

Alpha Chi Sigma Fraternity

Professional in the Chemical Sciences

Office of the
GRAND RECORDER



John N. Stipp
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2020 - 2022 Biennial Report of the Grand Recorder June 15, 2022

We will pay the price, but we will not count the cost – John Barth

Overview

The impacts of the COVID-19 pandemic continue to create challenges for the Fraternity. Nine Collegiate Chapters have been declared inactive during this biennium: Alpha Sigma, Beta Eta, Beta Tau, Delta Gamma, Delta Nu, Delta Omicron, Delta Pi, Delta Rho, and Delta Xi. Despite these chapter losses, pledge and initiate numbers are increasing and are showing signs of post pandemic recovery. That being said, it will be more challenging to increase pledge and initiate numbers with fewer chapters.

In 2020, the Fraternity had \$80,169 more in expenses compared to income. The Fraternity surprisingly had \$33,538 more income than expenses in 2021. The Fraternity also did not withdraw any funds from the Reserve Fund for operating expenses in 2021. This is the first time the Fraternity has not drawn from the Reserves for operating expenses since 2015. Having a good year in 2021 was due in large part to receiving a Paycheck Protection Loan that was fully forgiven, and the successful negotiation to reduce our insurance cost for the year.

Despite having a good financial year in 2021, the Fraternity cannot cut its' way to financial stability, or continue to count on pandemic related loans and cost reductions. Our budget estimate for 2022 has the Fraternity having more than \$70,000 in expenses compared to income. We must find a way to increase revenue. The main lever for that is by increasing the number of new members. Membership numbers need to increase to improve our financial stability or expenses will continue to outpace our income. It will be very difficult for the Fraternity to survive in the long term if we continue to operate with large financial losses.

Alpha Chi Sigma by the Numbers

As of this writing the Fraternity has initiated 77,874 members since its founding in 1902. The breakdown of our Active Chapters and Groups are as follows:

58 Active Collegiate Chapters
0 Active Collegiate Groups

8 Active Professional Chapters
14 Active Professional Groups

The Fraternity welcomed Delta Sigma (High Point University) into its' ranks this biennium.

Nine Collegiate Chapters have been declared inactive this biennium: Alpha Sigma, Beta Eta, Beta Tau, Delta Gamma, Delta Nu, Delta Xi, Delta Omicron, Delta Pi, and Delta Rho.

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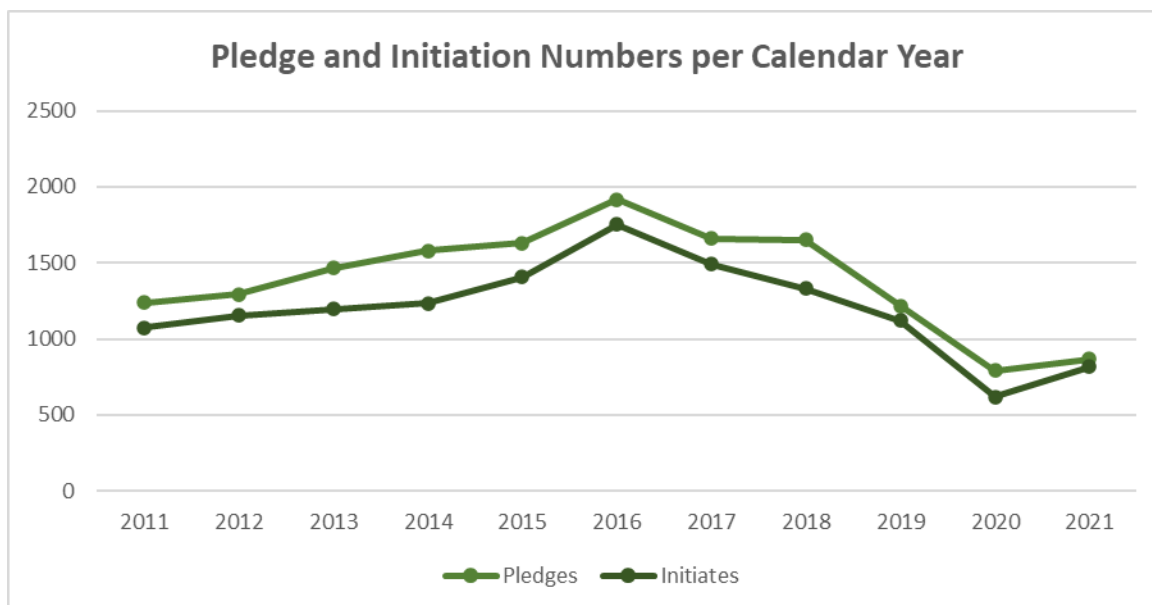
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The Grand Chapter property has been recovered from Beta Eta, Delta Gamma, Delta Nu, Delta Xi, Delta Omicron, and Delta Pi. Delta Rho was never issued a charter or a set of regalia. Recovery of the Grand Chapter property at Alpha Sigma and Beta Tau are in process.

Delta Nu's chapter treasury of \$1653.91 was transferred to the Grand Chapter on January 3, 2022 and Delta Xi's chapter treasury of \$580 was transferred to the Grand Chapter on June 1, 2022.

The Twin Cities Alumni of Alpha Chi Sigma has sold their house and Beta Chapter is now operating as a non-house chapter. The Beta Nu chapter has sold their house and the Housing Corporation is looking to purchase a new house with the proceeds of the sale. Not counting Beta Nu, Alpha Chi Sigma currently has six chapters with houses. Financial pressures of owning / operating Chapter Houses may cause more of those chapters to move to non-house chapter status in the coming years.

For the Spring 2022 semester, the Fraternity had 539 pledges and initiated 556. The Fraternity had 867 pledges in 2021 and initiated 818. With chapters moving back to an in-person format, we are seeing a positive trend in pledges and initiates in 2021 / 2022. Although we are still down in terms of pledge and initiate numbers, we are slowly reversing the downward trend.



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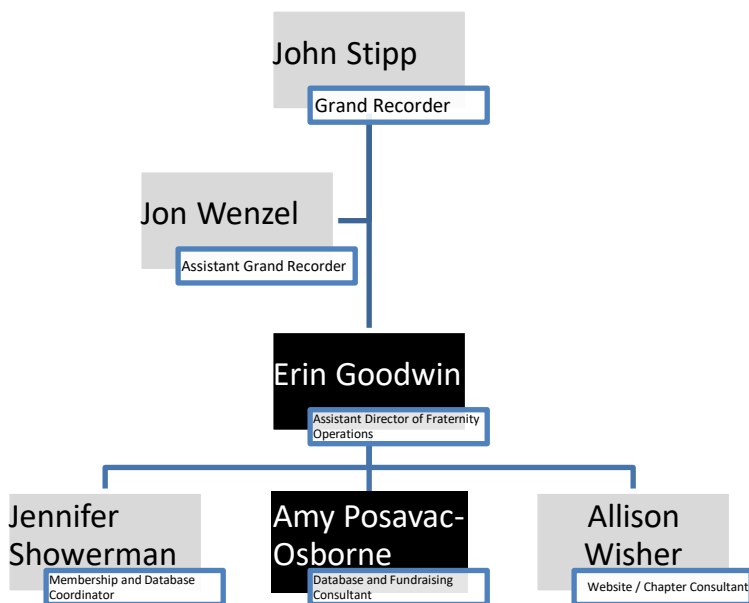


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National Office Operations

The National Office is currently staffed with Erin Goodwin working full-time, Amy Posavac-Osborne and Jennifer Showerman, Zeta 1992, OA working part-time, with support from Allison Wisner when needed. Amy is now focused on our Database and Fundraising activities. Jennifer Showerman joined the National Office staff in August 2021 as the Membership and Database Coordinator. Even though Jen is not local to Indianapolis, she is able to do this work remotely. Jen brings a great knowledge of the Fraternity into the day-to-day office operations and is proving to be an excellent addition to the team.

National Office Organization Chart – June 2022



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

We continue to have our bookkeeping / accounting services outsourced to inDinero, and our IT hardware and backup services outsourced to Byte Café. AGR Wenzel has taken on more responsibility around managing our gmail and gsuite accounts as well as managing our Zoom account.

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Budget and Finances

Pledge and Lifetime Membership Fee Recommendations

The Pledge and Lifetime Membership fees remain unchanged from 2018 at a \$50 Pledge Fee and a \$170 Lifetime Membership Fee. The Health and Safety Surcharges have remained unchanged since August 2020 at \$35 (Pledge) and \$95 (Lifetime) to cover the costs of the Fraternity's General Liability Insurance coverage. Disruptions to the chapters from the pandemic make it challenging to estimate numbers of pledges and initiates, which is needed to appropriately set Pledge and Lifetime Membership Fees. With the impact of inflation, the Pledge and Lifetime Membership fees should increase to help offset increased costs of goods and services. An increase to \$55 for the Pledge Fee and \$185 for the Lifetime Membership Fee will likely be recommended to offset rising costs due to inflation. This would equate to a 9% increase over current fee amounts.

A comparison of the Pledge and Lifetime Membership Fees since 1988 adjusted for inflation in 2022 dollars is shown in the table below:

Year	Pledge Fee	Lifetime Membership Fee	Total	Total in 2022 Dollars	Increase Over Prior Fee Amount
1988	\$10	\$70	\$80	\$199	
1998	\$25	\$100	\$125	\$224	56%
2002	\$35	\$125	\$160	\$261	28%
2004	\$35	\$135	\$170	\$265	6%
2008	\$40	\$145	\$185	\$253	9%
2018	\$50	\$170	\$220	\$257	19%
2022 Proposed	\$55	\$185	\$240	\$240	9%

*2022 Dollar Equivalent Amounts calculated from the US Government CPI Calculator

Fraternity Fund Overview

The Fraternity has three 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 is required in the Constitution Article II Section B.1.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 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 is used as a bridge account between the Reserve Fund and the General Operating Fund. It also holds monies set aside for Capital Expenses (CAPEX).

A breakdown of the Fraternity's fund structure and balances as of June 1, 2022 are illustrated in the following diagram:

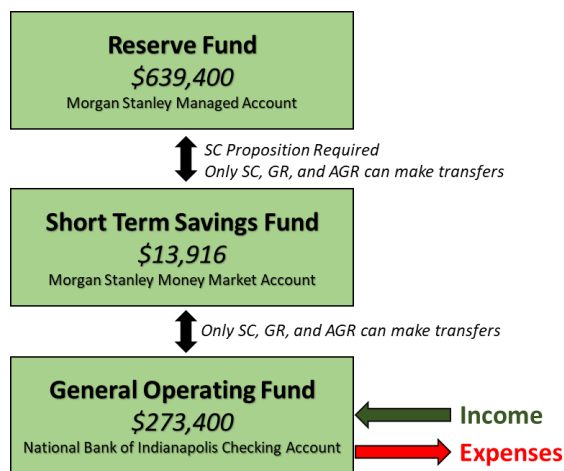
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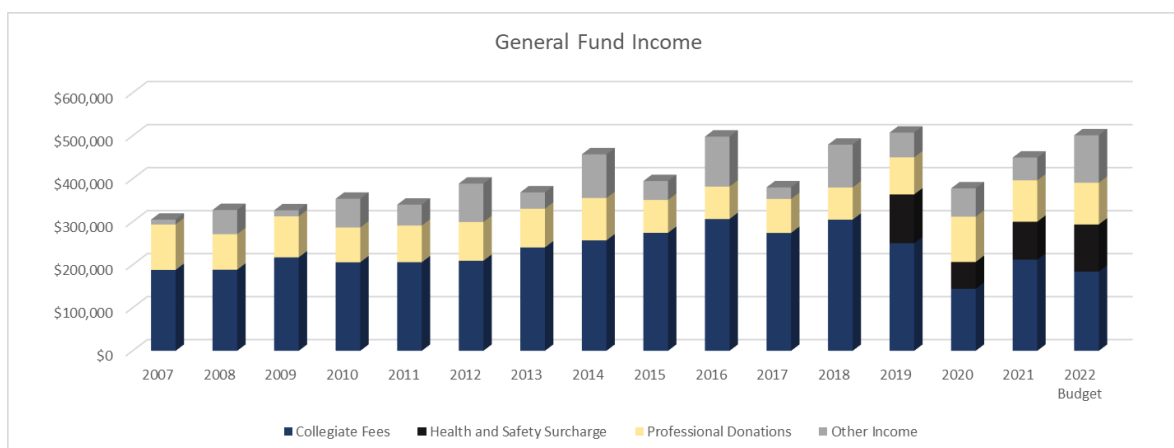


*All balances as of June 1, 2022. Balances are unaudited.

General Operating Fund Income Summary

The Fraternity obtains income from multiple sources. The primary source of income for the Fraternity is from fees and surcharges for new members. The Fraternity also regularly receives income from Professional Donations, affinity programs (GEICO and Amazon Smiles), and sales of Fraternity merchandise from the online store.

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



- Collegiate Fees consist of the Pledge Fees and Lifetime Membership Fees
- Health and Safety Surcharge was created in 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 PPP Forgivable Loans (2020 and 2021 only)

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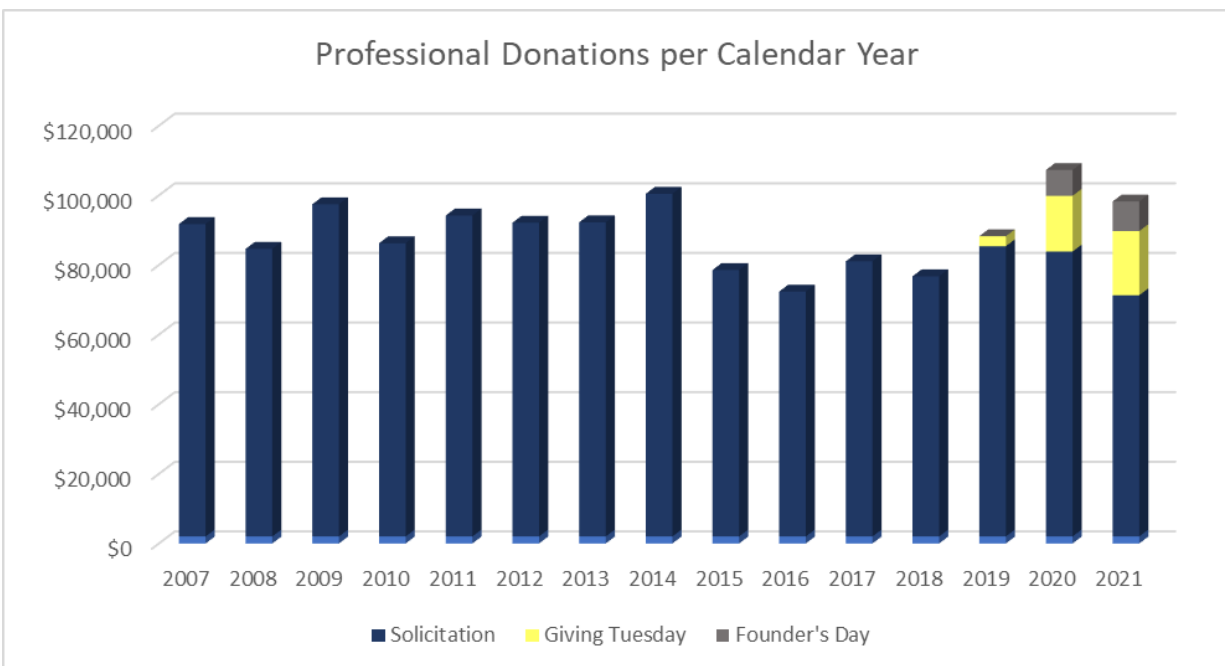
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Pledge and Lifetime Membership Fees continue to make up the majority of the Fraternity's income.

Professional donations for the past fifteen years are shown in the following figure:



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. Conclave is a costly event for the Fraternity, so expenses for even numbered years are typically always higher than odd numbered years.

Starting in 2017, the Fraternity started taking steps to reduce expenses where possible. Further explanations of those efforts can be found in prior Grand Recorder annual and biennial reports. With the impact of inflation, expenses are likely going to rise year over year for the near future.

A breakdown of the Fraternity's expenses by these categories is shown below:

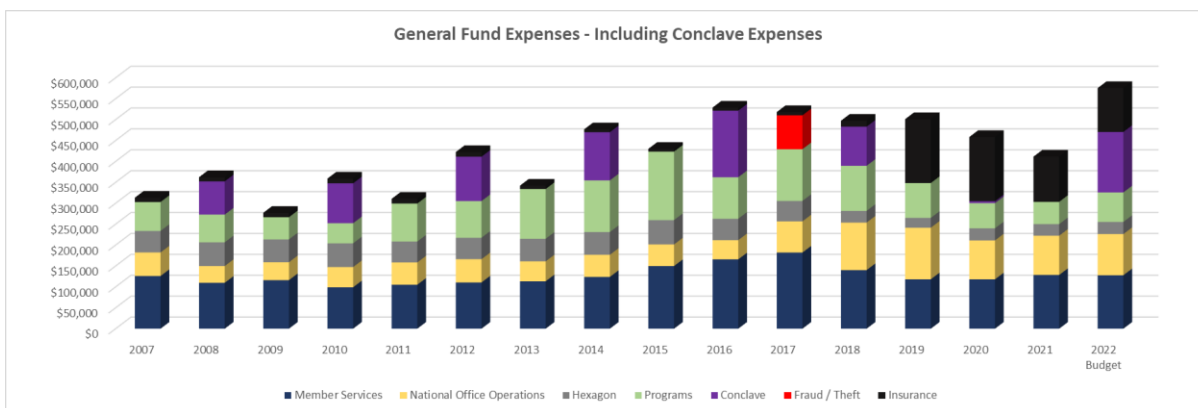
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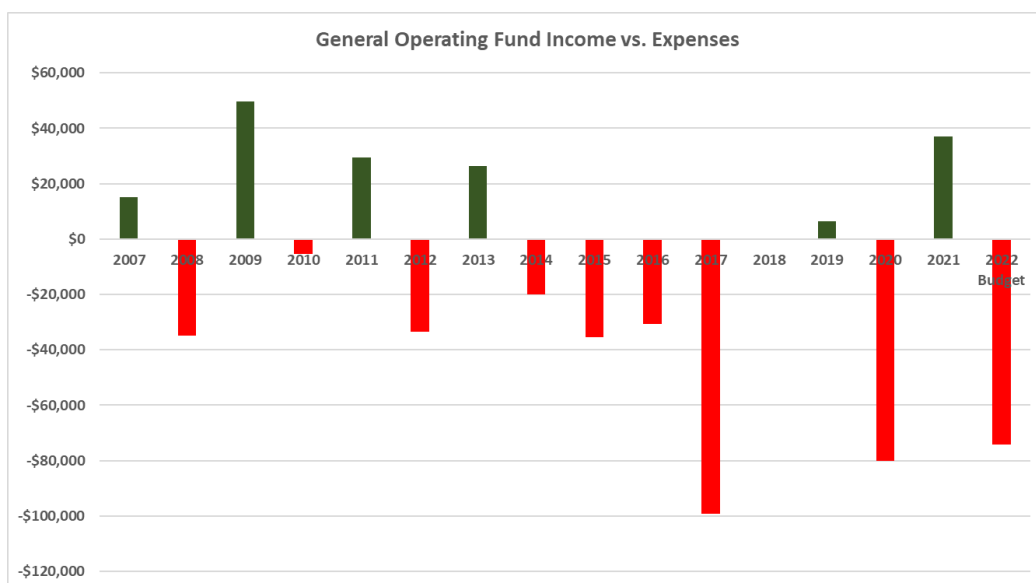
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- Member Services includes salaries, consultant fees, GR and AGR stipends, FICA, Social Security, and State Payroll Taxes
- National Office Operations includes outsourced services, utilities, postage, software licenses, and bank fees
- Hexagon includes 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)

General Operating Fund Income vs. Expense Summary

The following figure illustrates the difference between income and expenses for the General Operating Fund. From a financial perspective, this is the most important chart in this report. This helps illustrate how expenses have been outpacing our income in recent years and why we have taken steps to reduce expenses where possible.



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Expenses in even years are typically higher than odd years due to Conclave costs. In recent years the Fraternity has typically operated at a loss in even years and balanced that out with a profit in the odd years to break even over the long term. Ideally, the Fraternity should break even during even years and earn a profit in odd years to help increase reserves for unexpected financial stresses, such as increased insurance costs, pandemic outbreaks, etc. With limited income streams, this pattern needs to be watched and fees and surcharges adjusted as needed to ensure that we are not using up our reserves on operating expenses.

Reserve Fund and House Fund Summary

Today the managed account at Morgan Stanley consists solely of the Reserve Fund. At the 2020 Conclave, the Grand Chapter directed that the House Fund be eliminated. I was directed by Grand Chapter Motion 18 to prepare a report for the Supreme Council in regards to closing that fund and rolling the funds into the Reserve Fund. That report was completed and submitted to the Supreme Council on December 10, 2020. Please see that report for additional details. The House Fund was closed in 2021 and those funds rolled into the Reserve Fund.

The Fraternity did not withdraw any funds from the Reserve Fund in 2021. This is the first time the Fraternity has not drawn from the Reserves for operating expenses in a calendar year since 2015. A total of \$13,525 was transferred into the Reserve Fund (SC Proposition 4878 on October 11, 2021) for contributions directed into the Reserve Fund from Professional donors from the 2020 campaign. From the 2021 solicitation, \$23,081 was received from donors for the Reserve Fund which will be deposited into the Reserve Fund in 2022.

Unless pledge and initiate numbers increase over 2021 levels, with 2022 being a Conclave year, it is likely that we will need to withdraw funds from the Reserve Fund to cover some of the 2022 operating expenses.

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

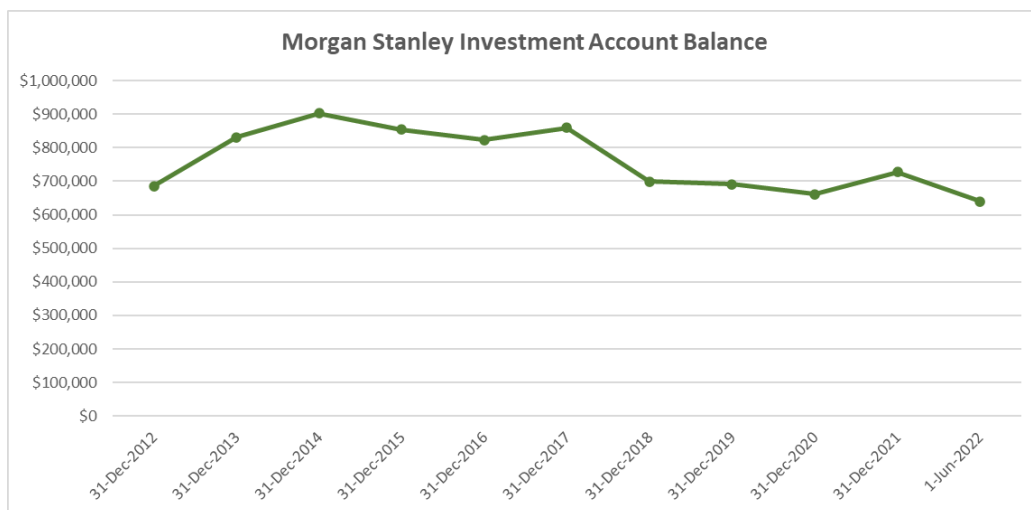
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The Reserve Fund has lost roughly \$100,000 since the start of 2022 due to poor market performance. No withdrawals to the Reserve Fund have taken place in 2022 to date.

Pledge to Educational Foundation for Scholar Award

The Fraternity has paid the Educational Foundation a total of \$100,000 of its pledge 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. That pledge has been fulfilled, and as such, the Alpha Chi Sigma Scholar Award should be funded perpetually through the Educational Foundation at the current award levels.

Insurance Policy Review / Health and Safety Surcharge

Insurance costs continue to account for roughly 25% of the Fraternity's expenses per year. In 2021, the Fraternity was able to negotiate a significant reduction in premium cost due to the impact of the COVID-19 pandemic. As the impact of the pandemic continues to be felt, we were able to again negotiate a premium reduction for 2022. Should the pandemic abate throughout 2022, we can expect General Liability insurance costs to revert back to 2020 levels.

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.

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.

Insurance Type	Coverage Limit	2020 Annual Premium Cost	2021 Annual Premium Cost	2022 Annual Premium Cost
General Liability	\$1,000,000 / \$2,000,000*	\$120,000	\$75,000	\$75,000
Commercial Package Policy	\$1,000,000	\$5,781	\$6,266	\$2,589
Workman's Compensation	\$1,000,000	\$439	\$443	\$482
Business Auto	\$1,000,000	\$1,519	\$1,704	\$2,034
Director's and Officer's	\$2,000,000	\$2,848	\$2,848	\$2,933
Surplus Lines Taxes for General Liability Policy		\$3,000	\$1,875	\$1,875
Fees in Lieu of Commission for General Liability Policy		\$20,000	\$20,000	\$20,000
Total Insurance Cost to Fraternity		\$153,587	\$108,136	\$104,912

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

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Assuming that the Fraternity remains claim free, we should expect to have very high insurance premium costs until 2024 at the earliest when we should be able to start negotiating for premium cost reductions on our General Liability policy with the carrier. 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. That surcharge currently stands at \$35 to the Pledge Fee and \$95 to the Lifetime Membership Fee. This amount is set by Supreme Council proposition and is dictated by the number of pledges / initiates and the number of members at our chapters. As such, substantial reductions in this surcharge will likely not be possible until 2024 at the earliest.

Compliance Activities

As a 501c3 not-for-profit corporation, Alpha Chi Sigma must maintain compliance with Federal and State laws and regulations.

Federal Group Exemption and New EIN Processes

The IRS has instituted new procedures in assigning EIN numbers to subordinate chapters and the paperwork required from the Grand Chapter to maintain the 501c3 status for the Grand Chapter and Group Exemption for the Subordinate Chapters. AGR Wenzel spent much time deciphering the new process and filing the new paperwork to ensure that the Fraternity and the chapters remain compliant.

State Nonprofit Registrations

In 2022 the Fraternity hired Clearly Compliant to file State Nonprofit Registrations in the 41 states that require the Fraternity to do so. When nonprofit corporations solicit for funds (even from members), they are legally required to register in most states. Some states charge for this, some do not. Some assess fees and have auditing requirements based on an organization's revenue. Each state has a different registration process. The Fraternity had no choice but to outsource this service due to the complexity and workload involved. These registrations need to be completed annually. Missing renewals will result in fines and penalties being levied against the Fraternity. Clearly Compliant has already proven to be a good partner in these efforts, and the Fraternity is now registered in most states.

It should be noted that this registration only applies to the Grand Chapter. Collegiate Chapters and Professional Chapters are not covered by the Fraternity's registrations. As such, if any chapter wishes to solicit for funds, they need to have a discussion with the Grand Recorder or Assistant Grand Recorder well before any solicitation efforts take place.

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Conclusions

I continue to be honored to serve the Fraternity as Grand Recorder. I am fortunate to have an outstanding team to work with in this capacity. Assistant Grand Recorder Jon Wenzel, Assistant Director of Fraternity Operations Erin Goodwin, Membership and Database Coordinator Jennifer Showerman, Database and Fundraising Consultant Amy Posavac-Osborne, and Website and Chapter Consultant Allison Wisher often go above and beyond what would be expected to make sure that deadlines are met and that things are done properly. Our staff frequently works after hours and on weekends, and their efforts should not be taken for granted. The Fraternity is very fortunate to have such a dedicated and talented team.

Despite numerous challenges from the pandemic, I believe that there are signs that we have turned the corner. Pledge and Initiate numbers are starting to rebound. From a financial perspective, we were able to be nimble in reducing expenses and improve our fundraising such that we did not need to pull from reserves to fund operating expenses in 2021. That being said, I cannot stress enough that we must increase our pledge and initiate numbers if we are going to remain financially stable in the long term.

Yours in the Double Bond,



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