
Subject: Important message to our High Alphas and High Pis

Date: March 27, 2020

From: Troy Medley



LAMBDA CHI ALPHA

A LIFETIME OF TRUE BROTHERHOOD

Chapter Leaders of Lambda Chi Alpha,

In the past week, numerous High Alphas contacted the Office of Administration requesting information and guidance regarding chapter dues. After speaking with High Alphas Will Prysock and Gavin Bock, I became aware of common misconceptions as to how a Zeta's budget is created and how chapter funds are governed and used. I would like to publicly thank them both for their time and candid feedback. I am now much more aware of the fact that we need to provide more insight into how the General Fraternity and each local Zeta work financially.

As a former High Tau, I can understand why most members don't understand the business model of their chapter or that of the General Fraternity. The nuances of business finance, specifically in the not-for-profit space, take time and experience to comprehend and are far from common sense in practice. A key learning for me is that we must do a better job helping each Zeta officer explain how the business model works to their Brothers, how dues and other fees are delineated, for what purpose they are used, and who has control over their use. This letter is a first step, it is long, but I tried to make it as detailed as possible.

Risk Management Assessment

The biggest expense of each chapter is typically the Risk Management Assessment (RMA). Members pay a RMA each spring and fall, based on the number of members. This is multiplied by a chapter rate, which covers the Zeta's individual percentage of the insurance premium and deductible, plus a percentage of the costs tied to investigating incidents, claims mitigation and the provision of health & wellness programs.

The chapter base rate is \$130 per member, plus or minus specific adjustments based on eleven risk related factors, as outlined by our insurer. Insurance premiums are paid directly to the insurance provider, Lloyd's of London, through a third-party broker and are not marked up by the General Fraternity. They pass through the General Fraternity because each local chapter does not have enough members to qualify for an individual plan, so all members must be aggregated for any to receive coverage.

The General Fraternity collects the RMA payment twice a year and then remits it to the insurer, as, like most businesses, it doesn't have sufficient reserves to prepay. Insurance premiums cannot be missed, as if they are not paid, both the General Fraternity and each individual chapter could lose its insurance coverage. It will be

next to impossible to get this insurance coverage reinstated given the current environment. Without such insurance, the fraternity would cease to exist, both now and in the future.

General Fraternity Business Model

Lambda Chi Alpha is a 501(c)(7) not-for-profit organization. As such, it is subject to tax rules designed to ensure that the money it receives from members is spent directly to achieve its mission. As a result, we budget each year to spend the amount received from dues on programming and support. Unlike for-profit-businesses, we do not have the luxury of storing away profits to build reserves, as any excess at the end of the year, if it exists, must be reinvested to support our mission within 36 months. This makes planning for “black swan” events like the one we are currently experiencing difficult. Like you, The Office of Administration is being forced to make trade-offs and determine the best way forward.

As we are forecasting lower revenue than expected due to COVID-19 for the remainder of the year, we have reduced budgeted expenses accordingly, by approximately \$500,000. Most reductions come from travel budgets, pushing contemplated new hiring into the 2021 fiscal year, and renegotiating vendor contracts to lessen payments. We are not decreasing investments in Chapter Support, Marketing, IT, or Learning Outcomes, however, as each of these functional areas ties directly to the accomplishment of our mission. In addition, we will increase investment in the coming months to help chapters by paying for Zoom licenses, creating new curriculum to be released in the fall with our partner The JED Foundation, underwriting the cost of ChapterBuilder and Canvas for every chapter, and launching an international marketing campaign designed to aid membership recruitment.

Due to the crisis, as I detail below, we are working to be flexible with each chapter in terms of payment schedules and are therefore incurring an unprecedented amount of Accounts Receivable, which is currently over \$2,000,000. To ensure we remain viable while working with chapters, we will need to ask our 220,000 alumni brothers to carry us through this deficit and provide the capital needed to continue to invest in future improvements, as the membership dues paid to the General Fraternity are only enough to fund current operations in the best of times. Unbeknown to most Collegiate Brothers, our Alumni Brothers do and will continue to pay for much of the Lambda Chi Alpha experience.

Allocation of Dues

For background on dues allocation, active members pay a small fee to the General Fraternity of \$88, twice a year, which represents on average 10% to 22% of the total amount charged by the chapter to its members, providing more than 75% to the local chapter. Each Zeta determines how much it charges its members for local dues, is responsible for budgeting and managing accordingly, and each Zeta can refund all or a portion of these fees, as they are meant to fund programs at the local level such as social events, formals, philanthropic activities, etc. In addition to the areas I detailed earlier, the amount remitted to the General Fraternity underwrites protection of its trademarks and intellectual property, chapter support and relationship management of host institutions, maintenance of the network’s technological infrastructure, the establishment of international value-added partnerships, and alumni cultivation and campaigns. These activities will continue through the academic year.

Although it is necessary to remit both the Risk Management Assessment and \$88 per member to ensure the General Fraternity continues, the Office of Administration will work with each chapter based on circumstance.

If it is determined necessary, we will develop a payment plan based on need that stretches payments over time to help ease the current burden. As mentioned above, the General Fraternity must fund this initiative by running an Accounts Receivable deficit, so it must be repaid on schedule if one is created.

Chapter Housing

Some members rent from local housing corporations that own the Lambda Chi Alpha chapter house. Housing corporations are separate entities from the General Fraternity and are locally owned and controlled by Zeta alumni. Many housing corporations are providing prorated refunds to members no longer living in the house. This policy is determined by each housing corporation and by law the General Fraternity is precluded from interfering.

Individual Chapter Budgets and Fiscal Management

Another key learning I have is most of our chapters are not run like a business. This is something that must change and we want to help you. I am asking you to work with your Support Coach and High Pi to create both a recruitment and financial budget for next fall designed to help your chapter maximize its growth potential, meet financial obligations, build a reserve, and thrive both academically and socially. We can also help you solicit needed donations from your alumni base and are working with the Educational Foundation as to how.

Next Steps

This crisis will end, and it is important that the General Fraternity and each individual chapter be prepared to thrive when on-campus operations resume. The Office of Administration and I stand ready to help you through today and more importantly, to help you prepare for tomorrow.



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Chief Executive Officer



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