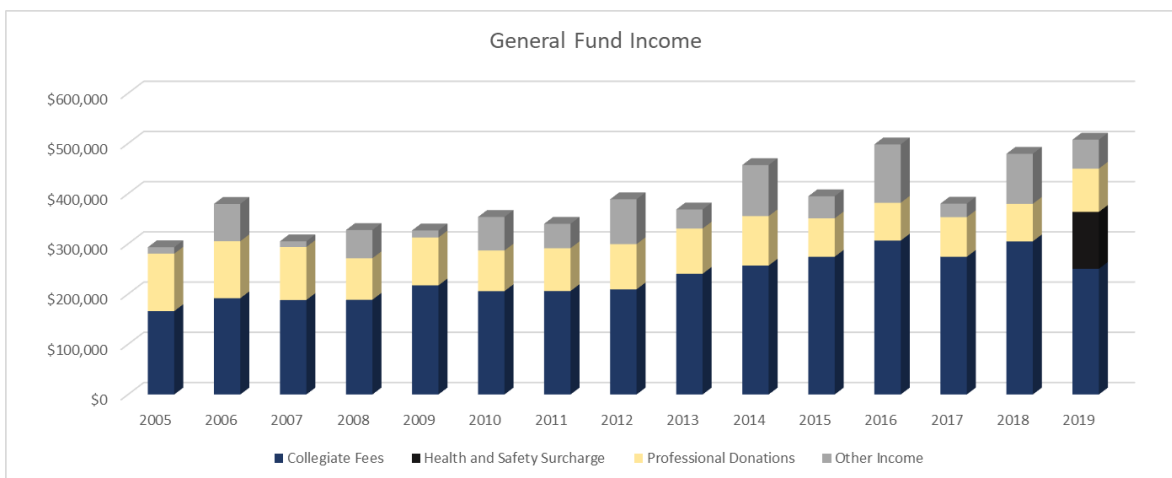
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A breakdown of the various sources of income for the Fraternity is illustrated in the following chart.



- Collegiate Fees consist of the Pledge Fees and Lifetime Membership Fees
- Health and Safety Surcharge is new for 2019 and covers the cost of the Fraternity's General Liability Insurance
- Professional Donations are donations from Professional Members
- Other Income includes Conclave Receipts, Resale Income, Reserve Fund Withdrawals, Affinity Programs and Beta Theta Recovered Funds (2019 only)

Pledge and Lifetime Membership Fees continue to make up the majority of the Fraternity's income.

Due to the efforts of AGR Wenzel, the Grand Chapter was able to obtain \$23,600 of funds that were being held by the State of Texas. Those funds were from the Beta Theta chapter, which has been inactive since 2000 (SC Proposition 3792). According to the Bylaw II Section E.3 when a subordinate chapter goes inactive, their treasury is to be transferred to the Grand Chapter to be held in trust for five years. Should the chapter be reactivated in that time period, the funds are to be transferred back to the chapter. Typically those funds would be held in the Dormant Chapter Fund at Morgan Stanley; however, as Beta Theta has been inactive for well over the five year time period, the funds were instead placed in the General Operating Fund.

General Operating Fund Expense Summary

The Fraternity has a variety of expenses required to operate and serve its' members. Those expenses have been categorized into six main categories for comparison. Member Services, National Office Operations, The Hexagon, Conclave, Insurance, and Programs. A seventh category is illustrated for 2017, Fraud/Theft, which includes expenses from the embezzlement of funds by two former employees and the related legal expenses. Conclave is a costly event for the Fraternity, so expenses for even numbered years are typically always higher than odd numbered years.

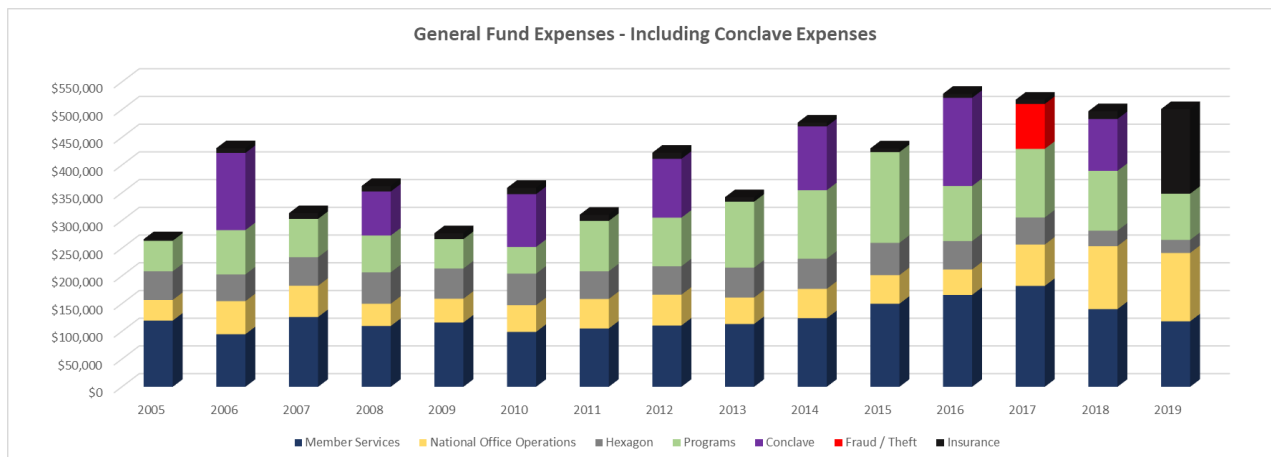
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- Member Services includes salaries, consultant fees, GR and AGR stipends, FICA, Social Security, and State Payroll Taxes
- National Office Operations includes utilities, postage, software licenses, and bank fees
- Hexagon includes printing / mailing costs and the GE stipend
- Programs include ritual / regalia, expansion, awards, travel, DC's, PR's, SC expenses, and legal expenses, and programs
- Conclave includes all Conclave related expenses
- Fraud / Theft includes embezzled funds from former staff and related legal expenses for identity and data theft in 2017
- Insurance includes cost for all insurance policies (GL, D&O, Workman's Comp., and Property / Building)

Expenses continue to increase year over year despite cost savings efforts. For 2019, insurance accounts for nearly 30% of the Fraternity's expenses.

General Operating Fund Income vs. Expense Summary

The following chart illustrates the difference between income and expenses for the General Operating Fund. This helps illustrate how expenses are outpacing our income.

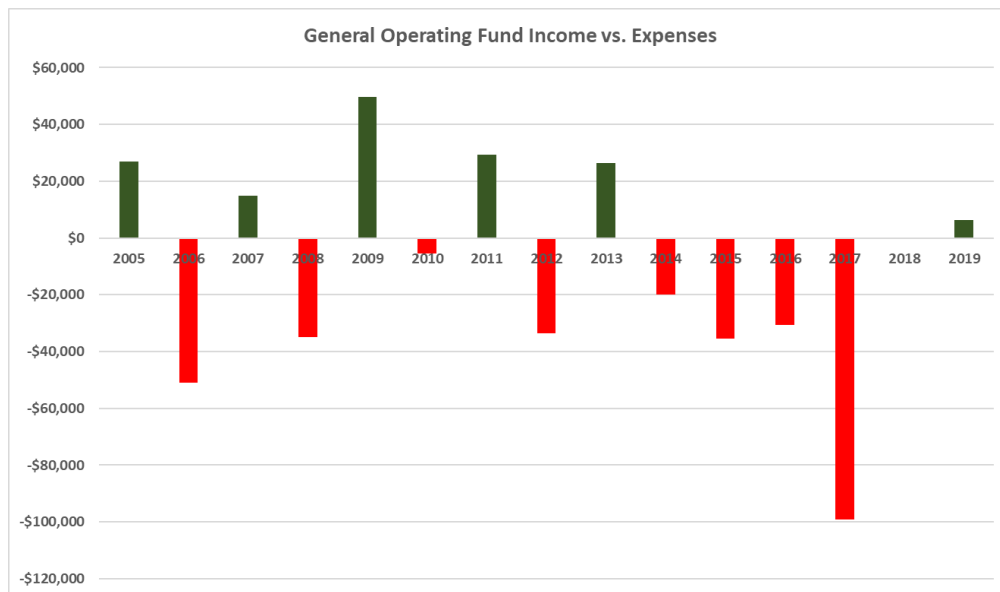
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2018 was essentially a break-even year for the Fraternity. On this chart, 2019 appears to be a good year; however, this does not include withdrawals from the Reserve Fund. 2019 was also helped by the Beta Theta funds that were recovered. Without the Beta Theta funds, 2019 would have been another year with more expenses than income, even with the new Health and Safety surcharge.

Reserve Fund and House Fund Summary

The managed account at Morgan Stanley includes the Reserve Fund and the House Fund. Those funds are combined at Morgan Stanley in a single account which is invested in a broad range of markets.

A total of \$143,000 was transferred out of the Reserve Fund in 2019 (SC Proposition 4744 on January 7, 2019) to pay for the increased insurance costs. A total of \$13,877 was transferred into the Reserve Fund (SC Proposition 4766 on July 13, 2019) for contributions directed to the Reserve Fund from Professional donors from the 2018 solicitation.

The balance of the Morgan Stanley managed account over the past ten years is shown below:

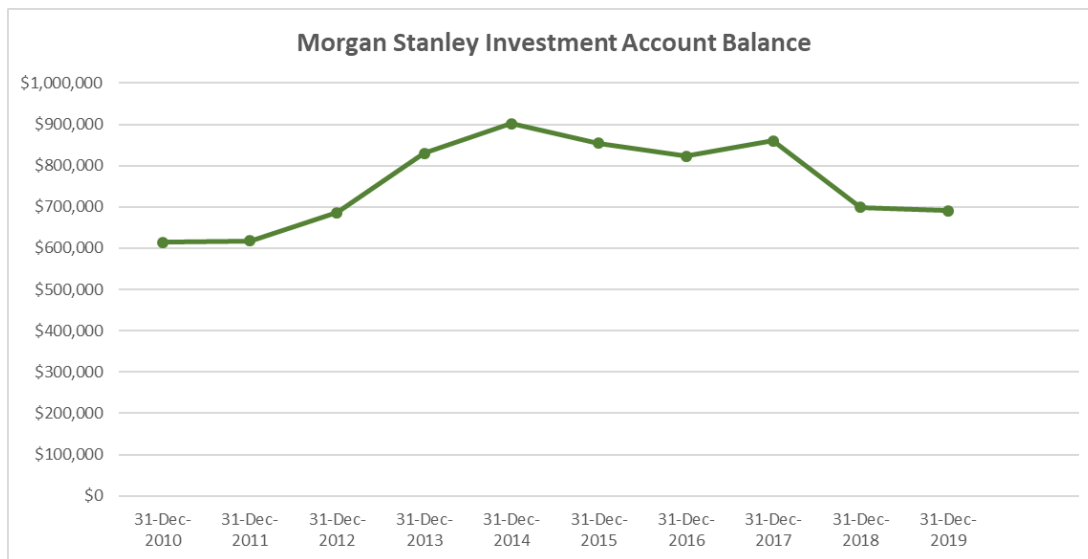
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Investment performance was offset by the withdrawal of \$143,000 to pay for the Fraternity's General Liability coverage in 2019. Fortunately market performance was solid, and the Fraternity managed to make nearly all of that \$143,000 back. That sort of situation cannot be counted on in the future. The balance of the Fraternity's investments on December 31, 2018 was \$699,401, the balance of the Fraternity's investments on December 31, 2019 was \$691,392.

Pledge to Educational Foundation for Scholar Award

The Fraternity has paid the Educational Foundation a total of \$60,000 of its' pledge of \$100,000 to perpetually fund the Alpha Chi Sigma Scholar Award. That pledge was for \$20,000 each year to be paid over five years from 2017 through 2021.

Insurance Policy Review / Health and Safety Surcharge

The Fraternity currently maintains five insurance policies through Holmes-Murphy.

- Commercial Package Policy – Also known as Commercial Property insurance, this covers the National Office and its' contents.
- Workman's Compensation – Workman's Compensation insurance is coverage for an employee's medical expenses, lost wages, and rehabilitation services that result from a workplace injury or illness.

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- Directors and Officers (D&O) - Directors and Officers insurance covers the Supreme Council, Grand Recorder, Assistant Grand Recorder, Grand Editor, Grand Parliamentarian, Grand Vizier, District Counselors, Professional Representatives, and the National Office staff in the event of legal action taken against them for alleged wrongful acts in their capacity when acting as directors and officers of the Alpha Chi Sigma Fraternity.
- General Liability – General Liability insurance is coverage that protects the Fraternity from a variety of claims including bodily injury, property damage, personal injury and other claims that can result from Fraternity Chapter and Office operations. This coverage extends to the chapters and the chapter members.
- Business Auto – The Business Auto policy covers employees using their vehicles for business uses. This does not cover fraternity members using automobiles, which falls under the General Liability policy.

Insurance Type	Coverage Limit	2019 Annual Premium Cost	2020 Annual Premium Cost
General Liability	\$1,000,000 / \$2,000,000*	\$120,000	\$120,000
Commercial Package Policy	\$1,000,000	\$5,167	\$5,781
Workman's Compensation	\$1,000,000	\$431	\$439
Business Auto	\$1,000,000	\$1,344	\$1,519
Director's and Officer's	\$2,000,000	\$2,848	\$2,848
Surplus Lines Taxes for General Liability Policy		\$3,000	\$3,000
Fees in Lieu of Commission for General Liability Policy		\$20,000	\$20,000
Total Insurance Cost to Fraternity		\$152,790	\$153,587

* \$1,000,000 per occurrence, \$2,000,000 aggregate limit

In addition to the policy costs, various fees and taxes are being paid to Holmes-Murphy. Those include the following:

- Surplus Line Taxes – Due to the types of coverage provided by our carrier, they are not regulated by state governments. As such, states charge those carriers a “Surplus Line” tax on providing their services as a percentage of the premium. Note: our 501c3 tax exempt status does not prevent us from having to pay this tax.
- Fees in Lieu of Commission – Instead of charging a commission for their brokerage services on the General Liability Policy, Holmes-Murphy charges a flat fee. Included with this is access to their educational resources, Risk Management College, contract review services, and advice relating to insurance and Health and Safety concerns.

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The massive increase in General Liability insurance premium in 2019 was due to several factors. Our former carrier exited the Fraternity/Sorority business at the end of 2018. Fraternities represent a very high risk for insurance companies. Claims are frequent and those claims are generally very expensive. Fraternities with houses are further penalized with higher insurance costs. For an insurance company to earn money off of a Fraternity or a Sorority, extremely high premiums are charged. Holmes-Murphy was unable to negotiate any discounts to our policies with the carriers, so our insurance costs remain unchanged from 2019. Decreases in General Liability premium cost should not be expected for at least six to nine years. The slight increase in policy cost is due to our coverage being for eleven months in 2019 for the Commercial Package and Business Auto policies (renewal date was January 31), where for 2020 they are for twelve months (renewal date is now January 1).

In order to pay for the increased General Liability premium, the Grand Chapter and the Supreme Council authorized a Health and Safety Surcharge to be added to the Pledge Fee and the Lifetime Membership Fee. This surcharge will need to continue into 2020 and into the foreseeable future.

It should be noted that \$143,000 for the General Liability (including fees and surplus line taxes) was the most reasonable insurance proposal. Competitive quotes for insurance in 2019 (including fees and surplus line taxes) were \$182,975 and \$202,450. These rates would have been similar for 2020. Other brokers / carriers refused to even quote General Liability insurance to Alpha Chi Sigma.

Professional Representative Election

Part of the annual solicitation involves the election of the Professional Representatives. The vote tally for the 2020-2021 Professional Representatives was as follows:

Stephanie Bates, <i>Alpha Rho 1995</i>	133
Mike Raffay, <i>Iota 2000</i>	130
Jason Ellis, <i>Delta 1997</i>	122
Christy Gesell, <i>Epsilon 1994</i>	117
Justin Pratt, <i>Delta Delta 2012</i>	106
Samantha McKenna, <i>Tau 2010</i>	95
Kerri Federico, <i>Mu 2008</i>	75

Brother Bates was appointed to the ACDC position starting January 1, 2020, and as such, Brothers Raffay, Ellis, Gesell, and Pratt will serve as Professional Representatives from January 1, 2020 to December 31, 2021. The Fraternity is grateful to all the candidates for their willingness to serve the Fraternity.

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Housing Corporations

The Fraternity currently has eight chapters with houses. Due to our 501c3 not-for-profit status, the Fraternity is unable to own rental property. As such, each house is owned and managed by a separate 501c7 or 501c2 corporation. The Fraternity maintains the Chapter House Advisory Committee which strives to share best practices and discuss relevant topics amongst the corporations. However, participation by all of the housing corporations has been lacking in that area. A good business to business working relationship between the Grand Recorder and those Housing Corporations has been absent for many years. Earlier this year, the National Office did not even have current contact information for a majority of these corporations. As such, I have sent letters out to the Housing Corporations to share information on service providers and update them on the new Health and Safety Policy. Although we operate as separate corporations from each other, we still need to have open lines of communication in case of issues.

I was approached by Pi Chapter in October 2019 to help them answer questions about acquiring a house for the chapter. The Fraternity has not had a serious request for a chapter to obtain a house since 1977. Per Bylaw V, Section C.8, the Supreme Council must give permission in order for a chapter to create a Housing Corporation. In an effort to help set the chapter up for success, I worked as an intermediary going between the Supreme Council and Pi Chapter to help Pi Chapter create a business plan and answer several questions from the Supreme Council before I would offer the proposition to the council for a vote. Some of that work included getting Pi in touch with Holmes-Murphy to ensure that they were educated on the proper insurance for a chapter house and corporation; shared contact information between Pi and Michael Quan, chair of the Chapter House Advisory Committee, as well as offering to give them contact information for mAccounting for accounting and tax advice. The Supreme Council approved SC Proposition 4788 to allow Pi Chapter to create a housing corporation on January 2, 2020. I wish the Brothers at Pi much success in their efforts.

Conclusions

2019 has been a challenging year for the Fraternity. Significant changes to how the organization addresses the Health and Safety of our members has pulled us into step with the current practices of other Fraternities and Sororities. The National Office is functioning very well and is well focused on ways to improve the organization instead of just processing payments and data entry. Personally, I still have concerns about our finances with dropping membership numbers. Caution is advised.

Yours in the Double Bond,

John N. Stipp, *Epsilon 1989, OA*
Grand Recorder