

THE HONOR  SOCIETY OF

# PHI KAPPA PHI

2006–2007 Annual Report

Connecting Communities  
**STUDENTS, SCHOLARS, AND SOCIETY**



THE HONOR  SOCIETY OF  
**PHI KAPPA PHI**

Annual Report  
2006–2007

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## MESSAGE FROM THE PRESIDENT

Dear Phi Kappa Phi Members and Friends:

The year 2007 was momentous for The Honor Society of Phi Kappa Phi. It was a year of expansion, collaboration, and renewal. Phi Kappa Phi launched two new award programs, offered numerous training opportunities for officers and members, expanded services to chapters, and kicked off its first comprehensive fundraising campaign.

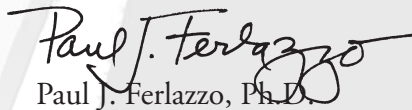
Concerted efforts to stabilize the number of new and renewing members began to pay dividends as more students accepted our invitation-to-membership and more members reactivated their memberships. Efforts to revitalize long dormant chapters proved successful as the University of Michigan, Syracuse, Duquesne, and the University of Texas at Austin once again held initiation ceremonies.

In August 2007, Phi Kappa Phi's triennial convention in Orlando, Florida was well attended. Its theme, "Connecting Communities—Students, Scholars, and Society," captured perfectly the spirit of the 2004–2007 triennium. Convention delegates ensured that this spirit will continue by approving a major change to the structure of the governing board of Phi Kappa Phi. The new structure will involve all constituencies of the Society.

Throughout this report, you will learn more about how Phi Kappa Phi is making connections, responding to its members, reinvigorating chapters, and adapting to changes in society and higher education.

On behalf of the board and staff, I thank you for the role you play in the Society's success. Your gifts of time, talent, and treasure are never taken for granted.

Sincerely,

  
Paul J. Ferlazzo, Ph.D.



# 2007 HIGHLIGHTS

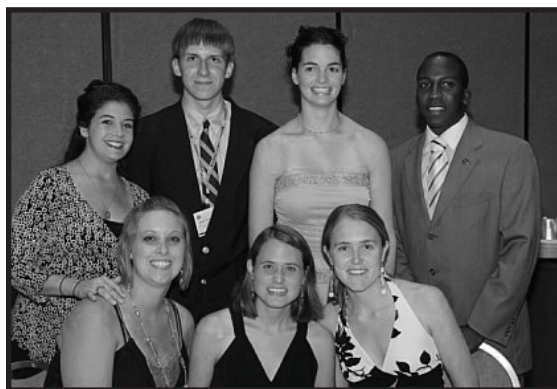
## 2007 TRIENNIAL CONVENTION

More than 300 delegates, observers, guests, Board members, and staff attended the 2007 Convention in Orlando, Florida from August 9–11. Attendees heard dynamic presentations by past and present award winners, shared ideas and inspiration at training sessions, conducted the Society's business, elected new national officers, and enjoyed some of Orlando's top attractions.



*Chapter officers gather for a roundtable session to discuss their chapters' best practices.*

Delegates approved the triennial budget and changes to the Society's bylaws. The most significant budget change calls for a dues increase of \$5 for both new and renewing members. The dues increase, unanimously approved by convention delegates, is the first since 2001. Convention delegates also approved significant bylaws changes. Beginning in 2010, the Society will transition from a triennial to a biennial system of governance. The Society will also recompose its national board to ensure that additional constituencies are represented.



*Student vice presidents, for the first time in Phi Kappa Phi history, attended the Triennial Convention.*

Throughout the convention, chapter officers attended workshops and roundtable breakfasts to learn and share ideas. They discussed strategies to strengthen their efforts in the areas of public relations, member benefits, online enrollment,

award programs, initiations, and student and faculty involvement. A new topic introduced at the convention involved Phi Kappa Phi's interest in initiating and involving distance learners. Dr. Diane Smathers, author of the White Paper, *Phi Kappa Phi and the Distance Learner*, presented a workshop to encourage chapters to identify, initiate, and provide services for distance learners.

In keeping with the '07 convention theme, "Connecting Communities—Students, Scholars and Society," Phi Kappa Phi hosted nearly forty student vice presidents—the most students ever to participate in a convention. Many delegates remarked that they benefited greatly from the students' energy and fresh perspectives.

Traces of the "Connecting Communities" theme could be found throughout the various presentations. Keynote speaker Cathy Small, Ph.D., author, cultural anthropologist, and professor at Northern Arizona University, discussed her book *My Freshman Year: What a Professor Learned by Becoming a Student\** and the changing face of college communities. Presentations from three former Fellowship recipients demonstrated the all-discipline nature of Phi Kappa Phi.

*\*My Freshman Year: What a Professor Learned by Becoming a Student* was written under the pseudonym of Rebekah Nathan.

## BUILDING CAMPAIGN

The Honor Society of Phi Kappa Phi launched its first comprehensive fundraising campaign at the convention. With a goal of \$1,000,000, the campaign is the most ambitious in Phi Kappa Phi history.

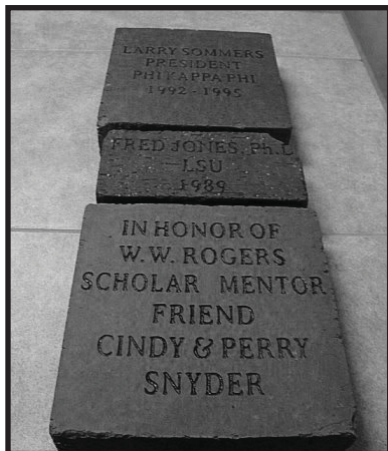
Conditions at Louisiana State University following Hurricane Katrina led the board to relocate its National Headquarters.

The building purchased in Baton Rouge more than doubled the space for the Society. The building, designed by noted architect A. Hays Town, cost \$800,000, funds which came from the Operating Investment Fund.

The campaign seeks to replenish these funds, thus strengthening the financial foundation of the Society. This fund, in addition to covering expenses related to the operation of Headquarters, also provides dollars for the Society's numerous awards and grants programs, including Fellowships and Study Abroad grants, plus funding training for chapter officers and enhancing membership benefits.

By the end of calendar year 2007, the campaign had already secured gifts and pledges totaling more than \$450,000 toward the goal of \$1,000,000. This total includes a \$200,000 lead gift from the True Foundation.

# 2007 HIGHLIGHTS



*Donors to the Phi Kappa Phi Campaign are given the opportunity to purchase bricks that will line the porch at the Headquarters building.*

to 286 recipients through its various award competitions: Fellowships and Awards of Excellence, Study Abroad Grants, Literacy Grants, Love of Learning Awards, and Emerging Scholar Awards.

- In 2007, Phi Kappa Phi launched two new programs. Emerging Scholar Awards recognize outstanding rising sophomores studying at member institutions. Love of Learning Awards help fund post-baccalaureate studies and/or career development for active Phi Kappa Phi members. The new awards proved to be popular additions to Phi Kappa Phi's awards program, with 156 students applying for Emerging Scholar Awards and 280 members applying for Love of Learning Awards.

## NEW CHAPTERS

- #300 The University of Texas at Arlington, Arlington, TX

## CHAPTER RELATIONS

- Several cluster meetings were held in 2007 to provide training for chapter officers. The meetings were held on campuses within driving distance of multiple chapters.



*Chapter officers in Portland, Oregon participate in a cluster meeting.*

- The Online Enrollment Program (OEP), a pilot program that provides for the online registration of new members, was expanded to 116 chapters during 2007. On average, chapters participating in the OEP saw a 20 percent increase in new initiates.
- The Chapter Relations Department hosted two webinars for officers, one on publicizing Phi Kappa Phi on campus and the other on the Online Enrollment Program.
- A fulfillment mailing service was launched in Spring 2007. The service offered through RR Donnelley/Nielsen Company, a full-service printing company, provides printing, collating, stuffing, and mailing of invitations-to-membership.

## AWARDS AND SCHOLARSHIPS

- Phi Kappa Phi granted more than \$500,000

## FINANCIAL NEWS

- During fiscal year 2006–2007, Society investments (including cash equivalents) grew by \$14.7 million or 15.2%. On June 30, 2007, the value of Phi Kappa Phi's investments was \$34.4 million.
- The Society's net income for the year was \$4.6 million. This compares to \$2 million the prior year.
- Net assets increased by 15.6%.
- Foundation (endowment) assets amounted to \$20.1 million at the close of the fiscal year. This amount represents a \$2.5 million increase over the figure for 2005–2006.
- Donations to the Society for the fiscal year totaled \$482,000. Of this amount, \$329,000 represents contributions to the Phi Kappa Phi campaign.
- The number of active members remained stable at 104,000.

## MARKETING AND MEMBER BENEFITS

- Throughout 2007, the Phi Kappa Phi Web site underwent updates to improve its functionality.
- Several new marketing materials were created, including "Make the Most of Your Membership," which is distributed at initiation ceremonies and outlines the benefits of active membership.
- As a result of a major readership preferences survey, the *Phi Kappa Phi Forum* magazine unveiled an updated look and multiple-topic format in 2007. The magazine continues to evolve as feedback from its members is incorporated.
- Beginning in January, the Society began offering discounted multiple-year memberships. Since launching the multi-year membership options, 2,342 members purchased a two-year membership and 2,203 members purchased a three-year membership.
- Three teleseminars were offered to members, and one new corporate partnership, Apple Computers, was secured.



# BOARD OF DIRECTORS



Paul J. Ferlazzo, PhD  
***Society President***



Sandra W. Holt, PhD  
***Vice President,  
Southeastern Region***



Robert B. Rogow, CPA, PhD  
***Society President-Elect***



Terry Mathias, PhD  
***Vice President,  
North Central Region***



Donna Clark Schubert  
***Society Vice President***



Penny L. Wright, PhD  
***Vice President,  
Western Region***



Wendell H. McKenzie, PhD  
***Past President***



Nancy H. Blattner, PhD  
***Regent***



Gilbert L. Fowler, PhD  
***Vice President,  
South Central Region***



Marya M. Free, PhD  
***Director of Fellowships***



Ronald E. Johnson, PhD  
***Vice President,  
Northeastern Region***



Perry A. Snyder, PhD  
***Executive Director***

# DONOR RECOGNITION



1897 Society	\$500 or more
Gold Scholars	\$250–\$499
Silver Scholars	\$100–\$249
Bronze Scholars	\$50–\$99

Gifts received January 1, 2007 – December 31, 2007

We want to express our sincere appreciation to all of the donors who have given so generously to Phi Kappa Phi. Your gifts make it possible to continue and expand our many awards programs, including the Graduate Fellowships and Awards of Excellence, Literacy Grants, Study Abroad gGrants, and the new Emerging Scholars Awards and Love of Learning Awards. These tax-deductible donations allow the Society to award more money each year than any other honor society. Thank you for your support of the mission of The Honor Society of Phi Kappa Phi.

## 1897 Society

Reubin O'D. Askew**	Barbara Herbstman*	Robert B. Rogow**
Lou E. Ballard**	Robert Hill**	Steven M. Rovnyak*
Patrizia Barone	Margaret James	Bobby S. Shackouls
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Nancy H. Blattner*	Ronald E. Johnson*	Perry A. Snyder**
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Jonathan Davies	Terry D. Mathias*	Joyce Ann Thenhaus
Mary Ann C. Davis	Brenda McCain	Gregory K. Thompson**
William R. Edwards**	Wendell H. McKenzie**	Terry P. Townsend
Kathleen Edwards**	Deloris J. Middlebrooks	Theresa M. Valiga**
Anthony P. Ellis**	Robert L. Miracle	Cloy J. "Mike" Walter*
Paul J. Ferlazzo**	William Morgan	Nannette M. Warner
Kathleen Ann Flores	David Morgan**	Nancy E. Warner
Gilbert L. Fowler*	Thomas A. Nelson**	Beverly Wilt-Dulaney**
Marya M. Free**	Ray Newton**	William Wolfe (deceased)
Alice T. Gasch*	W. H. Oehlert	Penny L. Wright*
Martha J. Gilbreath	Clara Penniman	Audrey K. Zimmer
Edward I. Hatch**	Howard M. Privette	
Jane E. Heinzler-Weilan	Patricia Robinson	

## Gold Scholars

George B. Adams	Judith A. Bullard	Amy B. Dahler
Jane V. Aldrich	Romao J. Caruso**	Anthony Devito
John C. Appel**	Shirley M. Castle	William Owen Dugmore
Yaw A. Asamoah**	Kathy E. K. Charleston	Howard Eisen**
David W. Baker**	Jeffery Scott Christman	Sidney Epstein
Maureen Barrett	George G. Cocks	Andrea M. Evans
Katherine Barwick-Snell	Helen M. Coutant	Bruce L. Fellows**
Curtis D. Black	Keith Cox	Dianne M. Fleming
Harry E. Blevins	Carrie M. Crone	Billy W. Friar**

\*Denotes gifts to the Phi Kappa Phi Building Campaign

\*\*Denotes gifts both to the Phi Kappa Phi Foundation and Building Campaign

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 William Beckemeier\*\*  
 William R. Bell\*\*  
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 Kathryn L. Bienvenu  
 Alisun Smith Blanda  
 Linda Marie Blumenthal  
 Barbara Bodwell  
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 John D. Bower  
 James F. Bowring  
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 La Rue Brewer  
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 Charles Brown\*\*  
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 Stanford Cazier  
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 Roderick E. Coe  
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 Anna O. Tews  
 Harold Thompson  
 Louis M. Thompson  
 Kathryn W. Thorson  
 Timothy P. Tolar\*\*  
 Carolyn H. Turner  
 Katherine Elizabeth Uyhazi  
 Linda Marie Valder  
 Frances O. Vanduyne  
 Laurel Vaughn  
 John W. Vessey  
 Edward M. Wada\*\*  
 Susanne Wakefield  
 Marianne Watson  
 Gene A. Westenbarger  
 Eileen W. White  
 Jacquelin Wilkens\*\*  
 Clarence Williamson  
 John E. Wilson  
 Margaret Wodetzki\*\*  
 Mark A. Wooster  
 James K. Wright  
 John A. Yeakel  
 Edward Louis Zechmann

# INDEPENDENT AUDITORS' REPORT



Postlethwaite & Netterville

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

We have audited the accompanying statements of financial position of The Honor Society of Phi Kappa Phi and Phi Kappa Phi Foundation as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These Combined Financial Statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the Combined Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Combined Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

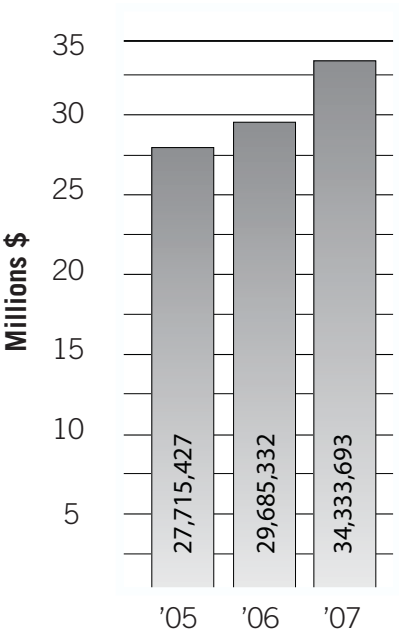
In our opinion, the Combined Financial Statements referred to above present fairly, in all material respects, the financial position of The Honor Society of Phi Kappa Phi and Phi Kappa Phi Foundation as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information included in the schedules is presented for the purpose of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

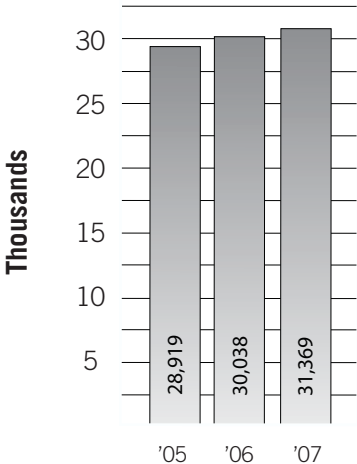
A handwritten signature in cursive script that reads 'Postlethwaite &amp; Netterville'.

Baton Rouge, Louisiana  
September 27, 2007

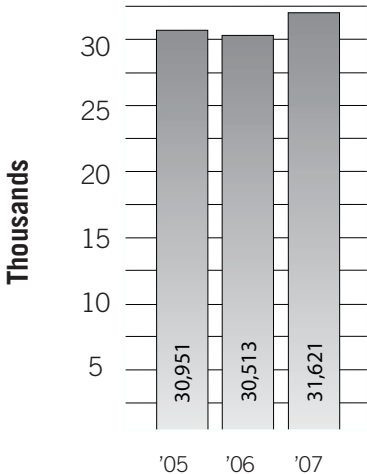
Net Assets



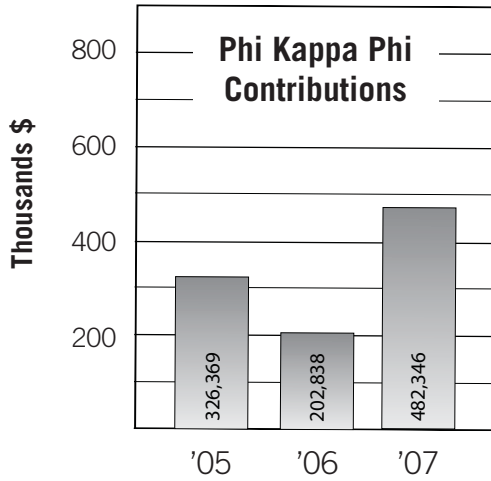
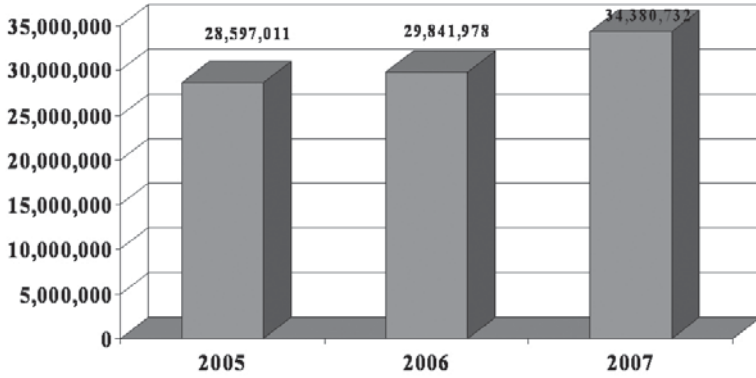
Life Members



New Initiates



### Investment Portfolios



# COMBINED STATEMENTS OF FINANCIAL POSITION

## JUNE 30, 2007 AND 2006

<b>ASSETS</b>		
	2007	2006
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,004,650	\$ 988,350
Investments – marketable securities	31,577,964	27,267,660
Accrued interest receivable	19,718	27,616
Inventory	88,673	84,519
Accounts receivable and other assets	132,618	111,788
	32,823,623	28,479,933
Total current assets		
<b>Property and Equipment:</b>		
Land	114,000	114,000
Building	699,890	686,000
Furniture and equipment	986,984	968,147
Less: accumulated depreciation	(815,326)	(766,222)
	985,548	1,001,925
Total property and equipment		
<b>Other assets:</b>		
Investments – marketable securities – restricted	1,999,515	1,667,519
	\$ 35,808,686	\$ 31,149,377
Total assets		
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Advance payment – dues	\$ 1,101,257	\$ 1,182,332
Advance payment – convention	41,121	—
Accounts payable and accrued expenses	201,399	187,018
Due to chapters	61,003	53,717
Capital lease obligation	—	9,497
	1,404,780	1,432,564
Total current liabilities		
<b>Long Term Liabilities:</b>		
Advance payment of dues	70,213	31,481
	1,474,993	1,464,045
Total liabilities		
<b>Net Assets:</b>		
Unrestricted	32,334,178	28,017,813
Permanently restricted	1,999,515	1,667,519
	34,333,693	29,685,332
Total net assets		
Total liabilities and net assets	\$ 35,808,686	\$ 31,149,377

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

# COMBINED STATEMENTS OF ACTIVITIES

## YEARS ENDED JUNE 30, 2007 AND 2006

	Unrestricted	Permanently Restricted	2007 Total
<b>Revenues, gains and other support:</b>			
Contributions	\$ 150,350	\$ 331,996	\$ 482,346
Annual membership dues	1,722,582	-	1,722,582
Initiation fees	474,315	-	474,315
Active-for-life memberships	404,590	-	404,590
Dividends and interest	1,013,825	-	1,013,825
Net unrealized and realized gains on investments	3,442,055	-	3,442,055
Sales of emblems, certificates, etc.	213,707	-	213,707
Royalty income	181,304	-	181,304
Other	19,380	-	19,380
Total revenues, gains, and other support	7,622,108	331,996	7,954,104
<b>Expenses:</b>			
Fellowships Program	381,400	-	381,400
Literacy Grants Program	28,747	-	28,747
Study Abroad Program	38,000	-	38,000
Promotion of Excellence Grants Prgram	31,161	-	31,161
Society headquarters salaries	795,067	-	795,067
Society headquarters office fringe benefits	246,787	-	246,787
Society headquarters office facilities and operations	325,875	-	325,875
Resale items	348,218	-	348,218
Board of Directors travel	57,302	-	57,302
Depreciation	99,360	-	99,360
Fundraising	7,823	-	7,823
Chapter support	45,735	-	45,735
Committee meetings	18,789	-	18,789
New initiatives	25,333	-	25,333
Marketing and members benefits	287,157	-	287,157
Investment expense	65,049	-	65,049
Other society headquarters expenses	112,069	-	112,069
<i>Phi Kappa Phi Forum:</i>			
Salary and fringe benefits	153,360	-	153,360
Journal production and distribution	218,833	-	218,833
Operations and other	19,678	-	19,678
Total expenses	3,305,743	-	3,305,743
Change in net assets	4,316,365	331,996	4,648,361
<b>Net assets at beginning of year</b>	28,017,813	1,667,519	29,685,332
<b>Net assets at end of year</b>	\$ 32,334,178	\$ 1,999,515	\$ 34,333,693

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

Unrestricted	Permanently Restricted	2006 Total
<u>                    </u>	<u>                    </u>	<u>                    </u>
\$ 195,987	\$ 6,851	\$ 202,838
1,815,239	–	1,815,239
457,690	–	457,690
335,590	–	335,590
845,897	–	845,897
1,179,567	–	1,179,567
206,876	–	206,876
171,041	–	171,041
14,062	–	14,062
5,221,949	6,851	5,228,800
359,133	–	359,133
29,202	–	29,202
37,000	–	37,000
33,176	–	33,176
751,959	–	751,959
245,001	–	245,001
264,638	–	264,638
324,246	–	324,246
82,224	–	82,224
126,096	–	126,096
7,234	–	7,234
26,770	–	26,770
14,465	–	14,465
–	–	–
346,082	–	346,082
61,615	–	61,615
117,271	–	117,271
–	–	–
142,838	–	142,838
263,933	–	263,933
26,012	–	26,012
3,258,895	–	3,258,895
1,963,054	6,851	1,969,905
26,054,759	1,660,668	27,715,427
\$ 28,017,813	\$ 1,667,519	\$ 29,685,332

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,648,361	\$ 1,969,905
Less donor-restricted contributions	(331,996)	(6,851)
	4,316,365	1,963,054
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Loss on sale of office furniture and equipment	2,121	–
Depreciation	99,360	126,096
Amortization and accretion of bond discount/premium	20,685	46,301
Gain on sales of marketable securities	(531,157)	(468,789)
Increase in unrealized appreciation/depreciation of marketable securities	(2,267,241)	(792,228)
Changes in operating assets and liabilities:		
Accrued interest receivable	7,898	14,979
Inventory	(4,154)	11,719
Accounts receivable and other assets	(20,831)	(9,121)
Advance payment of dues	(42,342)	(103,489)
Advance payment – convention	41,121	–
Accounts payable and accrued expenses	14,381	61,840
Due to chapters	7,285	(4,059)
	1,643,491	846,303
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of marketable securities	(4,790,117)	(2,991,969)
Proceeds from sales and maturities of marketable securities	2,925,527	2,001,518
Proceeds from donor-restricted contributions	331,996	6,851
Purchases of office furniture and equipment	(85,104)	(895,632)
	(1,617,698)	(1,879,232)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease	(9,497)	(10,841)
	16,296	(1,043,770)
Net decrease in cash and cash equivalents	16,296	(1,043,770)
Cash and cash equivalents at beginning of year	988,350	2,032,120
	\$ 1,004,646	\$ 988,350
Cash and cash equivalents at end of year	\$ 1,004,646	\$ 988,350
Supplemental data:		
Noncash gift of building rental	\$ 34,547	\$ 58,183
	\$ 34,547	\$ 58,183

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

# NOTES TO COMBINED FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies

The combined financial statements as of and for the years ended June 30, 2007 and 2006 include the accounts of The Honor Society of Phi Kappa Phi (Society) and the Phi Kappa Phi Foundation (Foundation, and together with the Society, 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 Combined Financial Statements***

The accompanying combined financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of Phi Kappa Phi and changes therein are classified and reported as follows:

- Unrestricted net assets — Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets — Net assets subject to donor-imposed stipulations that may or will be met either by actions of Phi Kappa Phi and/or passage of time.
- Permanently restricted net assets — Net assets subject to donor-imposed stipulations require that they be maintained permanently by Phi Kappa Phi. Contributions to the Foundation may be donor restricted to one of five programs. These programs are the Fellowship Program, the Society Scholar and Artist Award Program, the Literacy Program, the Study Abroad Program, and the Promotion of Excellence Grant Program. Contributions to the Society may be donor restricted as funds are exclusively for the Building. The Foundation records these donations as permanently restricted.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restriction. According to the Foundation's Bylaws, the Foundation is empowered to solicit, collect, and manage monetary and other fiscal resource contributions. The value of each contribution, at time of acquisition, is to be added to the permanent fund. The corpus of these additions is to be maintained throughout the life of the Foundation. Earnings from the corpus in the form of interest, dividends, annual net realized gains from sales or exchanges, and other forms of return on investments may be used to meet the objectives of the Foundation. Investment income is recorded in the unrestricted fund.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

### ***Cash and Cash Equivalents***

Phi Kappa Phi considers cash in banks, cash held in trust funds, and commercial paper due on demand to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates market value.

## NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

### ***Investments – Marketable Securities***

Investments in marketable securities include debt and equity securities to be held for indefinite periods of time and not necessarily intended to be held to maturity or on a long-term basis. Securities held for indefinite periods of time include securities that management intends to use as part of its overall investment strategy and that may be sold in response to changes in interest rates, prepayment rates, liquidity needs, or other reasons.

Investments in marketable securities are carried at fair value. Unrealized holding gains and losses for marketable securities are included in the accompanying combined statements of activities.

Interest and dividends earned on marketable securities are recognized on the accrual basis of accounting and are included in return on investments in the accompanying combined statements of activities. Also included in return on investments are amortization of premiums and accretion of discounts on securities, which are computed on a level yield basis. Dividend income is recognized on the ex-dividend date.

Purchases and sales of marketable securities are recorded on a trade date basis. The adjusted cost of each specific security is used to determine gains or losses on sales of marketable securities. The fair market value for marketable securities is determined from quoted market prices at fiscal year end.

### ***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.

### ***Property and Equipment***

It is the policy of Phi Kappa Phi to capitalize all expenditures for equipment and property in excess of \$700. Those items with a cost of less than \$700 are expensed in the year of acquisition. All property and equipment are stated at cost if purchased or, if donated, fair market value at the date of the gift, less accumulated depreciation.

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 building. Depreciation expense is \$99,360 and \$126,096, respectively, for the years ended June 30, 2007 and 2006.

### ***Membership Dues and Initiation Fees***

Membership dues are deferred and recognized as revenue over the applicable membership period. Active-for-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.

### ***Tax Status***

Phi Kappa Phi is exempt from federal income taxes on its related income under Section 501 (a) of the Internal Revenue Code as an organization described in IRC Section 501 (c)(3). 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 year ended June 30, 2007 and 2006.

### ***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 certain reported amounts and disclosures of contingent assets and liabilities at the date of the Combined Financial Statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

# NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 2. Cash and Cash Equivalents

Cash and cash equivalents at June 30:

	<u>2007</u>	<u>2006</u>
Cash in banks	\$ 201,398	\$ 81,550
Money market mutual funds	803,252	906,800
Total cash and cash equivalents	<u>\$ 1,004,650</u>	<u>\$ 988,350</u>

Phi Kappa Phi maintains its cash in a commercial bank. Cash accounts at the bank are insured for up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). There amount in excess of insured limits at June 30, 2007, was \$168,696. There were no amounts in excess of insured limits at June 30, 2006.

## 3. Investments — Marketable Securities

The following is a summary of investments held at fair value at June 30:

	<u>2007</u>	<u>2006</u>
Debt securities:		
U.S. Government obligations	\$ 202,014	\$ 730,686
Corporate obligations	372,233	524,085
Mortgage-backed securities	267,091	325,801
Foreign bonds	—	—
Total debt securities	<u>841,338</u>	<u>1,580,572</u>
Equity Mutual Funds	19,271,798	16,835,175
Fixed Income Mutual Funds	13,464,343	10,519,432
Total marketable securities	<u>\$ 33,577,479</u>	<u>\$ 28,935,179</u>

## 4. Return on Investments

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

	<u>Society</u>	<u>Foundation</u>	<u>2007 Combined</u>	<u>2006 Combined</u>
Dividends and interest	\$ 460,440	\$ 553,385	\$ 1,013,825	\$ 845,897
Net realized and unrealized gains (losses)	<u>1,198,770</u>	<u>2,243,285</u>	<u>3,442,055</u>	<u>1,179,568</u>
Total return on Investments	<u>\$ 1,659,210</u>	<u>\$ 2,796,670</u>	<u>\$ 4,455,880</u>	<u>\$ 2,025,465</u>

## 5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Accounts payable – trade	\$ 66,612	\$ 57,261
Accrued sick and leave time	129,979	122,448
Other accrued expenses	4,808	7,308
	<u>\$ 201,399</u>	<u>\$ 187,018</u>

# NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 6. Capital Lease

In 2003, the Foundation entered into a capital lease for office equipment. The amortization of assets under capital lease is included in depreciation for 2007 and 2006.

The following is a summary of equipment under capital lease at June 30:

	2007	2006
Equipment	\$ 41,052	\$ 41,052
Less accumulated amortization	(24,436)	(18,571)
	<u>\$ 16,616</u>	<u>\$ 22,481</u>

There are no future minimum lease payments under the lease.:

## 7. 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 employees' salaries. Employees make no contributions and are immediately vested in the employer contribution. Pension expense charged to operations for the years ended June 30, 2007 and 2006 was \$81,677 and \$69,150, respectively.

## 8. Net Assets

Permanently restricted net assets consists of the following as of June 30:

	2007	2006
Fellowship Program	\$ 1,629,163	\$ 1,629,088
Promotion of Excellence Grants Program	6,612	6,612
National Scholarship and Artist Program	10,978	10,978
Literacy Grants Program	770	750
Study Abroad Program	23,091	20,091
Building Fund	328,901	—
	<u>\$ 1,999,515</u>	<u>\$ 1,667,519</u>

## 9. Reclassifications

Certain balances in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no impact on the change in net assets.

# COMBINING SCHEDULE — FINANCIAL POSITION INFORMATION

## YEARS ENDED JUNE 30, 2007 AND 2006

### Schedule 1

	Society	Foundation	Eliminations	2007 Combined	2006 Combined
<b>Current assets:</b>					
Cash and cash equivalents	\$ 626,767	\$ 377,883	\$ -	\$ 1,004,650	\$ 988,350
Investments - marketable securities	13,511,680	18,066,284	-	31,577,964	27,267,660
Accrued interest receivable	17,123	2,595	-	19,718	27,616
Inventory	88,673	-	-	88,673	84,519
Accounts receivable and other assets	132,618	-	-	132,618	111,788
Receivable from Foundation/Society	34,341	-	(34,341)	-	-
<b>Total current assets</b>	<b>14,411,202</b>	<b>18,446,762</b>	<b>(34,341)</b>	<b>32,823,623</b>	<b>28,479,933</b>
<b>Property, Plant, and Equipment:</b>					
Land	114,000	-	-	114,000	114,000
Building	699,890	-	-	699,890	686,000
Furniture and equipment	986,984	-	-	986,984	968,147
Less: accumulated depreciation	(815,326)	-	-	(815,326)	(766,222)
<b>Total property, plant, and equipment</b>	<b>985,548</b>	<b>-</b>	<b>-</b>	<b>985,548</b>	<b>1,001,925</b>
<b>Other assets:</b>					
Investments - marketable securities - restricted	328,901	1,670,614	-	1,999,515	1,667,519
<b>Total assets</b>	<b>\$ 15,725,651</b>	<b>\$ 20,117,376</b>	<b>\$ (34,341)</b>	<b>\$ 35,808,686</b>	<b>\$ 31,149,377</b>
<b>Current liabilities:</b>					
Advance payment - dues	\$ 1,101,257	\$ -	\$ -	\$ 1,101,257	\$ 1,182,332
Advance payment-convention	41,121	-	-	41,121	-
Accounts payable and accrued expenses	201,399	-	-	201,399	187,018
Due to chapters	61,003	-	-	61,003	53,717
Capital lease obligation	-	-	-	-	9,497
Due to Foundation/Society	-	34,341	(34,341)	-	-
<b>Total current liabilities</b>	<b>1,404,780</b>	<b>34,341</b>	<b>(34,341)</b>	<b>1,404,780</b>	<b>1,432,564</b>
<b>Long-term liabilities:</b>					
Advance payment of dues	70,213	-	-	70,213	31,481
<b>Total liabilities</b>	<b>1,474,993</b>	<b>34,341</b>	<b>(34,341)</b>	<b>1,474,993</b>	<b>1,464,045</b>
<b>Net assets - unrestricted</b>	<b>13,921,757</b>	<b>18,412,421</b>	<b>-</b>	<b>32,334,178</b>	<b>28,017,813</b>
<b>Net assets - permanently restricted</b>	<b>328,901</b>	<b>1,670,614</b>	<b>-</b>	<b>1,999,515</b>	<b>1,667,519</b>
<b>Total net assets</b>	<b>14,250,658</b>	<b>20,083,035</b>	<b>-</b>	<b>34,333,693</b>	<b>29,685,332</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,725,651</b>	<b>\$ 20,117,376</b>	<b>\$ (34,341)</b>	<b>\$ 35,808,686</b>	<b>\$ 31,149,377</b>

See accompanying auditors' report.

# COMBINING SCHEDULE — ACTIVITIES INFORMATION

## YEARS ENDED JUNE 30, 2007 AND 2006

### Schedule 2

	Society	Foundation	2007 Combined	2006 Combined
<b>Revenues, gains and other support:</b>				
Contributions	\$ 358,870	\$ 123,476	\$ 482,346	\$ 202,838
Annual membership dues	1,722,582	–	1,722,582	1,815,239
Initiation fees	474,315	–	474,315	457,690
Active-for-life memberships	404,590	–	404,590	335,590
Dividends and interest	460,440	553,385	1,013,825	845,897
Net unrealized and realized gains on investments	1,198,770	2,243,285	3,442,055	1,179,567
Sales of emblems, certificates, etc.	213,707	–	213,707	206,876
Royalty Income	30,460	150,844	181,304	171,041
Other	19,380	–	19,380	14,062
	<u>4,883,114</u>	<u>3,070,990</u>	<u>7,954,104</u>	<u>5,228,800</u>
<b>Expenses:</b>				
Fellowships Program	\$ –	\$ 381,400	\$ 381,400	\$ 359,133
Literacy Grants Program	–	28,747	28,747	29,202
Study Abroad Program	–	38,000	38,000	37,000
Promotion of Excellence Grants Program	–	31,161	31,161	33,176
Society headquarters salaries	653,246	141,821	795,067	751,959
Society headquarters office fringe benefits	202,393	44,394	246,787	245,001
Society headquarters office facilities and operations	307,586	18,289	325,875	264,638
Resale items	348,218	–	348,218	324,246
Board of Directors travel	54,846	2,456	57,302	82,224
Depreciation	99,360	–	99,360	126,096
Fundraising	2,127	5,696	7,823	7,234
Chapter support	45,735	–	45,735	26,770
Committee meetings	17,808	981	18,789	14,465
New initiatives	25,333	–	25,333	–
Marketing and members benefits	286,730	427	287,157	346,082
Investment expense	26,946	38,103	65,049	61,615
Other society headquarters office expenses	106,401	5,668	112,069	117,271
<i>Phi Kappa Phi Forum:</i>				
Salary and fringe benefits	153,360	–	153,360	142,838
Journal production and distribution	218,833	–	218,833	263,933
Operations and other	19,678	–	19,678	26,012
	<u>2,568,600</u>	<u>737,143</u>	<u>3,305,743</u>	<u>3,258,895</u>
Change in net assets	2,314,514	2,333,847	4,648,361	1,969,905
<b>Net assets at beginning of year</b>	12,236,144	17,449,188	29,685,332	27,715,427
<b>Transfer of net assets</b>	<b>(300,000)</b>	<b>300,000</b>	–	–
<b>Net assets at end of year</b>	<u>\$ 14,250,658</u>	<u>\$ 20,083,035</u>	<u>\$ 34,333,693</u>	<u>\$ 29,685,332</u>

See accompanying auditors' report.

As a student at the University of Maine, Marcus L. Urann championed an honor society to recognize academic achievement and elevate outstanding students in the eyes of their classmates, faculty, and the larger community, and the state.

“I was looking for something which would be an inspiration to all students to work for high rank, and I believed that uniting those who were interested would be helpful.”

These were the words written by Marcus L. Urann in his proposal for the establishment of what would become The Honor Society of Phi Kappa Phi. Urann (1873–1963) was born in Sullivan, Maine. He received his BS degree from the University of Maine in 1897 and his LLB degree from Boston University School of Law. A forward-thinking man, two of his “creations” survive today. In addition to helping create Phi Kappa Phi, he was a founder of the Ocean Spray brand of cranberry products. His undergraduate alma mater presented him with an honorary LLD in 1947, recognizing his “contribution to the advancement of New England agriculture and industry.”



## MARCUS URANN SOCIETY

Named for the founder of Phi Kappa Phi, the Marcus Urann Society includes those who have provided for the Society in their estate plans.

L.D. and Vicki Bond

Ruth Brasher

George and Agatha Burnett

Lisa Comeaux

Florence Dowling

Kathleen Greey

Louise Guild

Walter and Adelheid Hohenstein

Barbara Jones

Margaret McCaffee

Robert and Carol Rogow

Marjorie Schoch

Perry and Cindy Snyder

If you have provided for Phi Kappa Phi in your estate plan, please contact Society Headquarters so that we may include you in the Marcus Urann Society.



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