

Alpha Chi Sigma Fraternity

Professional in the Chemical Sciences

Office of the
GRAND RECORDER



John N. Stipp
5538 Brook Run Drive
Medina, OH 44256
gr@alphachisigma.org

Report and Recommendations of the Grand Recorder In Response to the 55th Conclave, Motion 18 December 10, 2020

Background

At the 55th Biennial Conclave, the Grand Chapter passed legislation to eliminate the House Fund. That was directed by the following Conclave Motions:

Motion 16

Made by: Geoff Giarmo, NDC Seconded: Hannah Bowman, NCDC

Resolved,

Constitution, Article II, Section B.1

Remove subsection h. in its entirety.

First Reading: 7/7/2020 Consideration: 7/8/2020

Action: Passed - Yes / No Tally – For (74) Against (13)

Motion 17

Made by: Geoff Giarmo, NDC Seconded: Hannah Bowman, NCDC

Resolved,

Amend the Bylaws, Bylaw VII, Section C.2

Remove the words "or House Fund".

First Reading: 7/7/2020 Consideration: 7/8/2020

Action: Passed - Yes / No Tally – For (80) Against (3)

Motion 18

Made by: Geoff Giarmo, NDC Seconded: Hannah Bowman, NCDC

Resolved,

Resolved that the Grand Recorder is directed to investigate closing the House Fund and transferring the funds into the Reserve Fund. They shall report to the Supreme Council on the feasibility and costs within one year, at which time the Supreme Council shall decide on the appropriate course of action. The recommendation and final decision shall be reported to the Grand Chapter at the next biennial Conclave.

Consideration: 7/8/2020

Action: Passed - Yes / No Tally – For (62) Against (26)

What follows are my recommendations around Motion 18 that I was directed to compile by the Grand Chapter.

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Discussion

Creation of the House Fund

As the House Fund has been in existence for several decades, I reached out to Grand Historian Mitch Levings to provide some background information on the House Fund. A summary follows:

The House Fund was established at the 26th Biennial Conclave (1962) by Motion Number 13 which stated the following “Be it resolved that during the ensuing biennium the Supreme Council establish a special fund by contribution or otherwise, to be used for the purpose of aiding collegiate chapters to acquire or retain ownership of chapter houses by means of interest bearing loans therefrom”

Since its creation, funds have been added to the House Fund by individual donations, interest payments on loans issued from the House Fund, and unknown sources.

Restrictions of Fund Usage

The primary question that needs to be answered prior to closing the House Fund is whether or not it is considered a Donor Advised Fund or a Restricted Fund. This has relevance as it dictates whether those funds can legally be used for another purpose under state and federal laws.

For reference, definitions of each are as follows:

Donor Advised Fund – A donor advised fund is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a sponsoring organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.

Restricted Fund - A restricted fund is a reserve account that contains money that can only be used for specific purposes. Restricted funds provide reassurance to donors that their contributions are used in a manner they have chosen. Restricted funds most often appear in the context of funds held by certain nonprofits, endowments, or insurance companies. When a donor gives money to a nonprofit corporation, the donor may specify whether the gift is unrestricted and can be used for any purpose the organization sees fit. If the funds are temporarily restricted, they must be used for a specific purpose. With permanently restricted funds, the donation acts as principal on which interest can be earned (and only the interest is to be spent).

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Following Conclave, I reached out to our accounting firm (mAccounting / inDinero) in regards to if the House Fund would be considered a Restricted or a Donor Advised Fund. According to our accounting firm (mAccounting) and historical reports from three separate auditing firms (Cox, Beckman, and Goss, Von Lehman, and UHY) the House Fund is considered neither a Restricted Fund nor a Donor Advised Fund. As such, the Fraternity should legally be able to eliminate the House Fund and transfer those funds to another account.

Account Location and Transferring of Funds

The Reserve Fund and House Fund are both held in the Morgan Stanley investment account. There is \$89,186 in the House Fund as of October 31, 2020. With the elimination of the House Fund, the most reasonable place to put these monies is to simply add them to the Reserve Fund. That allows for the best return on investment on these monies. The SC can use the Reserve Funds for any purpose, as long as an SC Proposition is passed to remove funds from the account, so this does not unnecessarily restrict the use of those monies or restrict the ability of the SC to move them to where they may be needed.

The Fraternity currently 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 (note this section is from the 2018 – 2020 Constitution and Bylaws). 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 out of this fund for several years and there are no outstanding loans from the House Fund at this time.
- 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.

Alpha Chi Sigma Fraternity

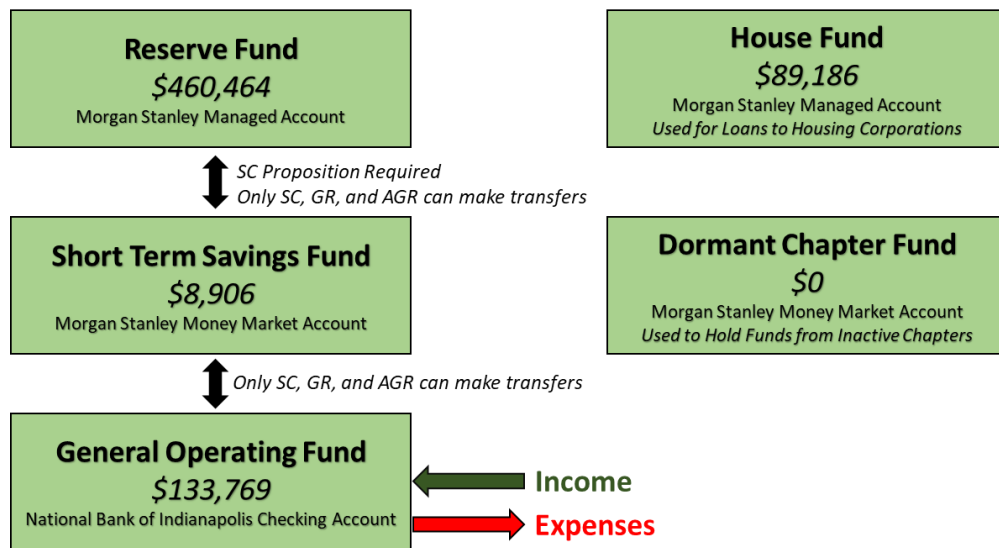
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A breakdown of the Fraternity's fund structure and balances as of October 31, 2020 is illustrated in the following diagram:



*All balances as of October 31, 2020. Balances are unaudited.

That being said, the Fraternity does not have five separate accounts for the aforementioned funds. There are only three accounts where money is held.

- National Bank of Indianapolis Checking Account – General Operating Fund
- Morgan Stanley Money Market Account – Short Term Savings Fund and Dormant Chapter Fund
- Morgan Stanley Investment Account – Reserve Fund and House Fund

The distribution of funds in the two Morgan Stanley accounts is maintained by mAccounting and allocates earnings and losses appropriately to each fund every month.

In terms of moving the funds, transferring the monies in the House Fund into the Reserve Fund is simply an accounting matter. The costs involved would be very minimal, if any.

Impact to Donors

Historically, donors to the House Fund could become Permanent Active Professional Members of the Fraternity by donating a set amount of money over time into the House Fund. This may sound familiar to many Professionals as this is the same for the Reserve Fund. No donations to the House Fund have been made in many years, probably because it has not been advertised or listed as an option in the solicitation for several decades. That being said, there are still some donors to the House Fund

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who are still living for whom we have contact information. Specifically, there are 25 Brothers who have donated a combined total of \$969.50 to the House Fund that we are able to contact.

Since the donors contributed these funds to the House Fund with the intent that those funds be used to provide loans to House Chapters, it would be reasonable to contact them about their donations and ask them if they would like to have their specific donation returned to them, or if they agree to have those donations left with the Fraternity and transferred to the Reserve Fund with the other funds in the House Fund.

I would not recommend having the return of funds to the donors impact their Permanent Active Professional member status if they have that status. Removing Permanent Active Professional member status from a member after they earned it several decades ago seems unfair and somewhat petty.

Communication to the House Fund donors and processing their responses is estimated at eight hours of office time, which equates to \$280. Postage and return postage will cost roughly \$38.

Conclusions

In response to Grand Chapter Motion 18 from the 55th Biennial Conclave, there are two parts to closing the House Fund:

- 1) A simple administrative / accounting matter that should cost the Fraternity almost nothing. I would prefer to close this via SC Proposition for additional record of closing the House Fund and transferring the funds to the Reserve Fund.
- 2) Living donors with contact information available should be contacted and asked if they would prefer to have their donations to the House Fund either returned to them, or transferred to the Reserve Fund. If all donors requested their donations returned to them, it would cost the Fraternity \$969.50. There is an estimated \$280 in staff time costs and an estimated \$38 postage cost involved in this.

Although there is roughly a \$1,400 maximum cost to closing the House Fund, I would recommend proceeding as recommended above as that will fulfill the wishes of the Grand Chapter and allow our donors the ability for their funds to be used or not per their wishes.

Yours in the Double Bond,

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