

THE HONOR



SOCIETY OF

PHI KAPPA PHI

A World of Opportunity



2003-



2004



ANNUAL REPORT



Message from the President



Dear Phi Kappa Phi Members and Friends:

The last year of the 2001–2004 Phi Kappa Phi Triennium was arguably our best!

I am pleased to mention just a few of the highlights here. These and others will be explained more fully throughout this report.

Briefly, these include:

- ◆ Installing four new chapters of the Society: Ball State University, North Carolina A&T State University, McKendree College, and Oklahoma City University
- ◆ Conducting a systematic and comprehensive marketing study aimed at “keeping our members ahead of the curve”
- ◆ Electing two new Regional Vice Presidents, Drs. Sandra Holt and Gil Fowler
- ◆ Completing preparations for the Society's Triennial Convention held in Albuquerque, New Mexico, August 2004
- ◆ Receiving from Dr. Lawrence M. Sommers, former Society President, a major gift to endow a Study Abroad grant
- ◆ Disbursing the Society's first Literacy grant funds in July 2003. Significant positive return on investments coupled with generous contributions from many of you made it possible for the Society to expand its service to members and chapters and to grow responsibly. We sincerely thank you!

You should know that we have an amazingly talented and productive Headquarters staff in Baton Rouge, Louisiana, and Auburn, Alabama. We can be grateful also for the effective leadership of our Board of Directors. Equally vital to our organization's success are the volunteer efforts of literally thousands of dedicated individuals at nearly 300 chapters across the country and beyond. We simply cannot do it without you! Thank you so much!

In sum, our collective contributions are quite varied, coming in the form of time, talent, and treasure. All are essential. We welcome and value your involvement in whatever forms it might take.

Thank you again for your support of Phi Kappa Phi!

"Let the love of learning rule humanity."

Yours in Excellence,

A handwritten signature in black ink that reads "Wendell H. McKenzie".

Wendell H. McKenzie, Ph.D.

Society President

Alumni Distinguished Professor of Genetics
North Carolina State University



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■ *New Chapters*



OKLAHOMA CITY UNIVERSITY'S INSTALLATION CEREMONY. (left to right) Dr. James Heflin, South Central region vice president and installing officer; Dr. Susan Barber, assistant vice president for academic affairs; and, Dr. Bernie Patterson, provost.

During 2003–2004, Phi Kappa Phi installed four new chapters: Ball State (IN) University (#290), North Carolina Agricultural & Technical State University (#291),

McKendree (IL) College (#292), and Oklahoma City University (#293).

Of the Ball State installation, North Central Region Vice President Terry Mathias said, “The students I met epitomized the honor, excellence, and integrity that will be the hallmarks of the new chapters. I was particularly impressed with the exceptional faculty who became charter members and new members.”

■ *Marketing Opportunity*

In 2003–2004 Phi Kappa Phi laid the groundwork for many changes in marketing and member benefits. The Society hired a marketing and communications consultant to review its current communications efforts and to conduct a formal marketing study. The consultant made several recommendations based on the brand promise of keeping Phi Kappa Phi members ahead of the curve. Survey results supported these recommendations.

SOME OF THE KEY FINDINGS:

- ◆ 80% of the active members report that the idea of an expanded Web site is beneficial; 84% of lapsed members say that such a benefit is a convincing reason to reactivate their memberships;
- ◆ 79% of active members are in favor of a strategic partnership program with discounts for Phi Kappa Phi members; 73% of lapsed members find it a convincing reason to renew their memberships;
- ◆ 48% of respondents prefer that the *Phi Kappa Phi Focus* be included with the *Phi Kappa Phi Forum*; 36% said it made no difference.

At its Spring 2004 meeting, the Board of Directors moved to accept the marketing report, and an initial implementation plan was set into motion.

Phi Kappa Phi staff began devising the plan focusing on the recommendations that were the most relevant to the membership, as well as those easiest to implement quickly and within the existing budget.

■ *Election of Regional Vice Presidents*

During the 2003–2004 year, two new Regional Vice Presidents were elected in two of the five regions: Sandra Holt (Tennessee State University, #271) in the Southeast region and Gil Fowler (Arkansas State University, #141) in the South Central region.

Sandra Holt, Ph.D.



Dr. Holt is an Associate Professor of Communications and Director of the University Honors Program at Tennessee State University

(TSU) and has served on its faculty and administration for more than thirty years.

She earned her bachelor's and master's degrees at TSU and received her Ph.D. in Rhetoric and Interpersonal/Intercultural Communication from Florida State University.

Gil Fowler, Ph.D.

Dr. Fowler is an Assistant Professor of Journalism at Arkansas State University, where he has been since 1978 after completing his Ph.D. at Southern Illinois



University. In July 2004, Dr. Fowler was appointed Interim Dean of The Honors College. His academic and service record includes more than 100 scholarly and professional presentations, forty-seven publications, seventeen grants, and at least twenty-one national and international consulting assignments in news and public relations.



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■ Preparation for the 2004 Triennial Convention



Early in the triennium, the Convention Planning Committee selected "A Heritage of Excellence, A World of Opportunity" as the theme for the 2004 Phi Kappa Phi Triennial Convention to be held in Albuquerque, New Mexico.

"'A Heritage of Excellence, A World of Opportunity' captures both the time-honored tradition of the Society and the anticipation of future growth and progress," said President Elect Paul J. Ferlazzo, Ph.D.

Throughout 2003–2004, the Phi Kappa Phi Board of Directors and Chapter Relations Committee made final preparations for the event, which included chapter officer workshops and election of Society officers. W. Randolph Chitwood, Jr., MD, FACS, FRCS was chosen as the Society Scholar, and Gil Dellinger was selected as the Society Artist.

Dr. William A. Bloodworth, Jr., president of Augusta State University, was chosen as the keynote speaker.

■ Endowment Opportunities

The 2003–2004 year saw generous, visionary members ensuring that memories are honored in perpetuity through endowed awards. Three such gifts deserve special mention. Two took the form of a current gift. One is deferred.

William Wolfe of Tucson, Arizona, contributed \$100,000 to endow a Fellowship in memory of his grandfather, Alfred M. Wolfe. His decision was prompted by "the honor of Phi Kappa Phi membership and the joy of shared learning and philanthropy." The first Alfred M. Wolfe Fellow is Samuel Ford, who majored in English at Western Kentucky University. Wolfe's generosity will assist Ford as he begins graduate studies this fall at Massachusetts Institute of Technology as the Alfred M. Wolfe Fellow.

Another current gift will endow a Study Abroad grant. Former Society President Larry Sommers of Okemos, Michigan, did not have the opportunity to study abroad as a University of Wisconsin undergraduate in the late 1930s. His gift will make such opportunities available for future generations of students to enrich their educations.

Vicki and L.D. Bond's philanthropy has taken the form of a planned gift. One day,

their bequest will endow fully four Fellowships. Mrs. Bond, who was initiated at Wichita State University, chose Phi Kappa Phi for a deferred gift because "our honor society stands proudly for honor and excellence in a world that too seldom values either." The Bonds designated the Fellowship program because of its stiff competition. "It represents both excellence and earned recognition," Mrs. Bond stated.

■ Literacy Grants

In 2003, the Literacy Grants program was implemented to mobilize members and resources to champion the cause of literacy.

From both the large number and high quality of the applications received, it is evident that the Phi Kappa Phi community of scholars is dedicated to volunteerism and community service.



PEDIATRICIAN JACK SWANSON OF THE MCFARLAND CLINIC IN AMES, IOWA, PARTICIPANT IN THE BABY TALK AMES LITERACY PROJECT. Literacy Grant recipient Cynthia Needles Fletcher, along with volunteers drawn from Iowa State University students and the local Phi Kappa Phi chapter members, serve as volunteer readers to mobilize campus efforts in support of the literacy project, Baby TALK Ames. Since its inception in 2003, nearly 450 books have been purchased with grant funds and presented by pediatricians to babies at their 6-month check-up to encourage parents to read.

During 2003–2004, funds to support seventeen literacy projects were disbursed to recipients. Up to \$2,500 was awarded to each recipient to support ongoing literacy projects or to create new initiatives.



PAT ASCH, 2003 LITERACY GRANT PROGRAM IN ACTION. Phi Kappa Phi Literacy Grant recipients Dr. Janet R. Hutchinson and Dr. Laura J. Moriarty of Virginia Commonwealth University have purchased a series of reading - readiness materials for each of the five preschool classrooms at the Richmond, Virginia, YWCA. Pictured with Pat Asch of the Virginia Supportive Housing organization are participants in the Storybook Heroes program, which offers volunteers the privilege of reading to the children as a part of the reading-readiness program.

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.



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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 and most selective all-discipline honor society. 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. 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 graduating seniors and to the top 7.5 percent of juniors who have 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 \$700,000 is awarded each year to outstanding Phi Kappa Phi members and chapters through local scholarships and the Society's various awards competitions: the Graduate Fellowship, Society 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*

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 are conducted by members of the Society 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.



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Board of Directors, 2001-2004



Wendell H. McKenzie, Ph.D.
Society President



Paul J. Ferlazzo, Ph.D.
President Elect



Donna Clark Schubert
Society Vice President



Neil R. Luebke, Ph.D.
Past President



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



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



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



Recognition of Donors

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

Appreciation is expressed to the Society's many donors, all of whom are committed to honor and excellence. Their gifts make it possible for Phi Kappa Phi to award more funds through its programs than any other honor society. These tax-deductible gifts are vitally important to the continuation and expansion of the awards programs. They include Graduate Fellowships and Awards of Excellence, Study Abroad grants, Scholar and Artist awards, Literacy grants, and Promotion of Excellence grants.

1897 Society (\$500 or more)

Nancy H. Blattner

Mark W. Brown

Paul J. Ferlazzo

Marya M. Free

Alice T. Gasch

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E. Roxie Howlett

Ray W. Kahler

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Wendell H. McKenzie

Terry Mathias

Robert E. Miller

Ruth Patrick

Clara Penniman

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Janet C. Ruhl

Donna C. Schubert

Perry A. Snyder

Robert L. Sokolowski

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William J. Wolfe

Penny L. Wright

Gold Scholars (\$250-\$499)

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Thomas R. Booth

Mark S. Box

Armand J. Cantafio

Ronald S. Castor

Roy C. Edgerton

Gilbert L. Fowler, Jr.

Luis D. Garcia

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Rebekah C. Benek

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Recognition of Donors (cont.)

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Bronze Scholars (\$50 - \$99)

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Recognition of Donors (cont.)

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Mauricia Geissler	Joseph L. Miller	Peter D. Tessner
Glenn A. Goerke	Michael J. Miller	Anna O. Tews
Sherita H. Golden	Norman E. Minekime	Harold Thompson
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Margaret Guidroz	Marie E. Mutz	Frances O. Vanduyne
Stephan C. Guntermann	David W. Nordquist	Daniel Winn Varin
Joan C. Gustavson	Elizabeth Elise Norris	Marianne Smith Varni
Barbara L. Hale	Charles E. Noyes	Edward M. Wada
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Independent Auditors' Report



Postlethwaite & Netterville

To 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 as of June 30, 2004, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The combined financial statements of The Honor Society of Phi Kappa Phi and Phi Kappa Phi Foundation as of June 30, 2003, were audited by other auditors whose report, dated August 25, 2003, expressed an unqualified opinion on those combined statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2004 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, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 25, 2004



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Combined Statements of Financial Position

June 30, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents	\$ 2,107,743	\$ 4,156,936
Investments - marketable securities	23,353,718	18,730,220
Accrued interest receivable	82,999	123,402
Inventory	134,219	148,154
Accounts receivable and other assets	95,816	67,281
Receivable from bequest	-	127,324
Total current assets	25,774,495	23,353,317
Office furniture and equipment, net of accumulated depreciation of \$532,800 and \$465,417, respectively	317,502	404,289
Other assets:		
Investments-marketable securities-restricted	1,546,025	1,535,346
Total assets	\$ 27,638,022	\$ 25,292,952
Liabilities and Net Assets		
Current liabilities:		
Advance payment of dues	\$ 1,276,698	\$ 1,275,838
Advance payment-convention	43,028	-
Accounts payable and accrued expenses	141,955	116,510
Due to chapters	56,934	63,358
Capital lease obligation	9,911	9,090
Total current liabilities	1,528,526	1,464,796
Long-term liabilities -		
Capital lease obligation, less current portion	20,337	30,219
Advance payment of dues	41,495	45,615
Total liabilities	1,590,358	1,540,630
Net assets:		
Unrestricted	24,501,639	22,216,976
Permanently restricted	1,546,025	1,535,346
Total net assets	26,047,664	23,752,322
Total liabilities and net assets	\$ 27,638,022	\$ 25,292,952

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

Investments

(in \$ millions)



Combined Net Assets

(in \$ millions)





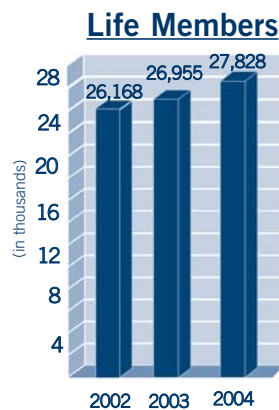
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Combined Statements of Activities

Years Ended June 30, 2004 and 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total
Revenues, gains, and other support:				
Contributions	192,759	—	10,679	203,438
Annual membership dues	\$1,833,935	\$ —	\$ —	\$1,833,935
Initiation fees	452,125	—	—	452,125
Active-for-life memberships	261,020	—	—	261,020
Income on investments	655,492	42,855	—	698,347
Net unrealized & realized gains on long-term investments	1,486,520	64,156	—	1,550,676
Sale of emblems, certificates, etc.	180,141	—	—	180,141
Other	185,426	—	—	185,426
Total revenues, gains and other support	5,247,418	107,011	10,679	5,365,108
Net assets released from restriction (note 8)	107,011	(107,011)	—	—
Total revenues, gains, and other support	5,354,429	—	10,679	5,365,108
Expenses:				
Fellowships Program	454,825	—	—	454,825
Promotion of Excellence Program	50,000	—	—	50,000
Internship Support and Study Abroad Programs	—	—	—	—
Salaries	577,421	—	—	577,421
National headquarters fringe benefits	184,433	—	—	184,433
National headquarters facilities and operations	409,090	—	—	409,090
Resale items	294,728	—	—	294,728
Phi Kappa Phi Focus	128,158	—	—	128,158
Board of Directors travel	79,697	—	—	79,697
Depreciation	120,614	—	—	120,614
Fundraising	29,101	—	—	29,101
Regional meetings	27,626	—	—	27,626
Committee meetings	20,031	—	—	20,031
Investment expense	55,163	—	—	55,163
Other national office expenses	196,962	—	—	196,962
Phi Kappa Phi Forum:				
Salaries and fringe benefits	131,522	—	—	131,522
Journal production and distribution	286,415	—	—	286,415
Operations and other	23,980	—	—	23,980
Total expenses	3,069,766	—	—	3,069,766
Change in net assets	2,284,663	—	10,679	2,295,342
Net assets at beginning of year	22,216,976	—	1,535,346	23,752,322
Net assets at end of year	\$ 24,501,639	\$ —	\$ 1,546,025	\$ 26,047,664

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





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Continued from previous page.

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total
Revenues, gains, 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 investments	671,535	14,121	—	685,656
Net unrealized & realized gains on long-term investments	29,728	—	—	29,728
Sale of emblems, certificates, etc.	189,262	—	—	189,262
Other	185,152	—	—	185,152
Total revenues, gains, and other support	3,668,352	14,121	376,537	4,059,010
Net assets released from restriction (note 8)	14,121	(14,121)	—	—
Total revenues, gains, 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
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	71,721	—	—	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	—	—	66,742
Other national office expenses	146,380	—	—	146,380
Phi Kappa Phi Forum:				
Salaries and fringe benefits	130,219	—	—	130,219
Journal production and distribution	298,332	—	—	298,332
Operations and other	22,408	—	—	22,408
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	<u>\$ 22,216,976</u>	<u>\$ —</u>	<u>\$ 1,535,346</u>	<u>\$ 23,752,322</u>



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Combined Statements of Cash Flows

Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,295,342	\$ 1,015,737
Less donor-restricted contributions	<u>(10,679)</u>	<u>(376,537)</u>
	2,284,665	639,200
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Loss on sale of office furniture and equipment	3,179	--
Depreciation	120,614	112,708
Amortization & accretion of bond discount/premium	(28,850)	(50,620)
(Gain) on sales of marketable securities	(712,208)	(1,597,736)
(Increase) decrease in unrealized appreciation (depreciation) of marketable securities	(809,617)	1,627,466
Changes in operating assets and liabilities:		
Accrued interest receivable	40,403	7,578
Inventory	13,935	(7,831)
Accounts receivable and other assets	(28,537)	32,940
Advance payment of dues	(3,260)	89,533
Advance payment-convention	43,028	-
Accounts payable and accrued expenses	25,445	1,946
Due to chapters	<u>(6,424)</u>	<u>24,018</u>
Net cash provided by operating activities	<u>942,373</u>	<u>879,202</u>
Cash flows from investing activities:		
Purchases of marketable securities	(27,326,443)	(14,124,537)
Proceeds from sales and maturities of marketable securities	24,242,941	15,704,798
Proceeds from donor-restricted contributions	138,003	1,149,213
Purchases of office furniture and equipment	<u>(37,006)</u>	<u>(64,296)</u>
Net cash (used in) provided by investing activities	<u>(2,982,505)</u>	<u>2,665,178</u>
Cash flows from financing activities:		
Payments on capital lease	(9,061)	(2,060)
Net (decrease) increase in cash and cash equivalents	<u>(2,049,193)</u>	<u>3,542,320</u>
Cash and cash equivalents at beginning of year	<u>4,156,936</u>	<u>614,616</u>
Cash and cash equivalents at end of year	<u>\$ 2,107,743</u>	<u>\$ 4,156,936</u>
Supplemental data -		
Noncash gift of building rental	<u>\$ 58,183</u>	<u>\$ 58,183</u>
Equipment acquired through capital lease	<u>\$ —</u>	<u>\$ 41,369</u>

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, 2004 and 2003 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 awards for distinguished achievement, and to engage the community of scholars in service to others.

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.

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.



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Notes to Combined Financial Statements

(continued)

ACCOUNTS RECEIVABLE

Accounts receivable represent amounts billed for services provided that have not been collected. Accounts receivable are considered fully collectible, thus no allowance for doubtful accounts is recorded.

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 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.

OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment is stated at cost if purchased or, if donated, fair market value at the date of the gift, less accumulated depreciation. Phi Kappa Phi capitalizes all assets over \$700. Depreciation is provided using the straight-line method over the estimated useful lives, which range from 3 to 7 years. Expenditures for repairs and maintenance are charged against current year operations.

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 years ended June 30, 2004 and 2003.

ESTIMATES

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reported period. Actual results differ from those estimates.

RECLASSIFICATIONS

Certain 2003 financial statement amounts have been reclassified to conform to 2004 presentation.



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Notes to Combined Financial Statements (continued)

(2) CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30:

	2004	2003
Cash in banks	\$ 169,006	\$ 150,948
Cash held in trust funds	—	84,340
Money market mutual funds	1,938,737	3,921,648
Total cash and cash equivalents	<u>\$ 2,107,743</u>	<u>\$ 4,156,936</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). Amounts in excess of insured limits at June 30, 2004 were \$32,053.

(3) INVESTMENTS - MARKETABLE SECURITIES

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

	2004	2003
Debt securities:		
U.S. Government obligations	\$ 4,347,511	\$ 5,663,558
Corporate obligations	871,347	992,704
Mortgage-backed securities	376,031	453,061
Foreign bonds	157,491	166,059
Total debt securities	5,752,380	7,275,412
Equity securities - common stocks	13,933,337	9,662,538
Mutual funds	5,214,026	3,327,616
Total marketable securities	<u>\$24,899,743</u>	<u>\$20,265,566</u>

(4) RETURN ON INVESTMENTS

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

	Society	Foundation	2004 Combined	2003 Combined
Dividends and interest	\$ 309,210	\$ 389,137	\$ 698,347	\$ 685,656
Net realized & unrealized gains (losses)	560,104	990,572	1,550,676	29,728
Total return on investments	<u>\$ 869,314</u>	<u>\$1,379,709</u>	<u>\$ 2,249,023</u>	<u>\$ 715,384</u>

(5) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30:

	2004	2003
Accounts payable - trade	\$ 46,652	\$ 35,522
Accrued sick and leave time	84,528	79,497
Other accrued expenses	10,775	1,491
	<u>\$ 141,955</u>	<u>\$ 116,510</u>

(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 2004 and 2003.

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

	2004	2003
Equipment	\$ 41,052	\$ 41,052
Less accumulated amortization	(6,842)	(977)
	<u>\$ 34,210</u>	<u>\$ 40,075</u>



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Notes to Combined Financial Statements (continued)

(6) CAPITAL LEASE (CONTINUED)

The following is a schedule of future minimum lease payments under the lease:

Year ending June 30:

2005	\$ 12,259
2006	12,259
2007	<u>9,905</u>
Total minimum lease payments	34,423
Less amount representing interest	<u>(4,175)</u>
Present value of net minimum capital lease payments	30,248
Less current installments of obligations under capital lease	<u>(9,911)</u>
Obligations under capital lease, excluding current installments	<u>\$ 20,337</u>

(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, 2004 and 2003 was \$55,305 and \$51,247, respectively.

(8) NET ASSETS

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

	<u>2004</u>	<u>2003</u>
Fellowship Program	\$ 1,528,210	\$ 1,517,706
Promotion of Excellence Grant Program	6,612	6,612
Scholarship and Artist Program	10,978	10,978
Study Abroad Program	<u>225</u>	<u>50</u>
	<u>\$ 1,546,025</u>	<u>\$ 1,535,346</u>

Temporarily restricted assets released and recorded as an increase in unrestricted net assets for fellowships and operational expenses totaled \$106,574 and \$14,121 for the years ended June 30, 2004 and 2003, respectively.



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Combining Schedule – Financial Position Information

Schedule 1

June 30, 2004 (with comparative totals for the year ended June 30, 2003)

	Society	Foundation	Eliminations	2004 Combined	2003 Combined
Current assets:					
Cash and cash equivalents	\$ 1,004,466	\$ 1,103,277	—	\$ 2,107,743	\$4,156,936
Investments - marketable securities	10,597,523	12,756,195	—	23,353,718	18,730,220
Accrued interest receivable	45,594	37,405	—	82,999	123,402
Inventory	134,219	—	—	134,219	148,154
Accounts receivable and other assets	95,816	—	—	95,816	67,281
Receivable from bequest	—	—	—	—	127,324
Receivable from Foundation/Society	27,939	—	(27,939)	—	—
Total current assets	11,905,557	13,896,877	(27,939)	25,774,495	23,353,317
Office furniture and equipment, net	317,502	—	—	317,502	404,289
Other assets:					
Investments-marketable securities-restricted	—	1,546,025	—	1,546,025	1,535,346
Total assets	\$12,223,059	\$15,442,902	\$(27,939)	\$27,638,022	\$25,292,952
Current liabilities:					
Advance payment of dues	\$ 1,276,698	\$ —	\$ —	\$ 1,276,698	\$ 1,275,838
Advance payment-convention	43,028	—	—	43,028	—
Accounts payable and accrued expenses	135,288	6,667	—	141,955	116,510
Due to chapters	56,934	—	—	56,934	63,358
Capital lease obligation	9,911	—	—	9,911	9,090
Due to Foundation/Society	—	27,939	(27,939)	—	—
Total current liabilities	1,521,859	34,606	(27,939)	1,528,526	1,464,796
Long-term liabilities:					
Capital lease obligation, less current portion	20,337	—	—	20,337	30,219
Advance payment of dues	41,495	—	—	41,495	45,615
Total liabilities	1,583,691	34,606	(27,939)	1,590,358	1,540,630
Net assets - unrestricted	10,639,370	13,862,269	—	24,501,639	22,216,976
Net assets - temporarily restricted	—	—	—	—	—
Net assets - permanently restricted	—	1,546,025	—	1,546,025	1,535,346
Total net assets	10,639,370	15,408,294	—	26,047,664	23,752,322
Total liabilities and net assets	\$12,223,061	\$15,442,900	\$ (27,939)	\$27,638,022	\$25,292,952



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Combining Schedule – Activities Information

Schedule 2

Year Ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

	Society	Foundation	2004 Combined	2003 Combined
Revenues, gains, and other support:				
Contributions	\$ 49,026	\$ 154,412	\$ 203,438	\$ 583,685
Annual membership dues	1,833,935	—	1,833,935	1,820,807
Initiation fees	452,125	—	452,125	329,090
Active-for-life memberships	261,020	—	261,020	235,630
Income on long-term investments	309,210	389,137	698,347	685,656
Net unrealized and realized gains on investments	560,104	990,572	1,550,676	29,728
Sales on emblems, certificates, etc.	180,141	—	180,141	189,262
Other	19,375	166,051	185,426	185,152
Total revenues, gains & other support	<u>3,664,936</u>	<u>1,700,172</u>	<u>5,365,108</u>	<u>4,059,010</u>
Expenses:				
Fellowships Program	\$ —	\$ 454,825	\$ 454,825	\$ 478,375
Promotion of Excellence Program	—	50,000	50,000	40,900
Internship and Study Abroad Program	—	—	—	38,000
Salaries	473,635	103,786	577,421	561,067
National office fringe benefits	151,247	33,186	184,433	175,839
National office facilities and operations	409,090	—	409,090	437,708
Resale items	294,728	—	294,728	300,389
Newsletter	128,158	—	128,158	124,582
Board of Directors travel	75,768	3,929	79,697	71,121
Depreciation	120,614	—	120,614	112,708
Fundraising	—	29,101	29,101	296
Regional meetings	27,626	—	27,626	19,387
Committee meetings	20,031	—	20,031	19,090
Investment expense	23,601	31,562	55,163	66,472
Other national office expenses	167,860	29,102	196,962	146,380
Phi Kappa Phi Forum:				
Salary and fringe benefits	131,522	—	131,522	130,219
Journal production and distribution	286,415	—	286,415	298,332
Operations and other	23,980	—	23,980	22,408
Total expenses	<u>2,334,275</u>	<u>735,491</u>	<u>3,069,766</u>	<u>3,043,273</u>
Changes in net assets	1,330,661	964,681	2,295,342	1,015,737
Transfers to/from funds	(400,000)	400,000	—	—
Net assets at beginning of year	<u>9,708,707</u>	<u>14,043,615</u>	<u>23,752,322</u>	<u>22,736,585</u>
Net assets at end of year	<u>\$10,639,368</u>	<u>\$15,408,296</u>	<u>\$26,047,664</u>	<u>\$23,752,322</u>



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