

# Alpha Chi Sigma Fraternity

Professional in the Chemical Sciences

Office of the  
GRAND RECORDER



John N. Stipp  
669 Berkley Drive  
Romeoville, IL 60446  
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## Biennial Report of the Grand Recorder June 27, 2018

### Overview

The main focus during my time as Grand Recorder since my appointment in May 2017 has centered around the National Office Operations and the financial health of the Fraternity. This report will focus not only on those two areas, but also on the insurance needs of the Fraternity.

This has been a very challenging biennium for the National Office. Three complete staff turnovers, at the National Office, embezzlement of Fraternity funds by former employees, and a reduced staff for most of the biennium has greatly impacted the day to day operations of the Fraternity. Our obligations to our chapters, members, and pledges were not met for much of the biennium. Further details on the disruptions at the National Office can be found in the GR Reports from January 2018 and July 2017 and will not be repeated in this report. Since October 2017, Erin Goodwin has been managing the National Office extremely well. Her efforts and dedication are greatly appreciated and the Fraternity would not be able to function without her.

After all of the turmoil from staff changes, many of the non-Membership Services activities of the office have been outsourced over the past year. The bookkeeping / accounting work has been outsourced to an accounting firm called mAccounting. mAccounting is an Indianapolis based company that specializes in accounting work, and does a significant portion of their business with not-for-profit corporations. The IT services have been outsourced to another Indianapolis based company called Byte Café. This has allowed the National Office staff to focus primarily on the core Membership Services activities.

The Fraternity continues to face challenges as our expenses are outpacing our income. Actions at Conclave to increase fees are needed if the Fraternity is going to be sustainable in the long term. Efforts have been undertaken by myself and the Supreme Council to reduce expenses this biennium. These efforts will save the Fraternity over \$40,000 in 2018, but even with those measures, both the Pledge Fees and Lifetime Membership fees will need to be significantly increased at Conclave for the Fraternity to be financially sustainable for the long term. Increasing the recommended Professional donation from the solicitation should also be explored by the Supreme Council.

Significant expenses are going to be incurred starting in 2019 to provide proper General Liability insurance coverage for the organization. These annual premium costs will likely range between \$50,000 and \$100,000 per year dependent on the Fraternity's risk profile. These costs will need to be borne by the Pledges, Active Collegiates, and Active Professionals. Other Fraternities charge their members a "Risk Management Assessment Fee" to cover the cost of their insurance policies. Alpha Chi Sigma will likely have to do this as well in order to obtain proper insurance coverage for the organization.

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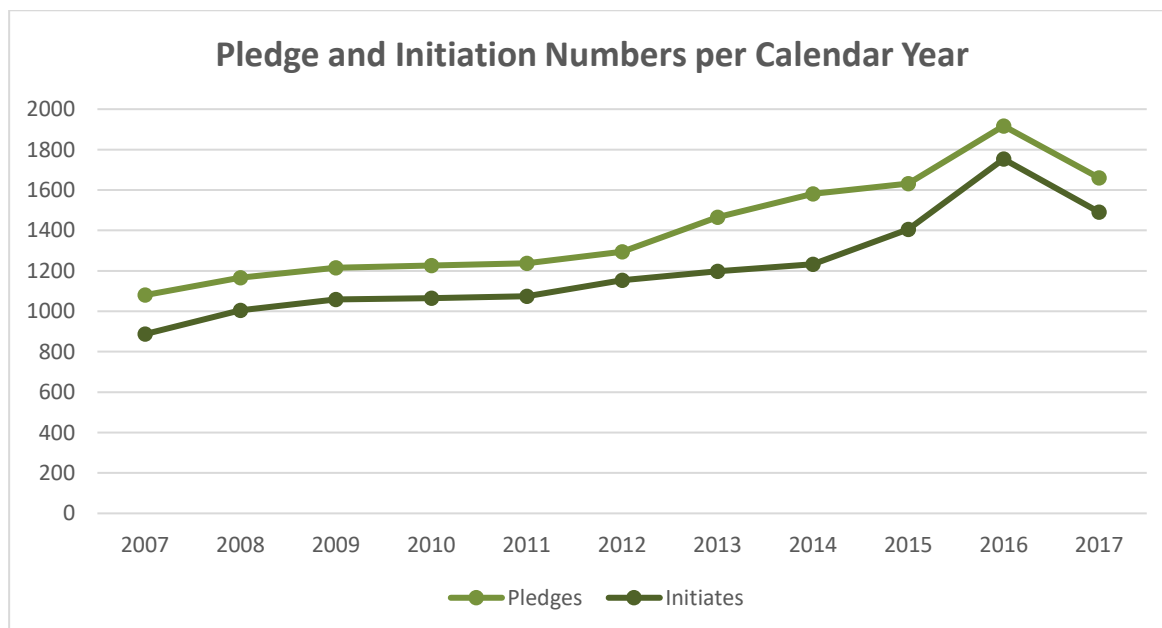
## Alpha Chi Sigma by the Numbers

As of this writing the Fraternity has initiated 72,436 members since its' founding in 1902. The breakdown of our Active Chapters, Groups, and Colonies are as follows:

66 Active Collegiate Chapters  
4 Active Collegiate Colonies

9 Active Professional Chapters  
14 Active Professional Groups

The Fraternity pledged 1636 pledges in 2017. Of those pledges, 1491 were initiated. The Fraternity continues to initiate roughly 85% of the persons pledged, as has been the average over the past ten years. Pledge and initiation numbers have declined from the peak observed in 2016.



## National Office Operations

The National Office is currently operating with one full time employee and two part time employees physically at the office: Office Manager Erin Goodwin, Membership Services Coordinator Stacy Neill, and Administrative Assistant Joni Back-Bubbenzer. The Office also has one off-site employee, Allison Wisher (Website / Software Consultant). The staff is working well together and are open to new ideas of doing things in a more efficient manner.

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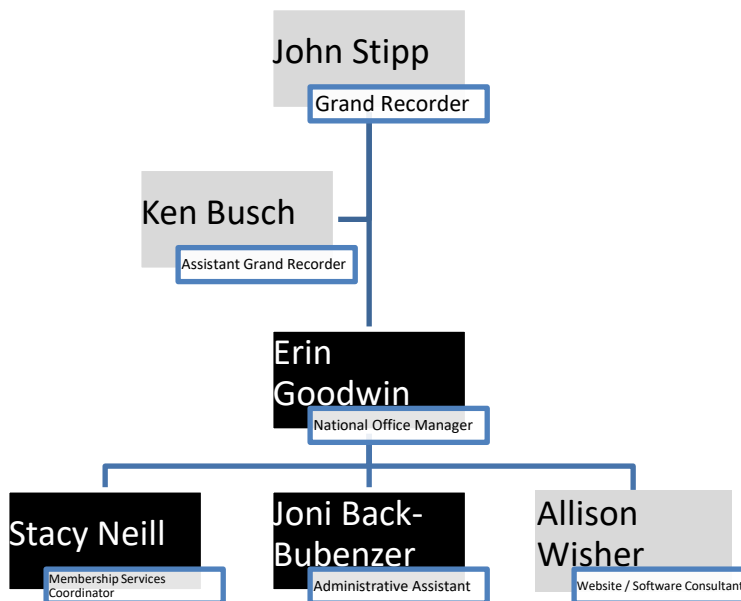
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## National Office Organization Chart – June 2018



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

As noted previously, the bookkeeping and accounting services have been outsourced to mAccounting. This has proven to be very beneficial to the Fraternity in that we now have Certified Public Accountants managing and closing our books. This involves multiple levels of oversight along with checks and balances to help reduce the risk of unauthorized use of Fraternity funds. mAccounting is providing those services through a monthly contract at a cost of \$1,575 per month. For one year, this costs the Fraternity less than we could pay a bookkeeper to work for us, and provides us improved services and controls that we would not be able to obtain with a single dedicated employee working at the National Office. Since taking over the bookkeeping / accounting work in February 2018, mAccounting has migrated the Fraternity to more modern software options for managing our accounting services.

- Bookkeeping was migrated to Quickbooks online, which is a cloud based version of Quickbooks. This has eliminated the backlogs created by running the shared desktop Quickbooks version from a dedicated computer at the National Office
- Bill payment is now being managed by Bill.com, which allows for multiple online approvals before writing checks (electronic or printed) over a designated amount. These approvals can be performed using the Bill.com website or a cell phone app.
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Moving to this service has allowed us to eliminate the practice of sending live checks via the US Post office for multiple signatures.

- Expensify is being used for expense reports for individuals with Fraternity Credit Cards. This software is also web and app based and allows for multiple approvals before any reimbursement. Images of all receipts are stored electronically for reference.
- Gusto is being utilized for payroll. Again, a web based or app based product which allows for greater oversight and ease of use.

GCA Kip Nalley has managed the outsourcing of the IT services at the National Office. Byte Café has been doing that work at a cost of \$300 per month (\$3,600 per year). In addition to upgrading the software used at the Office, new computers have been purchased for all of the Office staff physically working at the Office. Part of that IT modernization has included migrating the e-mail systems to g-mail and the use of g-suite to improve collaboration on various projects. Each of the SC members, staff members, DC's, and PR's all have their own dedicated e-mail account within the alphachisigma.org domain. This differs from the earlier practice of using the alphachisigma.org addresses simply as forwarding addresses.

## **Budget and Finances**

The Fraternity's expenses continue to outpace its' income. Although it is often noted that Alpha Chi Sigma is a not-for-profit corporation, this does not mean that we can operate at a financial loss and expect the Fraternity to be sustainable. The actual differences between income and expenses have been clouded by multiple factors including the lack of accurate bookkeeping at the National Office, the use of Reserve Funds for use in the General Operating Fund outside of the 4% policy that was approved at the time, and the use of donations earmarked to the Reserve Fund not being transferred to that fund and instead being used for operating expenses.

Efforts have been undertaken to reduce expenses including the following:

- Providing the Hexagon in an Electronic Format to non-Active Professional Members will save the Fraternity \$13,400 per year in printing and mailing costs.
- Outsourcing the bookkeeping / accounting functions to mAccounting should save the Fraternity roughly \$9,500 per year (Calculated on a bookkeeper spending 25 hours per week at \$19.48 per hour (average salary of a bookkeeper in Indianapolis, IN) plus payroll taxes of 12.75%.
- Repricing and restructuring of the jewelry and resale items should amount in \$6,000 additional income per year to the Fraternity.
- Asking for multiple bids and selecting a new firm for the Financial Compilation and IRS 990 Filing will save the Fraternity \$5,000 in 2018.

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- The Assistant Grand Recorder agreed to serve the Fraternity with no stipend for his services. His stipend should be roughly \$4,600, thus saving the Fraternity that amount. The Fraternity owes AGR Ken Busch its' gratitude for his generosity.
- The Grand Recorder agreed to a reduced stipend saving the Fraternity \$2,600 in 2018
- A reduced number of SC members have been attending Chapter Installations (typically two SC members instead of four), reducing travel costs.
- Total tangible savings to the Fraternity from these efforts will total \$41,100 in 2018.

## 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).
- 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.

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

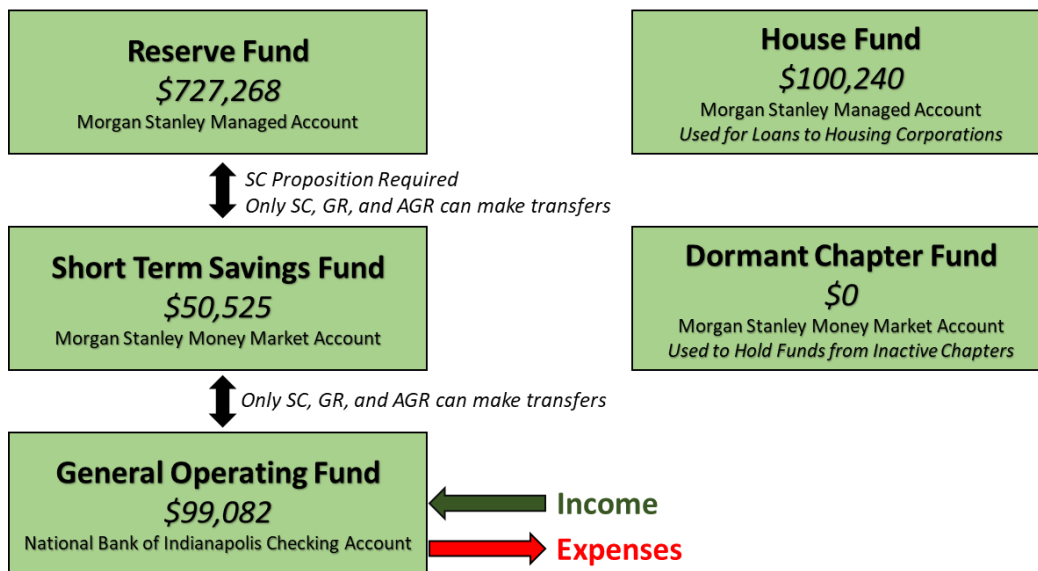
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\*All balances as of June 20, 2018. Balances are unaudited.

## Short Term Savings Fund

It is unwise to take long term risks with short term money. In situations where the Grand Recorder believes that the Fraternity will need funds from the Reserve Fund for various expenses during the fiscal year, it is best to set those monies aside in a separate account so that those monies are insulated from market volatility. As such, a Short Term Savings Fund has been set up in a Morgan Stanley Money Market Account (SC Proposition 4682). The Short Term Savings Fund is to act as a “bridge” account between the General Operating Fund and the Reserve Fund. It will also be used to keep money set aside from the General Operating Fund for future 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.

## General Operating Fund Income Summary

Professional Donations for 2017 totaled \$79,018.37. This is a marked improvement from 2016, but is still below historical levels. Professional donations for the past fifteen years are shown in the following chart:

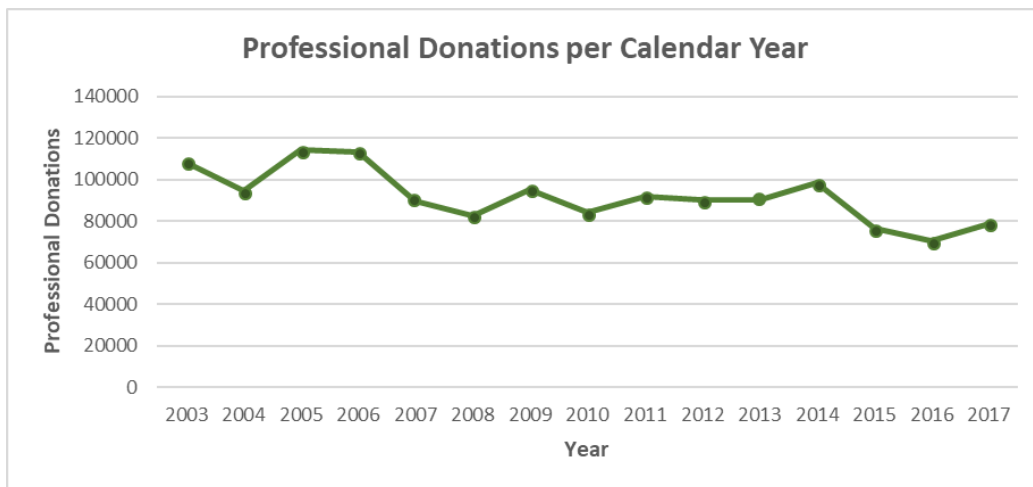
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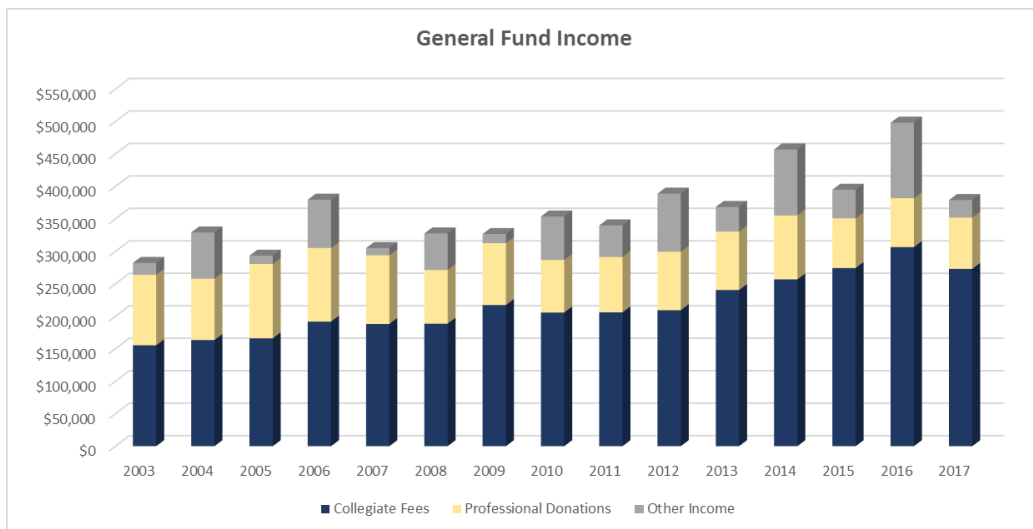
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A breakdown of the various sources of income for the Fraternity is shown in the following chart.



- Collegiate Fees consist of the Pledge Fees and Lifetime Membership Fees
- Professional Donations are donations from Professional Members
- Other Income includes Conclave Receipts, Resale Income, Reserve Fund Withdrawals, and Affinity Programs

Income has been increasing; however, that growth is mainly due to the pledging and initiation of more Brothers. Pledge and Lifetime Membership Fees continue to make up the majority of the Fraternity's income. The downward trend of Professional Donations continues to put increased pressure on the Fraternity to operate primarily on Pledge and Lifetime Membership Fees.

It should be noted that the 2017 income numbers have not been audited.

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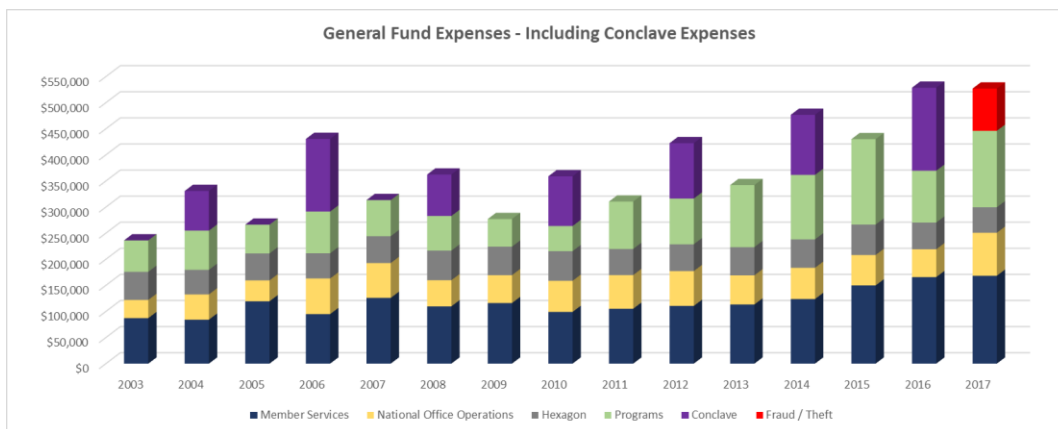
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## General Operating Fund Expense Summary

The Fraternity has a variety of expenses required to operate and serve its' members. The major categories of those expenses have been categorized into five main categories for comparison. Member Services, National Office Operations, The Hexagon, Conclave, and Programs. A sixth 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 always higher than odd numbered years.



- 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

Expenses continue to increase year over year and are increasing at a faster rate than income. Pledge and Lifetime Membership Fees were last increased to their current levels (\$40 / \$145) in 2008 (Grand Chapter Motion 7 at the 49<sup>th</sup> Biennial Conclave). An increase in Pledge and Lifetime Membership Fees is likely to be proposed at Conclave. The recommended Professional contribution (\$50 or \$25 for Retirees / Young Professionals) has been held constant since 2001 (SC Proposition 3829). An increase to the recommended contribution to remain an Active Professional member should also be considered.

It should be noted that the 2017 expense numbers have not been audited.

## 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.



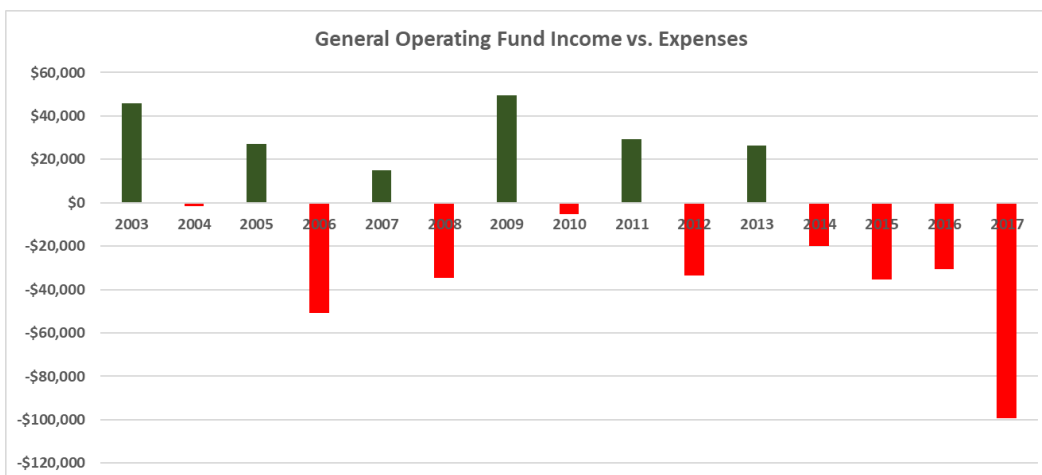
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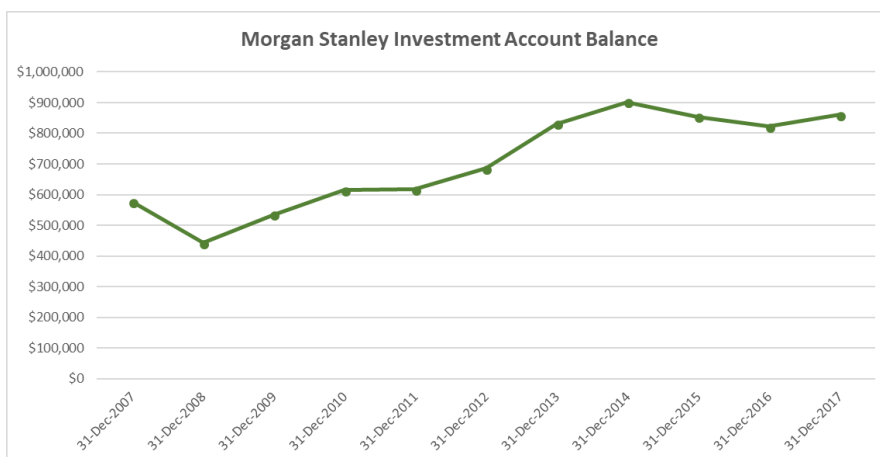


Assuming no fee increases, the 2018 budget is projected to have \$75,000 more expenses than income. The Fraternity will not survive in the long term unless this trend is reversed.

## 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.

Investment performance was good in 2017. The balance of the Fraternity's investments on December 31, 2016 was \$822,673. The balance as of December 29, 2017 was \$860,521. The balance of the Morgan Stanley managed account over the past ten years is shown below:



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A total of \$90,000 was transferred out of the Reserve Fund in 2017 (SC Proposition 4653 on July 15 for \$50,000 and SC Proposition 4659 on August 29 for \$40,000) to pay for the costs incurred from embezzlement of Fraternity monies by former staff members (who were terminated in March 2017) and the associated legal expenses. Fortunately, the market performance has been solid, which helped offset those withdrawals.

The Reserve Fund is used to cover shortfalls in the Fraternity's General Operating Account. The following chart shows transfers in to the Reserve Fund and out of the Reserve Fund for the past seven years:

Year	Funds Deposited Into the Reserve Fund	Funds Withdrawn From the Reserve Fund
2011	\$25,000	
2012		
2013	\$30,000	
2014	\$40,000	\$20,000
2015		
2016		\$50,000
2017		\$90,000
2018 (Jan 1 to Jun 20)	\$10,449	\$50,000

This trend also illustrates that the Fraternity expenses are outpacing the Fraternity's income.

## **Insurance Policy Review and Potential Risk Management Assessment Fee**

The Fraternity currently maintains four insurance policies.

- Commercial Property – Commercial Property insurance 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.
- 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 can extend to the chapters and the chapter members.

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Insurance Type	Broker	Carrier	Coverage Limit	Annual Premium
Commercial Property	Shepherd	Cincinnati	\$200,000	\$1,592
Workman's Compensation	Shepherd	Cincinnati	\$1,000,000	\$623
Directors and Officers	James R. Favor	Great American	\$2,000,000	\$2,867
General Liability	Shepherd	Cincinnati	\$2,000,000	\$4,165

Some chapters may be covered to some degree by General Liability insurance from their Universities. A survey of the Chapter Advisors was sent out in April 2018 to try and quantify this. The response rate was very poor (8 responses out of 66 chapters), but of those Chapters that responded, 50% of our Chapters do not have General Liability insurance through their Universities. Of that, fewer have coverage that extends beyond the University property.

The climate for Fraternity insurance has changed over time and continues to appear bleak. Insurance companies are reluctant to insure Fraternities due to the large amount of risk and the high value of claims that result from lawsuits against Fraternities. Our current General Liability coverage from Cincinnati expires at the end of 2018 and cannot be renewed. Cincinnati has announced that they are exiting the business of insuring Fraternities for General Liability. As such, the only carrier that is willing to provide coverage to Alpha Chi Sigma is Lloyds of London. The cost for this General Liability coverage will likely range from \$50,000 to \$100,000 per year based on Alpha Chi Sigma's risk profile.

There are inherent risks in not carrying General Liability insurance. Not carrying that type of coverage would financially bankrupt the Fraternity in the event of a lawsuit. Additionally, some insurance companies will not provide Directors and Officers insurance to corporations if they do not have some sort of General Liability policy in place. Should the Fraternity not be able to obtain

Directors and Officers (D&O) insurance, it would be difficult, if not impossible to get any of our Brothers to serve the Fraternity in leadership roles including the SC, GR, AGR, DC's and PR's. The lack of a D&O policy would also impact the willingness of the staff members to work for Alpha Chi Sigma. In summary, without D&O coverage, the Fraternity will likely cease to operate.

Alpha Chi Sigma is not unique in this situation. All Fraternities, including other Professional Fraternities are forced to pay high premium and high deductible costs for General Liability insurance. Based off of information from James R. Favor and Company (insurance broker), the average costs to join a social Fraternity in 2018 are as follows:

- Pledge Fee = \$100
- Initiation Fee = \$225
- Annual National Dues = \$75
- Risk Management Assessment Fee = \$150

The insurance premium costs for Fraternities are included under the "Risk Management Assessment Fee". This fee can also include training and other facets of Risk Management for each organization.

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Data from Professional Fraternities is more difficult for James R. Favor and Company to obtain; however, they estimate that most Professional Fraternities have an average Risk Management Assessment Fee of \$10 to \$20 per member each year. This is due to a lower risk profile and that most Professional Fraternities do not operate houses, and as such are generally less likely to be involved in a lawsuit.

Alpha Chi Sigma is somewhat unique among Professional Fraternities in that Alpha Chi Sigma has some chapters with houses. Although those houses are operated by separate Housing Corporations, this still raises our risk profile above most Professional Fraternities. No insurance companies will insure Fraternities that operate houses except for Lloyds of London. Alpha Chi Sigma also is larger than many other Professional Fraternities. This helps in that we have more members to spread the premium cost across; however, larger membership numbers also create a higher risk. These premium costs can vary from Fraternity to Fraternity based on the risk profile and history of claims filed against each individual Fraternity.

James R. Favor and Company is exploring our coverage options and may have estimates available by Conclave. Assuming that the Grand Chapter desires to continue to carry General Liability insurance, the cost for this will require additional fees to pay for the annual premium. A Risk Management Assessment Fee will be needed to be added to our pledges, active collegiate members and active professional members. This fee would need to be assessed to the active members in the following formats.

- Professional members would have the Risk Management Assessment Fee added on to the minimum annual donation required to be an active Professional Member.
- Collegiate Members would have the Risk Management Assessment Fee added onto their Pledge Fee and Lifetime Membership Fees. Trying to bill every collegiate member annually is something that the Fraternity is not staffed or equipped to do. This would likely require adding more staff, and thus increasing the cost even further for the Fraternity. Also, forcing the Chapters keep track of members who have paid the fee, who have not paid the fee, and limit attendance at Chapter functions to only members who have paid the fee each year would cause considerable confusion, animosity between Brothers, and put an undue burden on the chapters. The cost of one semester of General Liability insurance would be added to the Pledge Fee, and the cost of 2 years of the cost of the General Liability insurance would be added to the Lifetime Membership Fee. (Based off of the assumption that our Collegiate members are active an average of 2 years after initiation).

Based off the aforementioned assumptions, the calculations for cost per member of the Risk Management Assessment Fee would be applied as follows:

- Professional Rate (Added to Minimum Professional Donation) = Premium Cost / Number of active members x 1
- Pledge Rate (Added to Pledge Fee) = Premium Cost / Number of active members x 0.5
- Collegiate Member (Added to Lifetime Membership Fee) = Premium Cost / Number of active members x 2

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On average, we typically have roughly 4000 active members (Collegiate + Professional) in a given calendar year. Using the above formulas, the Risk Management Assessment Fee would be as follows:

- Assuming a \$50,000 annual premium:
  - Professional Rate = \$12.50 per year
  - Pledge Rate = \$6.25 (Added to Pledge Fee)
  - Collegiate Member Rate = \$25 (Added to Lifetime Membership Fee)
- Assuming a \$100,000 annual premium:
  - Professional Rate = \$25
  - Pledge Rate = \$12.50 (Added to Pledge Fee)
  - Collegiate Member Rate (Added to Lifetime Membership Fee) = \$50

James R. Favor and Company is trying to obtain the actual premium and deductible costs for Alpha Chi Sigma before Conclave so that the exact costs will be available and so that the Grand Chapter can take the appropriate actions. These numbers may not be available by Conclave. Even if the General Liability costs are not available before Conclave, the Grand Chapter still needs to take action.

In addition to the premium cost of the insurance, the size of the deductible will put additional financial constraints on the fraternity. Insurance companies insist on having a rolling three years of deductible encumbered in an account set aside specifically for that purpose. Encumbering those funds will require that the Fraternity hold between \$150,000 and \$300,000 in an account set aside specifically for our insurance deductible. This money can come from the Reserve Fund. Encumbering money from the Reserve Fund to meet insurance requirements does not mean that those funds do not still earn

interest. However, those monies may have to be invested differently so that there is no chance of loss. Changing the investment portfolio of the encumbered funds from the Reserve Fund will reduce the amount of money that we earn from those investments; however, it will reduce the financial burden on our members, as they would only be covering the premium costs and not the deductible costs through the Risk Management Assessment Fee.

## **Conclusions**

Although the state of the National Office operations was dire earlier this year, I believe that we have turned the corner in terms of operations and should look at this as an overall opportunity for the organization. A significant project for the GR, AGR, and National Office Staff in the next biennium is going to be to examine our operations and look for ways to improve and streamline processes while providing equivalent or improved services to our members. Erin Goodwin and Stacy Neill have done outstanding work getting the office functioning properly and the Fraternity. We could not function as an organization without their efforts.

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I would also like to thank Brothers Ken Busch, Michael Heilman, John Becker, Pat Kemle, and NCDC Josh Stenger for their input and insights on the National Office operations. Their insights have been very helpful in restoring the National Office to an operational state. It says a lot about this organization to see how we can all come together for the greater good in times of crisis.

Additional recurring expenses have been taken on with hiring Byte Café to manage our IT infrastructure and services at \$3,600 per year, and with the Blackbaud / Raisers Edge training contract at \$2,438 per year for three years. The donation for the Scholar Award to the Educational Foundation of \$20,000 for five years will impact the budget until 2021. However, through some cost saving activities we were able to reduce our expenses by roughly \$41,000, which will more than offset those new expenses. At Conclave it will likely be proposed to raise the pledge and/or initiation fees to help offset rising costs and the continued decline of Professional donations. Increasing the recommended Professional donation for future solicitations should also be explored. Additional fee increases are going to be required in order to obtain General Liability insurance coverage for the Fraternity through the implementation of a Risk Management Assessment Fee.

Yours in the Double Bond,

A handwritten signature in black ink, appearing to be 'J. Stipp'.

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