

THE HONOR SOCIETY OF
PHI KAPPA PHI

Defining Moments



2002–2003 ANNUAL REPORT

Message from the President

Dear Phi Kappa Phi Members and Friends:

Progress and change continue to characterize Phi Kappa Phi!

Indeed, several exciting developments occurred during the 2002–2003 fiscal year. I am pleased to mention just a few of them here. These and other highlights will be explained more fully later in this Report. Included are:

- Installing several new Phi Kappa Phi chapters
- Enhancing support to all chapters and their officers
- Selecting the first literacy grants recipients
- Establishing new partnerships and nurturing existing ones
- Expanding Phi Kappa Phi's national Web site
- Making better use of technology in still other ways

These improvements in our organization and how it functions would not have been possible without generous contributions from many of you. We sincerely thank you! Particularly noteworthy this year was receipt of the \$1.1 million bequest from a past National Phi Kappa Phi President and his wife, Walt and Heide Hohenstein. Truly an amazing gift!

2002–2003 also had its challenges. Chief among them was a continuing decline in return on investments. However, with your steady support, increased efficiency in our operations, adjustments in our awards and programs, and wise investment decisions, we have, arguably, become a stronger Society.

I am especially proud of our team approach in all matters Phi Kappa Phi. Our board, staff and committees work well together. Please understand that you are essential players as well. We welcome and value your input.

Thank you again for your support of Phi Kappa Phi!

“Let the love of learning rule humanity.”

Yours in Excellence,



Wendell H. McKenzie, Ph.D.
National President
Alumni Distinguished Professor of
Genetics
North Carolina State University

■ **NEW CHAPTERS**

Phi Kappa Phi experienced significant growth during 2002–03, installing six new chapters. Chapters were installed at Jacksonville (AL) State University (#284), Berry (GA) College (#285), University of Pittsburgh at Greensburg (#286), Georgetown (KY) College (#287), Clarion (PA) University (#288), and the University of South Carolina Spartanburg (#289).

■ **PARTNERSHIPS**

Phi Kappa Phi is proud to be a founding member of the Association of College Honor Societies (ACHS). Since 1925, ACHS's primary purpose has been to establish and enforce standards among honor societies. The annual meeting of the ACHS provides opportunities to share ideas and confront issues dealing with a wide range of matters common to the member societies.

In 2003, Phi Kappa Phi partnered with another organization with similar ideals—the Center for Academic Integrity (CAI), a consortium of colleges, universities, professional schools, and some secondary institutions. The Center's mission is to provide a forum to identify and affirm the values of academic integrity and to promote their achievement in practice. The mission is achieved primarily through the involvement of students, faculty, and administrators from the member institutions who share with peers and colleagues the Center's collective experience, expertise, and creative energy.

Every organization is made up of defining moments — a collection of events that change the course of an organization and its future.

1897

The Honor Society of Phi Kappa Phi is founded at the University of Maine

1925

ΦΚΦ joins with Phi Beta Kappa, Sigma Xi and 3 other groups to form the Assoc. of College Honor Societies

1933

First Phi Kappa Phi Fellowships are awarded

1997

Phi Kappa Phi observes its 100th anniversary with a Centennial Celebration in New Orleans

DEFINING MOMENTS

■ DVD PROJECT

Phi Kappa Phi broke new ground in 2003 by producing a chapter officer training and informational DVD. The two-part production, *Focus on Success: Chapter Operations and Memorable Initiations*, had a cast of Phi Kappa Phi volunteer-leaders that included national board members and chapter officers. In round table discussions, both new and veteran chapter officers revealed their secrets to building and maintaining successful chapters.

The DVD was created as a tool to aid chapter officers of Phi Kappa Phi in areas such as increasing acceptance rates, conducting meaningful initiation ceremonies, and managing successful chapters.

■ LITERACY

The Literacy Grants program was initiated in 2003 to mobilize members and resources of Phi Kappa Phi and the higher education community to champion the cause of literacy. From both the large number and quality of the applications received, it is evident that the Phi Kappa Phi community of scholars is dedicated to volunteerism and community service. Seventeen projects were awarded up to \$2,500 each to fund ongoing literacy projects or to create new initiatives.

The funded literacy programs provided tutors, books and materials, interactive story experiences, writers-in-residence, character education, and more. The various programs cover literacy from infancy to adulthood. Many involved Phi Kappa Phi students and faculty members and community volunteers.

■ TECHNOLOGY

Each year, Phi Kappa Phi expands and improves its technology to better serve Society members and chapters. Since 2002, Phi Kappa Phi's information technology unit at national headquarters has implemented new features and services, including an online merchandise store, fill-in award applications and chapter officer forms, online membership renewals and updates, and a searchable member directory. The most notable addition to Phi Kappa Phi's online member benefits package is the creation of a résumé-posting database that hosts more than 1,000 member résumés and is visited by nearly a dozen Fortune 1000 companies. These new online services are all part of the new and improved national Web site, www.phikappaphi.org.

Also in 2002, Phi Kappa Phi introduced its first Chapter Officer Handbook in a CD-Rom format. In addition to the Chapter Operations Manual, the CD includes chapter forms, the Ritual of Initiation, and Bylaws—all in Adobe PDF format.

These enhancements and new services are just several ways Phi Kappa Phi is increasing the value of membership through modern technology.

2001

The first Internship and Study Abroad Grants are awarded

2003

The first literacy grants are awarded

2003

Online services are expanded, including the creation of a résumé-posting database

2003

Chapter Officer DVD, "Focus on Success," is produced



THE HONOR SOCIETY OF PHI KAPPA PHI OVERVIEW

■ MISSION

To recognize and promote academic excellence in all fields of higher education and to engage the community of scholars in service to others.

■ SUMMARY

Founded in 1897 at the University of Maine, The Honor Society of Phi Kappa Phi is the nation's oldest, largest, and most selective all-discipline honor society. It draws its members from all academic disciplines. Each year, approximately 34,000 students, faculty, professional staff, and alumni are initiated. Since its founding, Phi Kappa Phi has initiated more than 1 million members. Its chapters are on nearly 300 campuses in the United States, Puerto Rico, and the Philippines. Phi Kappa Phi is a charter member of the Association of College Honor Societies, founded in 1925.

■ MEMBERSHIP

Standards for election to Phi Kappa Phi are extremely high. Membership is by invitation only to the top 10 percent of seniors and 7.5 percent of juniors, having completed at least seventy-two semester hours. Graduate students in the upper 10 percent of the number of candidates for graduate degrees also qualify, as do faculty, professional staff, and alumni who have achieved scholarly distinction.

■ CHAPTERS

Phi Kappa Phi chapters are located on the campuses of nearly 300 universities and colleges throughout the United States, Puerto Rico, and the Philippines. To establish a chapter, an institution must provide the means and atmosphere conducive to academic excellence.

■ AWARDS

Phi Kappa Phi's ongoing commitment to excellence is reflected in its scholarships and awards programs. More than \$500,000 is awarded each year to outstanding Phi Kappa Phi members and chapters through the Society's various awards competitions: the Graduate Fellowship, National Scholar & Artist, Promotion of Excellence, Study Abroad Grants, and Literacy Grants.

Phi Kappa Phi sets high standards for its award recipients. Selection committees comprised of representatives from each of the Society's five regions carefully review all applications. Applicants are evaluated based on numerous factors, including academic recognition and awards, campus and community involvement, and leadership experiences.

■ LEADERSHIP

Nationally, a general convention is held triennially to elect officers and conduct other business. Between conventions, a twelve-person board of directors oversees the business of Phi Kappa Phi. The daily operations of the Society are conducted by members of the national headquarters staff.

■ SYMBOLS

The Phi Kappa Phi key consists of the badge—a globe against the background of the sun, whose rays form an expansive corona and radiate in a number of symmetrical concentrations from behind the globe. These rays signify equivalence among the various branches of learning and represent the dissemination of truth as light. A band containing the Greek letters $\Phi\Kappa\Phi$ encircles the globe and symbolizes a fraternal bond that protects the earth and binds the lovers of wisdom in a common purpose.

DEFINING MOMENTS

Board of Directors, 2001–2004



Wendell H. McKenzie, Ph.D.
National President



Paul J. Ferlazzo, Ph.D.
President Elect



Donna Clark Schubert
National Vice President



Neil R. Luebke, Ph.D.
Past President



Ronald E. Johnson, Ph.D.
Northeastern Region
Vice President



A. Wayne Lacy, Ph.D.
Southeastern Region
Vice President



Terry D. Mathias, Ph.D.
North Central Region
Vice President



James L. Heflin, Ph.D.
South Central Region
Vice President



Penny L. Wright, Ph.D.
Western Region
Vice President



Nancy H. Blattner, Ph.D.
Regent



Marya M. Free, Ph.D.
Director of Fellowships



Perry A. Snyder, Ph.D.
Executive Director

Independent Auditors' Report



The National Board of Directors of
The Honor Society of Phi Kappa Phi and Phi Kappa Phi Foundation
Baton Rouge, Louisiana:

We have audited the accompanying combined statements of financial position of The Honor Society of Phi Kappa Phi and Phi Kappa Phi Foundation (Phi Kappa Phi) as of June 30, 2003 and 2002, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of Phi Kappa Phi'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 audit 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 combined 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 combined financial position of Phi Kappa Phi as of June 30, 2003 and 2002, and the results of their activities and their 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 Schedules 1 and 2 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.

KPMG LLP

August 25, 2003

DEFINING MOMENTS

Combined Statements of Financial Position

June 30, 2003 and 2002

Assets	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 4,156,936	614,616
Investments - marketable securities	20,265,566	21,824,937
Accrued interest receivable	123,402	130,980
Inventory	148,154	140,323
Accounts receivable and other assets	67,281	100,221
Receivable from bequest	127,324	900,000
Total current assets	<u>24,888,663</u>	<u>23,711,077</u>
Office furniture and equipment net of accumulated depreciation of \$465,417 (\$419,268 in 2002)	<u>404,289</u>	<u>411,332</u>
Total assets	<u><u>\$ 25,292,952</u></u>	<u><u>24,122,409</u></u>
Liabilities and Net Assets		
Current liabilities:		
Advance payment of dues	\$ 1,165,028	1,100,705
Accounts payable and accrued expenses	116,540	114,564
Due to chapters	63,358	39,340
Capital lease obligation	9,090	—
Total current liabilities	<u>1,354,016</u>	<u>1,254,609</u>
Long-term liabilities -		
Capital lease obligation, less current portion	30,219	—
Advance payment of dues	<u>156,395</u>	<u>131,215</u>
Total liabilities	1,540,630	1,385,824
Net assets:		
Unrestricted	22,216,976	21,577,776
Temporarily restricted	—	—
Permanently restricted	<u>1,535,346</u>	<u>1,158,809</u>
Total liabilities and net assets	<u><u>\$ 25,292,952</u></u>	<u><u>24,122,409</u></u>

See accompanying notes to combined financial statements.

DEFINING MOMENTS

Combined Statements of Activities

Years Ended June 30, 2003 and 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total
Revenues, gains (losses), and other support:				
Contributions	\$ 207,148	—	376,537	583,685
Annual membership dues	1,820,807	—	—	1,820,807
Initiation fees	329,090	—	—	329,090
Active-for-life memberships	235,630	—	—	235,630
Income on long-term investments	671,535	14,121	—	685,656
Net unrealized & realized gains (losses) on long-term investments	29,728	—	—	29,728
Sale of emblems, certificates, etc.	189,262	—	—	189,262
Other	185,152	—	—	185,152
Other transfer	—	—	—	—
Total revenues and gains	3,668,352	14,121	376,537	4,059,010
Net assets released from restriction (note 8)	14,121	(14,121)	—	—
Total revenues, gains (losses) and other support	3,682,473	—	376,537	4,059,010
Expenses:				
Fellowships Program	478,375	—	—	478,375
Promotion of Excellence Program	40,900	—	—	40,900
Scholar/Artist Award Program	—	—	—	—
Internship Support and Study Abroad Programs	38,000	—	—	38,000
Salaries	561,067	—	—	561,067
National headquarters fringe benefits	175,839	—	—	175,839
National headquarters facilities and operations	437,708	—	—	437,708
Resale items	300,389	—	—	300,389
Phi Kappa Phi Focus	124,582	—	—	124,582
Board of directors travel	71,121	—	—	71,121
Depreciation	112,708	—	—	112,708
Fundraising	296	—	—	296
Regional meetings	19,387	—	—	19,387
Committee meetings	19,090	—	—	19,090
Investment expense	66,472	—	—	66,472
Other national office expenses	146,180	—	—	146,180
Convention	—	—	—	—
Phi Kappa Phi Forum:				
Salaries and fringe benefits	130,219	—	—	130,219
Journal production and distribution	298,332	—	—	298,332
Operations and other	22,608	—	—	22,608
Total expenses	3,043,273	—	—	3,043,273
Change in net assets	639,200	—	376,537	1,015,737
Net assets at beginning of year	21,577,776	—	1,158,809	22,736,585
Net assets at end of year	\$ 22,216,976	—	1,535,346	23,752,322

See accompanying notes to combined financial statements.

DEFINING MOMENTS

Continued from previous page.

	Unrestricted	Temporarily Restricted	Permanently Restricted	2002 Total
Revenues, gains (losses), and other support:				
Contributions	\$ 226,533	—	900,116	1,126,649
Annual membership dues	1,396,053	—	—	1,396,053
Initiation fees	330,540	—	—	330,540
Active-for-life memberships	360,100	—	—	360,100
Income on long-term investments	706,309	6,403	—	712,712
Net unrealized & realized gains (losses) on long-term investments	(2,779,217)	—	—	(2,779,217)
Sale of emblems, certificates, etc.	159,536	—	—	159,536
Other	165,483	—	—	165,483
Other transfer	(1,124)	1,124	—	—
	<u>564,213</u>	<u>7,527</u>	<u>900,116</u>	<u>1,471,856</u>
Total revenues and gains				
Net assets released from restriction (note 8)	<u>8,043</u>	<u>(8,043)</u>	<u>—</u>	<u>—</u>
Total revenues, gains (losses) and other support	<u>572,256</u>	<u>(516)</u>	<u>900,116</u>	<u>1,471,856</u>
Expenses:				
Fellowships Program	422,500	—	—	422,500
Promotion of Excellence Program	—	—	—	—
Scholar/Artist Award Program	20,000	—	—	20,000
Internship Support and Study Abroad Programs	38,000	—	—	38,000
Salaries	534,679	—	—	534,679
National headquarters fringe benefits	177,569	—	—	177,569
National headquarters facilities and operations	521,123	—	—	521,123
Resale items	274,004	—	—	274,004
Phi Kappa Phi Focus	132,815	—	—	132,815
Board of directors travel	62,101	—	—	62,101
Depreciation	110,112	—	—	110,112
Fundraising	9,571	—	—	9,571
Regional meetings	2,952	—	—	2,952
Committee meetings	14,316	—	—	14,316
Investment expense	91,904	—	—	91,904
Other national office expenses	141,074	—	—	141,074
Convention	129,958	—	—	129,958
Phi Kappa Phi Forum:				
Salaries and fringe benefits	122,212	—	—	122,212
Journal production and distribution	280,200	—	—	280,200
Operations and other	24,745	—	—	24,745
	<u>3,109,835</u>	<u>—</u>	<u>—</u>	<u>3,109,835</u>
Total expenses				
Change in net assets	(2,537,579)	(516)	900,116	(1,637,979)
Net assets at beginning of year	<u>24,115,355</u>	<u>516</u>	<u>258,693</u>	<u>24,374,564</u>
Net assets at end of year	<u>\$ 21,577,776</u>	<u>—</u>	<u>1,158,809</u>	<u>22,736,585</u>

See accompanying notes to combined financial statements.

Combined Statements of Cash Flows

Years Ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Change in net assets	\$ 1,015,737	(1,637,979)
Less donor-restricted contributions	(376,537)	(900,116)
	639,200	(2,538,095)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	112,708	110,112
Amortization & accretion of bond discount/premium	(50,620)	(49,055)
(Gain) loss on sales of marketable securities	(1,597,736)	1,368,377
Increase in unrealized depreciation of marketable securities	1,627,466	1,410,841
Changes in operating assets and liabilities:		
Accrued interest receivable	7,578	3,798
Inventory	(7,831)	128,381
Accounts receivable and other assets	32,940	(53,787)
Advance payment of dues	89,533	453,543
Accounts payable and accrued expenses	1,946	(38,094)
Due to chapters	24,018	4,248
Net cash provided by operating activities	879,202	800,269
Cash flows from investing activities:		
Purchases of marketable securities	(14,124,537)	(13,405,103)
Proceeds from sales and maturities of marketable securities	15,704,798	12,722,499
Proceeds from donor-restricted contributions	1,149,213	116
Purchases of office furniture and equipment	(64,296)	(213,106)
Net cash provided by (used in) investing activities	(2,665,178)	(895,594)
Cash flows from financing activities:		
Payments on capital lease	(2,060)	—
Net increase (decrease) in cash and cash equivalents	3,542,320	(95,325)
Cash and cash equivalents at beginning of year	614,616	709,941
Cash and cash equivalents at end of year	\$4,156,936	614,616
Supplemental data -		
Noncash gift of building rental	\$ 58,183	58,183
Equipment acquired through capital lease	\$ 41,369	—

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements

June 30, 2003 and 2002

(1) **Significant Accounting Policies**

The combined financial statements as of and for the years ended June 30, 2003 and 2002 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. In preparing the combined financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the combined statement of financial position and revenues and expenses for the period. Actual results could differ from those estimates.

(a) **Objectives of Phi Kappa Phi**

The primary objectives of Phi Kappa Phi are the recognition and encouragement of superior scholarship in all academic disciplines and the stimulation of mental achievement of college students by awarding scholarships, fellowships, gifts, grants, and loans to reward and promote scholastic achievement.

(b) **Basis of 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. Effective January 1, 2000, contributions to the Foundation may be donor restricted to one of four programs. These programs are the Fellowship Program, the Scholarship and Artist Program, the Internship Support and Study Abroad Programs, and the Promotion of Excellence Grant Program. 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 reclassifications between the applicable classes of net assets. 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.

(c) **Cash and Cash Equivalents**

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

(d) **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.

Notes to Combined Financial Statements *(continued)*

June 30, 2003 and 2002

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 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.

(e) 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.

(f) Office Furniture and Equipment

Office furniture and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives, which range from 3 to 7 years.

(g) 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.

(h) 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 years ended June 30, 2003 and 2002.

(i) Reclassifications

Certain 2002 financial statement amounts have been reclassified to conform to 2003 presentation.

(2) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2003 and 2002 consists of the following:

	<u>2003</u>	<u>2002</u>
Cash in banks	\$ 150,948	76,793
Cash held in trust funds	84,340	376,358
Money market mutual funds	3,921,648	—
Commercial paper, due on demand	—	161,465
Total cash and cash equivalents	<u>\$ 4,156,936</u>	<u>614,616</u>

(3) Investments - Marketable Securities

The following is a summary of investments held at fair value at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Debt securities:		
U.S. Government obligations	\$ 5,663,588	7,312,648
Corporate obligations	1,158,763	597,109
Mortgage-backed securities	453,061	510,539
Collateralized mortgage obligations	—	205,656
Foreign bonds	—	159,950
Total debt securities	<u>7,275,412</u>	<u>8,785,902</u>
Equity securities - common stocks	9,662,538	10,765,173
Mutual funds	3,327,616	2,273,862
Total marketable securities	<u>\$ 20,265,566</u>	<u>21,824,937</u>

Notes to Combined Financial Statements (continued)

(4) Return on Investments

The following is a summary of the return on investments for the years ended June 30, 2003 and 2002:

	<u>Society</u>	<u>Foundation</u>	<u>2003 Combined</u>	<u>2002 Combined</u>
Dividends and interest	\$ 309,771	375,885	685,656	712,712
Net realized & unrealized gains (losses)	58,860	(29,132)	29,728	(2,779,217)
Total return on investments	\$ 368,631	346,753	715,384	(2,066,505)

(5) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Accounts payable - trade	\$ 35,522	45,092
Accrued sick and leave time	79,497	67,581
Other accrued expenses	1,491	1,891
	\$ 116,510	114,564

Phi Kappa Phi permits employees to accumulate a limited amount of sick and leave time based on the number of hours worked.

(6) Capital Lease

In 2003, the Foundation entered into a capital lease for office equipment. The following is a schedule of future minimum lease payments under the lease as of June 30, 2003:

	<u>Capital Lease</u>
Year ending June 30,	
2004	\$ 12,259
2005	12,259
2006	12,259
2007	9,778
Total minimum lease payments	46,555
Less amount representing interest	(7,246)
Present value of net minimum capital lease payments	39,309
Less current installments of obligations under capital lease	(9,090)
Obligations under capital lease, excluding current installments	\$ 30,219

(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, 2003 and 2002 was \$51,247 and \$49,351, respectively.

(8) Net Assets

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

	<u>2003</u>	<u>2002</u>
Fellowship Program	\$ 1,517,706	1,141,269
Promotion of Excellence Grant Program	6,612	6,587
Scholarship and Artist Program	10,978	10,953
Internship Support and Study Abroad Program	50	—
	\$ 1,535,346	1,158,809

Temporarily restricted assets released and recorded as an increase in unrestricted net assets for fellowships and operational expenses totaled \$14,280 and \$8,043 for the years ended June 30, 2003 and 2002, respectively.

DEFINING MOMENTS

Combining Schedule – Financial Position Information

Schedule 1

June 30, 2003 (with comparative totals for the year ended June 30, 2002)

	Society	Foundation	Eliminations	2003 Combined	2002 Combined
Current assets:					
Cash and cash equivalents	\$ 1,545,292	2,611,644	—	4,156,936	614,616
Investments - marketable securities	9,026,408	11,239,158	—	20,265,566	21,824,937
Accrued interest receivable	65,514	57,888	—	123,402	130,980
Inventory	148,154	—	—	148,154	140,323
Accounts receivable and other assets	67,281	—	—	67,281	100,221
Receivable from bequest	—	127,324	—	127,324	900,000
Receivable from Foundation/Society	1,625	9,226	(10,851)	—	—
Total current assets	10,854,274	14,045,240	(10,851)	24,888,663	23,711,077
Office furniture and equipment, net	404,289	—	—	404,289	411,332
Total assets	\$ 11,258,563	14,045,240	(10,851)	25,292,952	24,122,409
Current liabilities:					
Advance payment of dues	1,165,058	—	—	1,165,058	1,100,705
Accounts payable and accrued expenses	116,510	—	—	116,510	114,564
Due to chapters	63,358	—	—	63,358	39,340
Capital lease obligation	9,090	—	—	9,090	—
Due to Foundation/Society	9,226	1,625	(10,851)	—	—
Total current liabilities	1,363,242	1,625	(10,851)	1,354,016	1,254,609
Long-term liabilities:					
Capital lease obligation, less current portion	30,219	—	—	30,219	—
Advance payment of dues	156,395	—	—	156,395	131,215
Total liabilities	1,549,856	1,625	(10,851)	1,540,630	1,385,824
Net assets - unrestricted	9,708,707	12,508,269	—	22,216,976	21,577,776
Net assets - temporarily restricted	—	—	—	—	—
Net assets - permanently restricted	—	1,535,346	—	1,535,346	1,158,809
Total liabilities and net assets	\$ 11,258,563	14,045,240	(10,851)	25,292,952	24,122,409

See accompanying independent auditors' report.

DEFINING MOMENTS

Combining Schedule – Activities Information

Schedule 2

Year Ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

	<u>Society</u>	<u>Foundation</u>	<u>2003 Combined</u>	<u>2002 Combined</u>
Revenues, gains, (losses) and other support:				
Contributions	\$ 49,126	534,559	583,685	1,126,649
Annual membership dues	1,820,807	—	1,820,807	1,396,053
Initiation fees	329,090	—	329,090	330,540
Active-for-life memberships	235,630	—	235,630	360,100
Income on long-term investments	309,771	375,885	685,656	712,712
Net unrealized and realized gains on investments	58,860	(29,132)	29,728	(2,779,217)
Sales on emblems, certificates, etc.	189,262	—	189,262	159,536
Other	25,875	159,277	185,152	165,483
	<u>3,018,421</u>	<u>1,040,589</u>	<u>4,059,010</u>	<u>1,471,856</u>
Total revenues, gains & other support				
Expenses:				
Fellowships Program	—	478,375	478,375	422,500
Promotion of Excellence Program	—	40,900	40,900	—
Scholar/Artist Awards	—	—	—	20,000
Internship and Study Abroad Program	—	38,000	38,000	38,000
Salaries	561,067	—	561,067	534,679
National office fringe benefits	175,839	—	175,839	177,569
National office facilities and operations	437,708	—	437,708	521,123
Resale items	300,389	—	300,389	274,004
Newsletter	124,582	—	124,582	132,815
Board of directors travel	71,121	—	71,121	62,101
Depreciation	112,708	—	112,708	110,112
Fundraising	296	—	296	9,571
Regional meetings	19,387	—	19,387	2,952
Committee meetings	19,090	—	19,090	14,316
Investment expense	28,636	37,836	66,472	91,904
Other national office expenses	109,435	36,945	146,380	141,074
Convention	—	—	—	129,958
National Forum:				
Salary and fringe benefits	130,219	—	130,219	122,212
Journal production and distribution	298,332	—	298,332	280,200
Operations and other	22,408	—	22,408	24,745
	<u>2,411,217</u>	<u>632,056</u>	<u>3,043,273</u>	<u>3,109,835</u>
Total expenses				
Changes in net assets	607,204	408,533	1,015,737	(1,637,979)
Transfers to/from funds	(300,000)	300,000	—	—
Net assets at beginning of year	<u>9,401,503</u>	<u>13,335,082</u>	<u>22,736,585</u>	<u>24,374,564</u>
Net assets at end of year	<u>\$ 9,708,707</u>	<u>14,043,615</u>	<u>23,752,322</u>	<u>22,736,585</u>

See accompanying independent auditors' report.

Recognition of Donors

(Gift received January 1, 2003 — January 31, 2004)

1897 SOCIETY (\$500 or more)

Nancy H. Blattner	Deborah Geeseman	Mark K. Smythers
Nathaniel Chafee	Jane Heinzler-Weilan	Perry A. Snyder
Daniel P. Coffman	Neil R. Luebke	Wiley C. Wilson
Alice & Russell True Foundation (Alice T. Gasch)	Terry D. Mathias	
	Robert B. Rogow	

GOLD SCHOLARS (\$250–\$499)

James W. Abbott	Paul J. Ferlazzo	James D. McPhail
Jane V. Aldrich	Marya M. Free	James M. Meng
Linda Marie Bauer	Sandra A. Jackson	Donna Clark Schubert
Patricia L. Bright	Amy Lynne Johnston	Mary B. Smith
John W. Carman	Ray W. Kahler	Frederick Telling
Linda B. Clement	Wendell H. McKenzie	Suzan M. Zoukis

SILVER SCHOLARS (\$100–\$249)

George B. Adams, III	Cynthia A. Carlson	Marcella A. Harshbarger
Michael L. Alaux	Carol A. Catalano	Roderick Patrick Hart
Jacquelin Anderson-Rose	Daryl L. Caudle	Sally A. Hasselbrack
John C. Angell	Kathryn S. Cawood	Dennis F. Hasson
Karen Archambault	George S. Christian	Robert Hill
Michelle Baldwin	Dolores A. D'Angelo	Steven E. Hollister
Joseph J. Bambenek	Tom Ivey Davis, II	T. Alan Hurwitz
Lourdes R. Barro	Thomas C. Devore	Bryan K. Jacobs
Arthur P. Bartholomew, Jr.	Darla G. Dollahon	Ronald E. Johnson
Etta G. Bates	Edward E. Domning	Rayburn Jones
Richard A. Beckwell	Katherine M. Donaldson	Patricia J. Junio
Bernice Behling	Roy C. Edgerton	Michael Kator
Rebekah C. Benek	Karen L. Engling	Jeffrey Keller
David A. Bernstein	Deborah R. Erickson	Kathleen Kelly
Robert E. Black, Jr.	Ferdinand Francis Fernandez	Nanette Kemmerly-Weber
Thomas R. Booth	Elizabeth Ferrill	Robert E. Kendig
Kathleen M. Bottum	Jean Fordis	Dolores J. Kephart
Mark S. Box	John D. Galbraith	A. Wayne Lacy
Winston L. Brembeck	Kenneth Gibbs	James B. Lee
Jennifer J. Bucki	Melvin R. Gibson	Mary Anne Legarski
George Burnet, Jr.	Perry Leon Giles	Kenneth Loveless
Gwen M. Burzycki	Glenn A. Goerke	Dorothy R. Lykes
John F. Cacchione	Barbara K. Goodman	Kathy Marcel
Raymond Louis Calabrese	Cathy L. Hargrave Smith	Thomas J. Mathiesen

DEFINING MOMENTS

Amy J. Matous	Ralph B. Peck	Thomas F. Sifrit
William Lee Maynard	Clara Penniman	Edward B. Smith
Alistair W. McCrone	William I. Pomeroy	Patricia Sobczyk
Edward L. McGlone	Laura L. Prados	Lawrence M. Sommers
Nellie McKay	Marjorie Rankin	Frederick Stier
Dennis P. McLaughlin	Rachel Y. Reams	Douglas M. Stocco
Harold S. McNabb, Jr.	Alfred J. Reese, Jr.	Martin N. Stone
Thomas Eugene Miller	Karl Nikolai Ritval	Peter D. Tessner
Dale Misiak	Patricia Robinson	Holly M. Tolley
Kiyoto Mizuba	Rex R. Robison	Marsha Utain
Paul Mleziva	Wanda S. Rossi	John W. Vessey, Jr.
Christopher Monte	Gertrude W. Ruska	James R. Warren
William Morgan	Germaine H. Saad	Jean Anne Waterstradt
Karen H. Morin	Susan L. Scarponi	Isabel R. Weinreich
James R. Morris	Judith A. Schiebout	Sheldon L. Werner
James R. Munkres	Robert J. Schoenhals	Ralph J. Westrum
Burnaby Munson	Bobby S. Shackouls	Julia A. Wiebusch
Marie E. Mutz	John B. Shanahan	Jerry H. Williams
Traci S. Navarre	Gene R. Sheldon	Penny L. Wright
Jeffrey S. Olafsen	Estherina Shems	Lance B. Young
Genevieve Papik-Geyser	Jean'ne M. Shreeve	Robert P. Zielinski
Irvin Alexander Pearce	Daniel Paul Siewiorek	

BRONZE SCHOLARS (\$50 – \$99)

Gisela L. Adams	Henry F. Beechhold	Harold W. Bryza
Roma Lee Adams	Matthew J. Berberich	Mary Anne Butler
Theodore Agnew, Jr.	Gerald E. Bergum, Sr.	Patricia Butler
Cheryl L. Akers	Charlotte Ann Berryman	Nancy J. Calhoun
Chris Allen	Daniel H. Biechler	Judith E. Campbell
Mark A. Amaya	Edgar W. Biggers, Jr.	Charles F. Carter
Marlene Amdur-Ferguson	Carole R. Bishop	Donna M. Celestini
Ida V. Anderson	G. Lansing Blackshaw	Lala S. Chambers
Joseph E. Aoun	Philip Blank	Eric H. Chern
Patricia Ann Ashman	Christy L. Bodie-Cunic	Virginia Christian
Anne A. Baade	Marco Boscardin	Michael A. Clarke
Edgar Bagley	Manfred R. Bottaccini	Mark A. Clay
Russell Balm	Wendell T. Brooks	Roderick E. Coe
Ralph M. Bard	Anne H. Broome	Harry C. Cole, III
Maureen Barrett	Charles Brown	Deborah H. Cooley
Robert P. Batchelder	Maria A. Brown	Reinold R. Cornelius
James Bauer	Charles G. Bruch	Armando B. Corripio
Andy J. Bayramian	Lisa D. Brush	Anna Sue Couch

Recognition of Donors (cont.)

Richard J. Cummings	Bradley A. Goff	Paula E. Jacques
John P. Dalbec	David P. Gold	William J. James
Gloria T. Daley	Sherita H. Golden	Drexel D. Journey
Thomas V. Daula	Vinai Gondi	James L. Kaboski
Patricia Rischar Davis	James A. Gresham	Keith T. Kanemoto
Richard F. Davis	Oscar Griffin, Jr.	Judy L. Karinen
Dale N. Davis	Carol W. Grunfeld	Lawrence Karol
Mary G. Davis	Joan C. Gustavson	Harold P. Katner
Fabbian L. Detweiler	Rolf Hackmann	Cathleen Ann Katz
Susan K. Dill	Carole A. Halberg	James Sidney Kennan
Betty B. Dirk	Julie Hamlin	Louise H. King
Robert H. Dodds, Jr.	Felix Maben Hammack	Charles Harold Kipper
Harold Draper	F. Elizabeth Hanlon	Heide P. Kiyota
Wayne Dreggors	Eleonore E. Hansen	James Klein
Daniel R. Dries	Juliette E. Hanson	Theresa I. Kloster
John J. Duffy	Ulrich H. Hardt	William A. Knowlton
Alistair Dyer	Jody W. Hargrove	Martin E. Kurzendoerfer
Brand W. Eaton	Lowell H. Harrison	Judith E. Labath
Janet E. Eddy	Jay R. Helluin	Anna Lambourne
Kathleen Edwards	Archibald Henderson	Leroy E. Landon
William R. Edwards, Jr.	Maria M. Heyssel	Michael A. Lane
William T. Elgin	Alfred B. Hicks, Jr.	Jason E. Lane
Donn G. Ellerbrock	William C. Hicok	David R. Latta
Andras Fabry	Harrison Hierth	J. Richard Lauver
Debora A. Fairbrother	Shirley Hill	Ingrid N. Lee
Daniel M. Faletti	James R. Hohman	Raymond Leisy
Edward Farmlett	Joan Hollingsworth	James J. LeJeune
John N. Ferguson	Timothy Holzer	Catherine Lewis
Michael Dennis Finney	Alan Hotchkiss	Laura S. Lieber
Robert L. Fodrey	Eleanor Hotte	Anthony Lombardi
Frank P. Ford	Jerry Dean House	Sarah Loomis
Kathryn Forgrave	Jennifer R. Howland	Maureen A. Lynch
Elizabeth Frankowski	D A. Huber, Jr.	Timothy Macklin
Gail M. Frey	Nancy S. Huber	Janet M. Magennis
Katherine Friedeman	William H. Hudson	James A. Mallak
Ralph W. Fuller, Jr.	Linda L. Hughes	Hulda E. Markillie
Jeffrey Garlitz	Sabrina F. Hund	Wallace A. Marsh
Genesa N. Garofalo Williams	Stephen A. Hyland	James K. Martin
James Edward Gause	Patricia Iandolo	David S. Mazzoni
Paul D. Gerlach	Ralph P. Iwens	Brenda McCain
Lauran E. Gilbreath	Henry L. Jackson	Leon A. McCleary
Clare D. Gist	Edgar Jacobi	Lawrence C. McCurdy
Edward W. Glazener	Christine Jacobs	Richard R. McElwee

DEFINING MOMENTS

Evan M. McLain	Judith Reiners	Glenn C. Thomason
Heather McMaster	Craig R. Rimby	Harold Thompson
Patricia H. Meharry	Patricia Rischar Davis	Richard C. Thompson
Thomas S. Melchior	Thomas M. Rosato	Delia G. Tillman
Darrell V. Menscer	Kris Rose	Marie P. Tomarelli
Ronnie G. Michaels	David S. Ross	Robert C. Trautwein
Sharon F. Mikulecky	Meredith Rucks	Tony Tripodi
Robert J. Miltner	Alma L. Ruiz	Richard G. Vancamp
James Morman	C E. Ryker	Benjamin D. Vanlandingham
Warren J. Mroz	Priscila Sanabria	Raymond J. Vitelli
Earl Finbar Murphy	Rhea C. Sanford	Vicky J. Voyles
James W. Nickman	Roger E. Schenk, Jr.	Thomas W. Vukovich
Joann M. Noe	Raymond T. Schlude, Jr.	Edward M. Wada
David W. Nordquist	Kurt F. Schoenberg	Richard W. Walker
Louis J. Ogden	Dorothy Marie Schrader	William F. Walker
Kelli J. Olsen	Drucilla Scott	Michael R. Waller
Susan Olson	Troy L. Sedlmeyer	Colleen R. Walsh
Charles A. O'Malley, III	John L. Seppanen	Melinda Jean Walsh
Karen W. O'Neil	Jacqueline Settles	Richard Warren
Neil D. Opfer	Lawrence H. Shaffer	Howard E. Weaver
Mark T. Orr	Patricia Shangraw	Alan J. Webb
Teresa L. Orto	Vincent Shen	Kathleen Weidenhaft
Martha L. Orton	Sally P. Shepardson	Marc Weinberg
Wilma J. Orton	Beth J. Singer	Robert I. Weinstein
Charlotte Oyer	Katherine Smalley	George D. Welch
Judith Padgett	Glenn Smith	Joel H. Westra
Archie E. Patterson	Alan R. Sofinowski	Louis B. Wetmore
James N. Peale, Jr.	Wm Thomas Southards	Eugene A. Whitehouse
Merryll S. Penson	Leila J. Sprince	Patricia Whitesides
Rebecca A. Pfeifer	Joan E. Stagg	Barbara A. White-Ulbricht
David S. Pines	Michele A. Stanley	David C. Whitney
Jack Dan Pittillo	D W. Stebbins	Linda S. Williams
Richard J. Pokon	Mary C. Stewart	David W. Willis
Rebecca S. Politzer	Steven C. Stiles	James Douglas Wilson
William F. Pollard	Donald L. Stilger	John E. Wilson
Alton E. Potts	Anita P. Stotlar	Beatrice Windisch
David B. Pratt	James T. Stringfield	Joseph R. Windish
Paul D. Prescott	Nan Stumbo	Camilla A. Witman
Barbara Purvis	Peggy Sullivan	Heinz D. Woehlk
Randall D. Quarles	Vicki L. Sweigart	Eva M. Wong
Dori A. Rammelsberg-Dvorak	Mary Swindoll	Anthony J. Yowell
Glenn R. Regner	Daniel C. Thomas	Jeffrey S. Zickus
Jane Stander Reilly	Ann Thomas	



THE HONOR SOCIETY OF
PHI KAPPA PHI

P.O. Box 16000
Louisiana State University
Baton Rouge, LA 70893-6000
800.804.9880
Fax: 225.388.4900
Web site: www.phikappaphi.org
E-mail: info@phikappaphi.org