

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Audits of Combined Financial Statements

June 30, 2017 and 2016



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Independent Auditor's Report

To the Board of Directors
The Honor Society of Phi Kappa Phi and
The Phi Kappa Phi Foundation
Baton Rouge, LA

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation, which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the combined statements of activities and cash flows, for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Baton Rouge, LA
September 15, 2017

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION
Combined Statements of Financial Position
June 30, 2017 and 2016**

	2017	2016
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 124,943	\$ 623,172
Investments	51,974,104	47,852,315
Inventory	112,953	217,741
Accounts Receivable	43,656	103,357
Other Assets	142,467	149,093
Total Current Assets	52,398,123	48,945,678
Property and Equipment		
Land	114,000	114,000
Building	1,333,233	1,298,644
Furniture and Equipment	1,546,459	1,520,911
Less: Accumulated Depreciation	(1,630,661)	(1,493,354)
Property and Equipment, Net	1,363,031	1,440,201
Other Assets		
Deposits	12,708	12,000
Investments - Restricted	2,592,319	2,584,709
Total Assets	\$ 56,366,181	\$ 52,982,588

The accompanying notes are an integral part of these combined financial statements.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION
Combined Statements of Financial Position (Continued)
June 30, 2017 and 2016**

	2017	2016
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 318,387	\$ 293,849
Advanced Payment of Dues, Current Portion	1,313,537	1,280,828
Advanced Payment - Convention and Conference	15,150	58,500
Notes Payable, Current Portion	89,704	87,020
Due to Chapters	92,230	75,943
Total Current Liabilities	1,829,008	1,796,140
Long-Term Liabilities		
Advanced Payment of Dues, Net of Current Portion	317,811	335,456
Notes Payable, Net of Current Portion	84,371	173,985
Total Liabilities	2,231,190	2,305,581
Net Assets		
Unrestricted	51,542,672	48,092,298
Permanently Restricted	2,592,319	2,584,709
Total Net Assets	54,134,991	50,677,007
Total Liabilities and Net Assets	\$ 56,366,181	\$ 52,982,588

The accompanying notes are an integral part of these combined financial statements.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION
Combined Statements of Activities
For the Years Ended June 30, 2017 and 2016**

	2017			2016		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
Revenue, Gains, and Other Support						
Contributions	\$ 159,450	\$ 7,609	\$ 167,059	\$ 148,834	\$ 4,024	\$ 152,858
Annual Membership Dues	1,836,987	-	1,836,987	1,862,589	-	1,862,589
Initiation Fees	563,320	-	563,320	552,580	-	552,580
Life Memberships	479,625	-	479,625	467,960	-	467,960
Dividends and Interest	1,484,417	-	1,484,417	1,499,298	-	1,499,298
Net Unrealized and Realized Gains (Losses) on Investments	3,355,559	-	3,355,559	(455,992)	-	(455,992)
Sales of Jewelry, Certificate Frames, Apparel, and Other Items	237,494	-	237,494	302,025	-	302,025
Royalty Income	124,384	-	124,384	114,748	-	114,748
Other Revenues	27,177	-	27,177	35,351	-	35,351
Total Revenues, Gains, and Other Support	8,268,413	7,609	8,276,022	4,527,393	4,024	4,531,417
Expenses						
Fellowship Program	324,990	-	324,990	339,215	-	339,215
Literacy Grants	29,989	-	29,989	29,183	-	29,183
Study Abroad Program	75,000	-	75,000	50,000	-	50,000
Scholar/Artist/Service Awards	3,000	-	3,000	-	-	-
Dissertation Fellowships	100,000	-	100,000	20,000	-	20,000
Love of Learning Award	90,000	-	90,000	80,000	-	80,000
Innovation in Higher Education Award	100,000	-	100,000	-	-	-
Society Headquarters - Salaries	1,319,449	-	1,319,449	1,300,992	-	1,300,992
Society Headquarters - Fringe Benefits	387,988	-	387,988	369,421	-	369,421
Society Headquarters - Facilities and Operations	198,297	-	198,297	194,062	-	194,062
Resale Items	182,251	-	182,251	220,394	-	220,394
Board of Directors	75,984	-	75,984	73,810	-	73,810
Depreciation	139,976	-	139,976	143,589	-	143,589
Development	17,408	-	17,408	17,082	-	17,082
Chapter Support	48,705	-	48,705	186,432	-	186,432
Committee Meetings	38,617	-	38,617	25,546	-	25,546
Marketing and Communications	630,815	-	630,815	513,193	-	513,193
Publications	261,611	-	261,611	274,130	-	274,130
Investments Expense	100,817	-	100,817	160,886	-	160,886
Interest Expense	6,837	-	6,837	9,459	-	9,459
Information Technology	102,744	-	102,744	127,074	-	127,074
Other Society Headquarters Office Expense	249,698	-	249,698	225,015	-	225,015
Professional Fees	41,585	-	41,585	48,664	-	48,664
Convention Expense	292,276	-	292,276	16,576	-	16,576
Total Expenses	4,818,037	-	4,818,037	4,424,723	-	4,424,723
Change in Net Assets	3,450,376	7,609	3,457,985	102,670	4,024	106,694
Net Assets at Beginning of Year	48,092,296	2,584,710	50,677,006	47,989,626	2,580,686	50,570,312
Net Assets at End of Year	\$ 51,542,672	\$ 2,592,319	\$ 54,134,991	\$ 48,092,296	\$ 2,584,710	\$ 50,677,006

The accompanying notes are an integral part of these combined financial statements.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION
Combined Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016**

	2017	2016
Cash Flows from Operating Activities		
Change in Net Assets	\$ 3,457,985	\$ 106,694
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	139,976	143,589
Gain on Sales of Marketable Securities	(3,642,942)	(1,910,104)
Loss on Disposal of Property and Equipment	(3)	166
Change in Unrealized Loss on Investment Securities	287,383	2,366,096
Changes in Operating Assets and Liabilities		
Decrease in Inventory	104,788	11,099
Increase (Decrease) in Accounts Receivable and Other Assets	65,619	(86,022)
Increase (Decrease) in Advance Payment of Dues	15,064	(59,244)
(Decrease) Increase in Advance Payment - Conference and Conventions	(43,350)	37,404
Increase in Accounts Payable and Accrued Expenses	24,538	9,193
Increase in Due to Chapters	16,287	3,224
Net Cash Provided by Operating Activities	425,345	622,095
Cash Flows from Investing Activities		
Purchases of Investment Securities	(54,883,117)	(8,514,821)
Proceeds from Sales and Maturities of Investment Securities	54,109,277	8,298,386
Proceeds from Sales of Property and Equipment	1,000	-
Purchases of Property and Equipment	(63,804)	(154,972)
Net Cash Used in Investing Activities	(836,644)	(371,407)
Cash Flows from Financing Activities		
Payments on Notes Payable	(86,930)	(84,308)
Net Cash Used in Financing Activities	(86,930)	(84,308)
Net (Decrease) Increase in Cash and Cash Equivalents	(498,229)	166,380
Cash and Cash Equivalents, Beginning of Year	623,172	456,792
Cash and Cash Equivalents, End of Year	\$ 124,943	\$ 623,172
Supplemental Cash Flow Information		
Interest Paid	\$ 6,837	\$ 9,459

The accompanying notes are an integral part of these combined financial statements.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The combined financial statements include the accounts of The Honor Society of Phi Kappa Phi (Society) and The Phi Kappa Phi Foundation (Foundation) (collectively, Phi Kappa Phi), which are affiliated through common management. The accounting policies which materially affect the determination of financial position and results of activities are summarized below. All intercompany revenues and expenses and all intercompany receivables and payables have been eliminated in combination.

Objectives of Phi Kappa Phi

The primary objectives of Phi Kappa Phi are to promote the pursuit of excellence in all fields of higher education; to recognize outstanding achievement by students, faculty, and others through election to membership and through various other awards for distinguished achievement; and to engage the community of scholars in service to others.

Basis of Accounting

The Organization maintains its accounting records and prepares its combined financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues, gains, and other support are recognized when earned, and expenses and losses are recognized when incurred.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

Tax Status

As organizations described in Internal Revenue Code (IRC) Section 501(c)(3), Phi Kappa Phi is exempt from federal income taxes on its related income under Section 501(a) of the IRC. Accordingly, no provision for income taxes has been made; however, should Phi Kappa Phi engage in activities unrelated to the purpose for which it was created, taxable income could result. Phi Kappa Phi had no material unrelated business income for the fiscal years ended June 30, 2017 or 2016.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, Phi Kappa Phi considers cash in banks, cash held in trust funds, commercial paper due on demand, and all unrestricted, highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair market value.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices. For those investments where quoted market prices are unavailable, management estimates fair value based on information provided by the fund managers or the general partners. Dividend, interest, and other investment income is recorded as an increase in unrestricted, temporarily restricted, or permanently restricted net assets depending on donor stipulations.

Donated investments are recorded at their fair value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. Realized gains and losses are recognized in the current operations.

Inventories

Inventories include Phi Kappa Phi emblems, certificates, tie tacks, clothing, and other materials sold to members. Inventories are stated at lower of cost or market using the first-in, first-out method.

Accounts Receivable

Phi Kappa Phi determines past-due accounts based on contractual terms and does not charge interest on the past-due accounts. Receivables consist primarily of amounts due from chapters related to inventory items. Phi Kappa Phi charges off receivables if management considers the collection of the outstanding balance to be doubtful. Management does not believe an allowance for doubtful accounts is necessary at either June 30, 2017 or 2016.

Property and Equipment

All property and equipment are stated at cost if purchased or, if donated, at fair market value at the date of the gift, less accumulated depreciation. It is the policy of Phi Kappa Phi to capitalize all expenditures for equipment and property in excess of \$750. Items with a cost of less than \$750 are expensed in the year of acquisition.

Repairs and maintenance expenses are charged to operations when incurred and major betterment and replacements are capitalized.

Depreciation is provided using the straight-line method over the estimated useful lives, which range from 3 to 7 years for furniture and equipment and 39 years for buildings. Depreciation expense for the years ended June 30, 2017 and 2016, totaled \$139,976 and \$143,589, respectively.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

Phi Kappa Phi reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that the undiscounted cash flows resulting from the use of the asset group is less than the carrying amount, an impairment loss equal to the excess of the asset's carrying amount over its fair value is recorded. Phi Kappa Phi did not record any impairment loss during the years ended June 30, 2017 and 2016.

Net Assets

Phi Kappa Phi reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets include those net assets whose use by Phi Kappa Phi is not subject to donor-imposed stipulations. Temporarily restricted net assets are those net assets whose use by Phi Kappa Phi is subject to donor-imposed stipulations that may or will be met either by actions of Phi Kappa Phi and/or by the passage of time. Phi Kappa Phi had no temporarily restricted net assets at either June 30, 2017 or 2016. Permanently restricted net assets are those net assets whose use by Phi Kappa Phi is subject to donor-imposed stipulations which require that they be maintained permanently by Phi Kappa Phi.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. According to the Foundation's bylaws, the Foundation is empowered to solicit, collect, and manage monetary and other fiscal resource contributions.

Membership dues are deferred and recognized as revenue over the applicable membership period. Life membership dues are recognized as revenue in the period when payment is received. Initiation fees are recorded as revenue in the period when the fees are due.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses charged to operations for the years ended June 30, 2017 and 2016, were \$50,128 and \$100,664, respectively.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. ASU 2014-09 will be effective for Phi Kappa Phi beginning in the year ended December 31, 2019, though early adoption is permitted. The new revenue standard may be applied retrospectively as of the date of adoption. Phi Kappa Phi is currently evaluating the impact of adopting the new revenue standard on its combined financial statements.

In January 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize and measure lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2016-02 will have on its combined financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. Phi Kappa Phi is currently evaluating the impact the adoption of this guidance will have on its combined financial statements.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 2. Concentration of Credit Risk for Cash Held in Bank

Phi Kappa Phi periodically maintains cash in bank accounts in excess of insured limits. Phi Kappa Phi has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

Note 3. Investments

The following is a summary of investments held at June 30, 2017 and 2016:

	2017	2016
Equity Mutual Funds	\$ 30,477,619	\$ 20,475,608
Real Estate Investment Trust Mutual Funds (REIT)	3,124,762	6,509,270
Fixed Income Mutual Funds	20,964,042	23,452,147
	54,566,423	50,437,025
Less: Restricted Securities	(2,592,319)	(2,584,710)
Total Unrestricted Securities	\$ 51,974,104	\$ 47,852,315

The following is a summary of the return on investments for the years ended June 30, 2017 and 2016:

	2017	2016
Dividends and Interest	\$ 1,484,417	\$ 1,499,298
Unrealized Losses	(287,383)	(2,366,096)
Realized Gains	3,642,942	1,910,104
Total Return on Investments	\$ 4,839,976	\$ 1,043,306

Note 4. Fair Value Measurements

The carrying values of the Phi Kappa Phi's financial instruments including current assets and current liabilities approximate fair value.

The Foundation follows the provisions of the FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. Under FASB ASC 820 fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 4. Fair Value Measurements (Continued)

FASB ASC 820 establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets and liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The fair values are typically determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Phi Kappa Phi's measurements of fair value are made on a recurring basis, and its valuation techniques for assets and liabilities recorded at fair value are as follows:

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by Phi Kappa Phi are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by Phi Kappa Phi are deemed to be actively traded. There have been no changes in the methodologies used at June 30, 2017 and 2016.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Phi Kappa Phi's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 4. Fair Value Measurements (Continued)

The valuation of Phi Kappa Phi's assets measured at fair value on a recurring basis at June 30, 2017, is as follows:

June 30, 2017	Level 1	Level 2	Level 3	Total
Domestic Company Stocks	\$ 18,132,601	\$ -	\$ -	\$ 18,132,601
International Company Stocks	12,345,018	-	-	12,345,018
Domestic REITS	3,124,762	-	-	3,124,762
Investment Grade Bonds	20,964,042	-	-	20,964,042
Total	\$ 54,566,423	\$ -	\$ -	\$ 54,566,423

The valuation of Phi Kappa Phi's assets measured at fair value on a recurring basis at June 30, 2016, is as follows:

June 30, 2016	Level 1	Level 2	Level 3	Total
Small Company Stocks	\$ 1,654,749	\$ -	\$ -	\$ 1,654,749
International Small Company Stocks	609,108	-	-	609,108
Emerging Markets Stocks	1,747,690	-	-	1,747,690
Large Company Stocks	11,444,225	-	-	11,444,225
International Large Company Stocks	5,019,836	-	-	5,019,836
Domestic REITS	4,114,568	-	-	4,114,568
International REITS	2,394,702	-	-	2,394,702
High Quality Bond Funds	5,117,908	-	-	5,117,908
Investment Grade Bonds	12,000,338	-	-	12,000,338
International Bond Funds	5,000,608	-	-	5,000,608
High Yield Bond Fund	1,333,292	-	-	1,333,292
Total	\$ 50,437,024	\$ -	\$ -	\$ 50,437,024

Note 5. Benefit Plan

Phi Kappa Phi has a defined contribution pension plan that covers all full-time employees. Phi Kappa Phi contributes an amount equal to 11% of the employees' salaries. Employees make no contributions and are immediately vested in the employer contribution. Pension expense totaled \$137,953 and \$118,614, for the years ended June 30, 2017 and 2016, respectively.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 6. Affiliated Chapters

In accordance with the bylaws of Phi Kappa Phi, the residual assets of any chapter placed on inactive status or whose charter has been withdrawn shall be deposited in a restricted society account. Phi Kappa Phi holds these funds in an unrestricted interest bearing account and records the funds as amounts due to chapters. The amount due to chapters was \$92,230 and \$75,943, at June 30, 2017 and 2016, respectively. If the chapter has not been restored to active status or reinstated within five years, these assets and any interest thereon will be placed in the Society's operating investment fund. The total amount placed in the Society's operating investment fund was \$373 and \$1,500, for the years ended June 30, 2017 and 2016, respectively.

Note 7. Net Assets

Phi Kappa Phi has established investment and spending policies with the objective of providing funding for future expenditures. These donations are used to meet the mission statement of Phi Kappa Phi. Its endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Phi Kappa Phi has interpreted the Louisiana State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with UPMIFA, Phi Kappa Phi classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Interest, dividends, capital gains, or other earnings of the permanently restricted net assets are to be utilized at the discretion of the Board of Directors, and in compliance with the policies and procedures of the board designated holder of the endowment. This policy, with the exception of the inviolate nature of the endowment that may not be altered, may only be changed by a two-thirds majority vote of the elected, voting members of the Board of Directors. As of June 30, 2017 and 2016, all interest and dividend income and unrealized gains were classified as unrestricted.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 7. Net Assets (Continued)

Permanently restricted net assets consisted of the following as of June 30, 2017 and 2016:

	2017	2016
Fellowship Program	\$ 1,630,759	\$ 1,629,259
Building Fund	383,027	383,027
True Foundation Fellowship	300,000	300,000
Yeakel Fellowship	106,150	106,150
Agatha Burnet Fellowship	88,996	88,996
Study Abroad Program	45,456	45,126
Scholar and Artist Program	12,128	11,728
Drs. Diane G. and Webb M. Smathers, Jr.	7,500	7,500
Promotion of Excellence Grant Program	6,612	6,612
Love of Learning	5,406	2,856
Literacy Program	3,050	2,720
Excellence in Innovation	2,500	-
Dissertation Fellowship	450	450
Ray Sylvester Distinguished Service	285	285
Total	\$ 2,592,319	\$ 2,584,709

Changes in endowment net assets for the years ended June 30, 2017 and 2016, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2015	\$ -	\$ -	\$ 2,580,686	\$ 2,580,686
Investment Income	205,275	-	-	205,275
Net Depreciation	(156,649)	-	-	(156,649)
Contributions	-	-	4,024	4,024
Appropriation for Expenditure	(48,626)	-	-	(48,626)
Balance at June 30, 2016	-	-	2,584,710	2,584,710
Investment Income	293,237	-	-	293,237
Net Depreciation	(28,111)	-	-	(28,111)
Contributions	-	-	7,609	7,609
Appropriation for Expenditure	(265,126)	-	-	(265,126)
Balance at June 30, 2017	\$ -	\$ -	\$ 2,592,319	\$ 2,592,319

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 8. Notes Payable

Phi Kappa Phi entered into a \$450,000 line of credit agreement in August of 2013 to provide additional funding during the renovation of its headquarters. During the year ended June 30, 2014, the line of credit was converted to an installment loan with an initial principal of \$433,961.

The note payable bears interest at 3.00%, and is payable on demand. If no demand is made, the note is payable in monthly installments of principal and interest, commencing on June 10, 2014 through its maturity on May 10, 2019. The note is secured by the building.

If no demand is made, the note is expected to mature as follows:

<u>June 30,</u>	<u>Amount</u>
2018	\$ 89,704
2019	84,371
Total	<u><u>\$ 174,075</u></u>

Note 9. Commitments and Contingencies

Phi Kappa Phi entered into a two year contract on August 20, 2013, with a new provider of inventory resources including membership key pins, cords, and stoles. On December 1, 2015, Phi Kappa Phi entered into a five year contract with the same inventory provider establishing them as the official and authorized supplier of merchandise. As part of the agreement, the provider will pay a royalty equal to 30% of gross receipts from Phi Kappa Phi Graduation Regalia products and 10% for all other products. Amounts are due to Phi Kappa Phi fifteen days after each calendar month.

Phi Kappa Phi entered into a \$100,000 commitment on May 16, 2016 to a university in recognition of an award for the fiscal year ended June 30, 2017.

Phi Kappa Phi entered into a contract for marketing services on July 1, 2016. The two year agreement ends on June 30, 2018. Phi Kappa Phi has agreed to pay \$125,454 in project management fees over the two year contract period. The fee will be reassessed and may increase or decrease based on actual resource hours expended.

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 10. Functional Expenses

Phi Kappa Phi classifies its expenses into three functional categories: program services, management and general, and fundraising.

Functional expense classifications for the year ended June 30, 2017, were as follows:

	Program Services	Management and General	Fundraising	Total
Fellowship Program	\$ 324,990	\$ -	\$ -	\$ 324,990
Literacy Grants	29,989	-	-	29,989
Study Abroad Program	75,000	-	-	75,000
Scholar/Artist/Service Awards	3,000	-	-	3,000
Dissertation Fellowships	100,000	-	-	100,000
Love of Learning Award	90,000	-	-	90,000
Innovation in Higher Education Award	100,000	-	-	100,000
Society Headquarters- Salaries	628,343	674,608	16,498	1,319,449
Society Headquarters - Fringe Benefits	197,564	185,535	4,889	387,988
Society Headquarters - Facilities and Operations	10,842	187,455	-	198,297
Resale Items	177,584	4,667	-	182,251
Board of Directors	-	75,984	-	75,984
Depreciation	-	139,976	-	139,976
Development	-	-	17,408	17,408
Chapter Support	41,015	7,690	-	48,705
Committee Meetings	-	38,617	-	38,617
Marketing and Communications	576,095	-	54,720	630,815
Publications	249,987	11,624	-	261,611
Investments Expense	-	100,817	-	100,817
Interest Expense	-	6,837	-	6,837
Information Technology	51,471	51,273	-	102,744
Other Society Headquarters Office Expense	74,028	175,670	-	249,698
Professional Fees	-	41,585	-	41,585
Convention Expense	263,048	29,228	-	292,276
Total	\$ 2,992,956	\$ 1,731,566	\$ 93,515	\$ 4,818,037

**THE HONOR SOCIETY OF PHI KAPPA PHI
AND THE PHI KAPPA PHI FOUNDATION**

Notes to the Combined Financial Statements

Note 10. Functional Expenses (Continued)

Functional expense classifications for the year ended June 30, 2016, were as follows:

	Program Services	Management and General	Fundraising	Total
Fellowship Program	\$ 339,215	\$ -	\$ -	\$ 339,215
Literacy Grants	29,183	-	-	29,183
Study Abroad Program	50,000	-	-	50,000
Dissertation Fellowships	20,000	-	-	20,000
Love of Learning Award	80,000	-	-	80,000
Society Headquarters - Salaries	713,093	556,202	31,697	1,300,992
Society Headquarters - Fringe Benefits	203,182	158,851	7,388	369,421
Society Headquarters - Facilities and Operations	32,950	161,112	-	194,062
Resale Items	220,394	-	-	220,394
Board of Directors	-	73,810	-	73,810
Depreciation	-	143,589	-	143,589
Development	-	-	17,082	17,082
Chapter Support	177,277	9,155	-	186,432
Committee Meetings	-	25,546	-	25,546
Marketing and Communications	513,193	-	-	513,193
Publications	269,270	4,860	-	274,130
Investments Expense	-	160,886	-	160,886
Information Technology	57,182	57,184	12,708	127,074
Interest Expense	-	9,459	-	9,459
Other Society Headquarters Office Expense	94,443	130,572	-	225,015
Professional Fees	-	48,664	-	48,664
Convention Expense	16,576	-	-	16,576
Total	<u>\$ 2,815,958</u>	<u>\$ 1,539,890</u>	<u>\$ 68,875</u>	<u>\$ 4,424,723</u>

Note 11. Uncertain Tax Positions

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Phi Kappa Phi believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the combined financial statements.

Penalties and interest assessed by income taxing authorities, if any, would be included in operating expenses.

Note 12. Subsequent Events

Management has evaluated subsequent events through the date that the combined financial statements were available to be issued, September 15, 2017, and determined that no events have occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these combined financial statements.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information

To the Board of Directors
The Honor Society of Phi Kappa Phi and
The Phi Kappa Phi Foundation

We have audited the combined financial statements of The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation as of and for the years ended June 30, 2017 and 2016, have issued our report thereon dated September 15, 2017 which expressed an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information as of and for the years ended June 30, 2017 and 2016, has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information as of and for the years ended June 30, 2017 and 2016, is fairly stated in all material respects in relation to the combined financial statements as a whole.



A Professional Accounting Corporation

Baton Rouge, LA
September 15, 2017

THE HONOR SOCIETY OF PHI KAPPA PHI AND THE PHI KAPPA PHI FOUNDATION
Combining Statement of Financial Position
June 30, 2017 (with Comparative Combined Totals as of June 30, 2016)

Schedule I

	Society	Foundation	Eliminations	2017 Combined	2016 Combined
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 76,145	\$ 48,798	\$ -	\$ 124,943	\$ 623,172
Investments	24,227,977	27,746,127	-	51,974,104	47,852,315
Inventory	112,953	-	-	112,953	217,741
Accounts Receivable	43,656	-	-	43,656	103,357
Other Assets	139,670	2,797	-	142,467	149,093
Receivable from Foundation/Society	100,812	-	(100,812)	-	-
Total Current Assets	24,701,213	27,797,722	(100,812)	52,398,123	48,945,678
Property and Equipment					
Land	114,000	-	-	114,000	114,000
Building	1,333,233	-	-	1,333,233	1,298,644
Furniture and Equipment	1,546,459	-	-	1,546,459	1,520,911
Less: Accumulated Depreciation	(1,630,661)	-	-	(1,630,661)	(1,493,354)
Net Property and Equipment	1,363,031	-	-	1,363,031	1,440,201
Other Assets					
Deposits	12,708	-	-	12,708	12,000
Investments - Restricted	390,527	2,201,792	-	2,592,319	2,584,709
Total Assets	\$ 26,467,479	\$ 29,999,514	\$ (100,812)	\$ 56,366,181	\$ 52,982,588
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Expenses	\$ 308,287	\$ 10,100	\$ -	\$ 318,387	\$ 293,849
Advanced Payment of Dues, Current Portion	1,313,537	-	-	1,313,537	1,280,828
Advanced Payment - Convention and Conference	15,150	-	-	15,150	58,500
Notes Payable, Current Portion	89,704	-	-	89,704	87,020
Due to Chapters	92,230	-	-	92,230	75,943
Due to Foundation/Society	-	100,812	(100,812)	-	-
Total Current Liabilities	1,818,908	110,912	(100,812)	1,829,008	1,796,140
Long-Term Liabilities					
Advance Payment of Dues, Net of Current Portion	317,811	-	-	317,811	335,456
Notes Payable, Net of Current Portion	84,371	-	-	84,371	173,985
Total Liabilities	2,221,090	110,912	(100,812)	2,231,190	2,305,581
Net Assets					
Unrestricted	23,855,862	27,686,810	-	51,542,672	48,092,298
Permanently Restricted	390,527	2,201,792	-	2,592,319	2,584,709
Total Net Assets	24,246,389	29,888,602	-	54,134,991	50,677,007
Total Liabilities and Net Assets	\$ 26,467,479	\$ 29,999,514	\$ (100,812)	\$ 56,366,181	\$ 52,982,588

See accompanying independent auditor's report on supplementary information.

THE HONOR SOCIETY OF PHI KAPPA PHI AND THE PHI KAPPA PHI FOUNDATION

Schedule II

Combining Statement of Activities

For the Year ended June 30, 2017 (with Comparative Combined Totals for the Year Ended June 30, 2016)

	Society	Foundation	2017 Combined	2016 Combined
Revenue, Gains, and Other Support				
Contributions	\$ -	\$ 167,059	\$ 167,059	\$ 152,858
Annual Membership Dues	1,836,987	-	1,836,987	1,862,589
Initiation Fees	563,320	-	563,320	552,580
Life Memberships	479,625	-	479,625	467,960
Dividends and Interest	667,504	816,913	1,484,417	1,499,298
Net Unrealized and Realized Gains (Losses) on Investments	1,355,181	2,000,378	3,355,559	(455,992)
Sales of Jewelry, Certificate Frames, Apparel, and Other Items	237,494	-	237,494	302,025
Royalty Income	124,384	-	124,384	114,748
Other Revenues	27,177	-	27,177	35,351
Total Revenue, Gains, and Other Support	5,291,672	2,984,350	8,276,022	4,531,417
Expenses				
Fellowship Program	-	324,990	324,990	339,215
Literacy Grants	-	29,989	29,989	29,183
Study Abroad Program	-	75,000	75,000	50,000
Scholar/Artist/Service Awards	-	3,000	3,000	-
Dissertation Fellowships	-	100,000	100,000	20,000
Love of Learning Award	-	90,000	90,000	80,000
Innovation in Higher Education Award	-	100,000	100,000	-
Society Headquarters - Salaries	1,135,496	183,953	1,319,449	1,300,992
Society Headquarters - Fringe Benefits	333,798	54,190	387,988	369,421
Society Headquarters - Facilities and Operations	187,454	10,843	198,297	194,062
Resale Items	182,251	-	182,251	220,394
Board of Directors	66,014	9,970	75,984	73,810
Depreciation	139,976	-	139,976	143,589
Development	-	17,408	17,408	17,082
Chapter Support	48,705	-	48,705	186,432
Committee Meetings	34,172	4,445	38,617	25,546
Marketing and Communications	614,737	16,078	630,815	513,193
Publications	261,611	-	261,611	274,130
Investments Expense	45,897	54,920	100,817	160,886
Interest Expense	6,837	-	6,837	9,459
Information Technology	97,794	4,950	102,744	127,074
Other Society Headquarters Office Expense	236,721	12,977	249,698	225,015
Professional Fees	36,585	5,000	41,585	48,664
Convention Expense	292,276	-	292,276	16,576
Total Expenses	3,720,324	1,097,713	4,818,037	4,424,723
Change in Net Assets	1,571,348	1,886,637	3,457,985	106,694
Net Assets at Beginning of Year	23,325,041	27,351,965	50,677,006	50,570,312
Transfer of Net Assets	(650,000)	650,000	-	-
Net Assets at End of Year	\$ 24,246,389	\$ 29,888,602	\$ 54,134,991	\$ 50,677,006

See accompanying independent auditor's report on supplementary information.