

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

Audits of Combined Financial Statements

June 30, 2016 and 2015

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## **Independent Auditor's Report**

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

### **Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation, which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the combined statements of activities and cash flows, for the years then ended and the related notes to the combined financial statements.

### **Management's Responsibility for the Combined Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

A Professional Accounting Corporation

Baton Rouge, LA  
September 6, 2016

**THE HONOR SOCIETY OF PHI KAPPA PHI  
AND THE PHI KAPPA PHI FOUNDATION  
Combined Statements of Financial Position  
June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 623,172	\$ 456,792
Investments	47,852,315	48,095,894
Inventory	217,741	228,840
Accounts Receivable	103,357	53,802
Other Assets	149,093	112,626
	<hr/>	<hr/>
<b>Total Current Assets</b>	<b>48,945,678</b>	<b>48,947,954</b>
<b>Property and Equipment</b>		
Land	114,000	114,000
Building	1,298,644	1,293,901
Furniture and Equipment	1,520,911	1,401,459
	<hr/>	<hr/>
Less: Accumulated Depreciation	(1,493,354)	(1,380,376)
	<hr/>	<hr/>
<b>Property and Equipment, Net</b>	<b>1,440,201</b>	<b>1,428,984</b>
<b>Other Assets</b>		
Deposits	12,000	12,000
Investments - Restricted	2,584,709	2,580,686
	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 52,982,588</b>	<b>\$ 52,969,624</b>

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

**THE HONOR SOCIETY OF PHI KAPPA PHI  
AND THE PHI KAPPA PHI FOUNDATION  
Combined Statements of Financial Position (Continued)  
June 30, 2016 and 2015**

	2016	2015
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 293,849	\$ 284,656
Advanced Payment of Dues, Current Portion	1,280,828	1,348,265
Advanced Payment - Convention and Conference	58,500	21,096
Notes Payable, Current Portion	87,020	84,394
Due to Chapters	75,943	72,719
<b>Total Current Liabilities</b>	<b>1,796,140</b>	<b>1,811,130</b>
<b>Long-Term Liabilities</b>		
Advanced Payment of Dues, Net of Current Portion	335,456	327,263
Notes Payable, Net of Current Portion	173,985	260,919
<b>Total Liabilities</b>	<b>2,305,581</b>	<b>2,399,312</b>
<b>Net Assets</b>		
Unrestricted	48,092,298	47,989,626
Permanently Restricted	2,584,709	2,580,686
<b>Total Net Assets</b>	<b>50,677,007</b>	<b>50,570,312</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 52,982,588</b>	<b>\$ 52,969,624</b>

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

**THE HONOR SOCIETY OF PHI KAPPA PHI AND THE PHI KAPPA PHI FOUNDATION**  
**Combined Statements of Activities**  
**For the Years Ended June 30, 2016 and 2015**

	2016			2015		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
<b>Revenue, Gains, and Other Support</b>						
Contributions	\$ 148,834	\$ 4,024	\$ 152,858	\$ 170,878	\$ 3,046	\$ 173,924
Annual Membership Dues	1,862,589	-	1,862,589	1,973,189	-	1,973,189
Initiation Fees	552,580	-	552,580	560,260	-	560,260
Life Memberships	467,960	-	467,960	496,875	-	496,875
Dividends and Interest	1,499,298	-	1,499,298	1,577,283	-	1,577,283
Net Unrealized and Realized Losses on Investments	(455,992)	-	(455,992)	(689,945)	-	(689,945)
Sales of Jewelry, Certificate Frames, Apparel, and Other Items	302,025	-	302,025	302,343	-	302,343
Royalty Income	114,748	-	114,748	94,927	-	94,927
Other Revenues	35,351	-	35,351	205,022	-	205,022
<b>Total Revenues, Gains, and Other Support</b>	<b>4,527,393</b>	<b>4,024</b>	<b>4,531,417</b>	<b>4,690,832</b>	<b>3,046</b>	<b>4,693,878</b>
<b>Expenses</b>						
Fellowship Program	339,215	-	339,215	354,460	-	354,460
Literacy Grants	29,183	-	29,183	29,922	-	29,922
Study Abroad Program	50,000	-	50,000	75,000	-	75,000
Scholar/Artist/Service Awards	-	-	-	3,000	-	3,000
Dissertation Fellowships	20,000	-	20,000	20,000	-	20,000
Love of Learning Award	80,000	-	80,000	114,000	-	114,000
Society Headquarters - Salaries	1,300,992	-	1,300,992	1,133,538	-	1,133,538
Society Headquarters - Fringe Benefits	369,421	-	369,421	347,284	-	347,284
Society Headquarters - Facilities and Operations	194,062	-	194,062	181,731	-	181,731
Resale Items	220,394	-	220,394	256,546	-	256,546
Board of Directors	73,810	-	73,810	104,823	-	104,823
Depreciation	143,589	-	143,589	131,798	-	131,798
Development	17,082	-	17,082	8,552	-	8,552
Chapter Support	186,432	-	186,432	51,282	-	51,282
Committee Meetings	25,546	-	25,546	29,494	-	29,494
Marketing and Communications	513,193	-	513,193	509,501	-	509,501
Publications	274,130	-	274,130	278,173	-	278,173
Investments Expense	160,886	-	160,886	162,995	-	162,995
Interest Expense	9,459	-	9,459	11,413	-	11,413
Information Technology	127,074	-	127,074	101,941	-	101,941
Other Society Headquarters Office Expense	225,015	-	225,015	184,362	-	184,362
Professional Fees	48,664	-	48,664	43,472	-	43,472
Convention Expense	16,576	-	16,576	243,803	-	243,803
<b>Total Expenses</b>	<b>4,424,723</b>	<b>-</b>	<b>4,424,723</b>	<b>4,377,090</b>	<b>-</b>	<b>4,377,090</b>
<b>Change in Net Assets</b>	<b>102,670</b>	<b>4,024</b>	<b>106,694</b>	<b>313,742</b>	<b>3,046</b>	<b>316,788</b>
<b>Net Assets at Beginning of Year</b>	<b>47,989,626</b>	<b>2,580,686</b>	<b>50,570,312</b>	<b>47,675,884</b>	<b>2,577,640</b>	<b>50,253,524</b>
<b>Net Assets at End of Year</b>	<b>\$ 48,092,296</b>	<b>\$ 2,584,710</b>	<b>\$ 50,677,006</b>	<b>\$ 47,989,626</b>	<b>\$ 2,580,686</b>	<b>\$ 50,570,312</b>

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

**THE HONOR SOCIETY OF PHI KAPPA PHI AND THE PHI KAPPA PHI FOUNDATION**  
**Combined Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 106,694	\$ 316,788
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	143,589	131,798
Gain on Sales of Marketable Securities	(1,910,104)	(1,994,674)
Loss on Disposal of Property and Equipment	166	-
Change in Unrealized Loss on Investment Securities	2,366,096	2,684,619
Changes in Operating Assets and Liabilities		
Decrease (Increase) in Inventory	11,099	(71,539)
(Increase) Decrease in Accounts Receivable and Other Assets	(86,022)	17,957
Decrease in Advance Payment of Dues	(59,244)	(87,107)
Increase (Decrease) in Advance Payment - Conference and Conventions	37,404	(30,339)
Increase (Decrease) in Accounts Payable and Accrued Expenses	9,193	(42,712)
Increase (Decrease) in Due to Chapters	3,224	(157,817)
<b>Net Cash Provided by Operating Activities</b>	<b>622,095</b>	<b>766,974</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Investment Securities	(8,514,821)	(5,351,977)
Proceeds from Sales and Maturities of Investment Securities	8,298,386	4,435,555
Purchases of Property and Equipment	(154,972)	(65,022)
<b>Net Cash Used in Investing Activities</b>	<b>(371,407)</b>	<b>(981,444)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on Notes Payable	(84,308)	(82,353)
<b>Net Cash Used in Financing Activities</b>	<b>(84,308)</b>	<b>(82,353)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>166,380</b>	<b>(296,823)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>456,792</b>	<b>753,615</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 623,172</b>	<b>\$ 456,792</b>
<b>Supplemental Cash Flow Information</b>		
Interest Paid	\$ 9,459	\$ 11,413

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



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

**Notes to the Combined Financial Statements**

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**Note 1. Organization and Summary of Significant Accounting Policies**

**Organization**

The combined financial statements include the accounts of The Honor Society of Phi Kappa Phi (Society) and The Phi Kappa Phi Foundation (Foundation, 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 Accounting**

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

**Use of Estimates**

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

**Tax Status**

As organizations described in Internal Revenue Code (IRC) Section 501(c)(3), Phi Kappa Phi is exempt from federal income taxes on its related income under Section 501(a) of the IRC. Accordingly, no provision for income taxes has been made; however, should Phi Kappa Phi engage in activities unrelated to the purpose for which it was created, taxable income could result. Phi Kappa Phi had no material unrelated business income for the fiscal years ended June 30, 2016 or 2015.

**Cash and Cash Equivalents**

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

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

**Notes to the Combined Financial Statements**

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

**Investments**

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

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

**Inventories**

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

**Accounts Receivable**

Phi Kappa Phi determines past-due accounts based on contractual terms and does not charge interest on the past-due accounts. Receivables consist primarily of amounts due from chapters related to inventory items. Phi Kappa Phi charges off receivables if management considers the collection of the outstanding balance to be doubtful. Management does not believe an allowance for doubtful accounts is necessary at either June 30, 2016 or 2015.

**Property and Equipment**

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

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

Depreciation is provided using the straight-line method over the estimated useful lives, which range from 3 to 7 years for furniture and equipment and 39 years for buildings. Depreciation expense for the years ended June 30, 2016 and 2015, totaled \$143,589 and \$131,798, respectively.

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

**Notes to the Combined Financial Statements**

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

**Impairment of Long-Lived Assets**

Phi Kappa Phi reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that the undiscounted cash flows resulting from the use of the asset group is less than the carrying amount, an impairment loss equal to the excess of the asset's carrying amount over its fair value is recorded. Phi Kappa Phi did not record any impairment loss during the years ended June 30, 2016 and 2015.

**Net Assets**

Phi Kappa Phi reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets include those net assets whose use by Phi Kappa Phi is not subject to donor-imposed stipulations. Temporarily restricted net assets are those net assets whose use by Phi Kappa Phi is subject to donor-imposed stipulations that may or will be met either by actions of Phi Kappa Phi and/or the passage of time. Phi Kappa Phi had no temporarily restricted net assets at either June 30, 2016 or 2015. Permanently restricted net assets are those net assets whose use by Phi Kappa Phi is subject to donor-imposed stipulations which require that they be maintained permanently by Phi Kappa Phi.

**Revenue Recognition**

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

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

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

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising expenses charged to operations for the years ended June 30, 2016 and 2015, were \$100,664 and \$49,659, respectively.

**Reclassifications**

Certain accounts relating to the prior year have been restated to conform to current year's presentation. The reclassifications have no effect on net income.

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

**Notes to the Combined Financial Statements**

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

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

**Note 3. Investments**

The following is a summary of investments held at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Equity Mutual Funds	\$ 20,475,608	\$ 20,485,577
Real Estate Investment Trust Mutual Funds (REIT)	6,509,270	6,339,641
Fixed Income Mutual Funds	23,452,146	23,851,362
	<b>50,437,024</b>	50,676,580
Less: Restricted Securities	<b>(2,584,710)</b>	(2,580,686)
<b>Total Unrestricted Securities</b>	<b>\$ 47,852,314</b>	<b>\$ 48,095,894</b>

The following is a summary of the return on investments for the years ended June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Dividends and Interest	\$ 1,499,298	\$ 1,577,283
Unrealized Losses	<b>(2,366,094)</b>	(2,684,619)
Realized Gains	1,910,105	1,994,674
<b>Total Return on Investments</b>	<b>\$ 1,043,309</b>	<b>\$ 887,338</b>

**Note 4. Fair Value Measurements**

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

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

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

**Notes to the Combined Financial Statements**

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**Note 4. Fair Value Measurements (Continued)**

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

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

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

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

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

*Mutual Funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by Phi Kappa Phi are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by Phi Kappa Phi are deemed to be actively traded. There have been no changes in the methodologies used at June 30, 2016 and 2015.

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

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

**Notes to the Combined Financial Statements**

**Note 4. Fair Value Measurements (Continued)**

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

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

The valuation of Phi Kappa Phi's assets measured at fair value on a recurring basis at June 30, 2015, are as follows:

<b>June 30, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Small Company Stocks	\$ 1,628,103	\$ -	\$ -	\$ 1,628,103
International Small Company Stocks	654,875	-	-	654,875
Emerging Markets Stocks	1,746,546	-	-	1,746,546
Large Company Stocks	11,371,857	-	-	11,371,857
International Large Company Stocks	5,084,196	-	-	5,084,196
Domestic REITS	3,898,250	-	-	3,898,250
International REITS	2,441,391	-	-	2,441,391
High Quality Bond Funds	5,209,484	-	-	5,209,484
Investment Grade Bonds	12,226,044	-	-	12,226,044
International Bond Funds	5,079,344	-	-	5,079,344
High Yield Bond Fund	1,336,490	-	-	1,336,490
<b>Total</b>	<b>\$ 50,676,580</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 50,676,580</b>

**Note 5. Benefit Plan**

Phi Kappa Phi has a defined contribution pension plan that covers all full-time employees. Phi Kappa Phi contributes an amount equal to 11% of the employees' salaries. Employees make no contributions and are immediately vested in the employer contribution. Pension expense totaled \$118,614 and \$108,519, for the years ended June 30, 2016 and 2015, respectively.

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

**Notes to the Combined Financial Statements**

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**Note 6. Affiliated Chapters**

In accordance with the bylaws of Phi Kappa Phi, the residual assets of any chapter placed on inactive status or whose charter has been withdrawn shall be deposited in a restricted Society account. Phi Kappa Phi holds these funds in an unrestricted interest bearing account and records the funds as amounts due to chapters. The amounts due to chapters was \$76,122 and \$72,719, at June 30, 2016 and 2015, respectively. If the chapter has not been restored to active status or reinstated within five years, these assets and any interest thereon will be placed in the Society's operating investment fund. The total amount placed in the Society's operating investment fund was \$1,500 and \$173,473, for the years ended June 30, 2016 and 2015, respectively.

**Note 7. Net Assets**

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

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

Interest, dividends, capital gains, or other earnings of the permanently restricted net assets are to be utilized at the discretion of the Board of Directors, and in compliance with the policies and procedures of the Board designated holder of the endowment. This policy, with the exception of the inviolate nature of the endowment that may not be altered, may only be changed by a two-thirds majority vote of the elected, voting members of the Board of Directors. As of June 30, 2016 and 2015, all interest and dividend income and unrealized gains were classified as unrestricted.

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

**Notes to the Combined Financial Statements**

**Note 7. Net Assets (Continued)**

Permanently restricted net assets consisted of the following as of June 30, 2016 and 2015:

	2016	2015
Fellowship Program	\$ 1,629,259	\$ 1,627,392
Promotion of Excellence Grant Program	6,612	6,612
Scholar and Artist Program	11,728	11,623
Literacy Program	2,720	2,130
Study Abroad Program	45,126	45,026
Building Fund	383,027	383,027
Love of Learning	2,856	1,595
True Foundation Fellowship	300,000	300,000
Drs. Diane G. and Webb M. Smathers, Jr.	7,500	7,500
Agatha Burnet Fellowship	88,996	88,996
Ray Sylvester Distinguished Service	285	285
Dissertation Fellowship	450	350
Yeakel Fellowship	106,150	106,150
<b>Total</b>	<b>\$ 2,584,709</b>	<b>\$ 2,580,686</b>

Changes in endowment net assets for the years ended June 30, 2016 and 2015, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Balance at June 30, 2014</b>	\$ -	\$ -	\$ 2,577,640	\$ 2,577,640
Investment Income	238,340	-	-	238,340
Net Depreciation	(175,740)	-	-	(175,740)
Contributions	-	-	3,046	3,046
Appropriation for Expenditure	(62,600)	-	-	(62,600)
<b>Balance at June 30, 2015</b>	-	-	2,580,686	2,580,686
Investment Income	205,275	-	-	205,275
Net Depreciation	(156,649)	-	-	(156,649)
Contributions	-	-	4,024	4,024
Appropriation for Expenditure	(48,626)	-	-	(48,626)
<b>Balance at June 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,584,710</b>	<b>\$ 2,584,710</b>



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

**Notes to the Combined Financial Statements**

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**Note 8. Notes Payable**

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

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

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

<u>June 30,</u>	<u>Amount</u>
2017	\$ 87,020
2018	89,705
2019	<u>84,280</u>
<b>Total</b>	<u><u>\$ 261,005</u></u>

**Note 9. Commitments and Contingencies**

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

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

**Note 10. Functional Expenses**

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

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

**Notes to the Combined Financial Statements**

**Note 10. Functional Expenses (Continued)**

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

	Program Services	Management and General	Fundraising	Total
Fellowship Program	\$ 339,215	\$ -	\$ -	\$ 339,215
Literacy Grants	29,183	-	-	29,183
Study Abroad Program	50,000	-	-	50,000
Dissertation Fellowships	20,000	-	-	20,000
Love of Learning Award	80,000	-	-	80,000
Society Headquarters- Salaries	713,093	556,203	31,697	1,300,993
Society Headquarters - Fringe Benefits	203,182	158,851	7,388	369,421
Society Headquarters - Facilities and Operations	32,950	161,112	-	194,062
Resale Items	220,394	-	-	220,394
Board of Directors	-	73,811	-	73,811
Depreciation	-	143,589	-	143,589
Development	-	-	17,082	17,082
Chapter Support	177,277	9,155	-	186,432
Committee Meetings	-	25,546	-	25,546
Marketing and Communications	513,193	-	-	513,193
Publications	269,270	4,860	-	274,130
Investments Expense	-	160,886	-	160,886
Information Technology	57,182	57,184	12,708	127,074
Interest Expense	-	9,459	-	9,459
Other Society Headquarters Office Expense	94,443	130,572	-	225,015
Professional Fees	-	48,664	-	48,664
Convention Expense	16,576	-	-	16,576
<b>Total</b>	<b>\$ 2,815,958</b>	<b>\$ 1,539,892</b>	<b>\$ 68,875</b>	<b>\$ 4,424,725</b>

Functional expense classifications for the year ended June 30, 2015, were as follows:

	Program Services	Management and General	Fundraising	Total
Fellowship Program	\$ 354,460	\$ -	\$ -	\$ 354,460
Literacy Grants	29,922	-	-	29,922
Study Abroad Program	75,000	-	-	75,000
Scholar/Artist/Service Awards	3,000	-	-	3,000
Dissertation Fellowships	20,000	-	-	20,000
Love of Learning Award	114,000	-	-	114,000
Society Headquarters - Salaries	605,139	500,097	28,302	1,133,538
Society Headquarters - Fringe Benefits	169,861	168,746	8,677	347,284
Society Headquarters - Facilities and Operations	33,629	148,102	-	181,731
Resale Items	256,546	-	-	256,546
Board of Directors	-	104,823	-	104,823
Depreciation	-	131,798	-	131,798
Development	-	-	8,552	8,552
Chapter Support	39,604	11,678	-	51,282
Committee Meetings	-	29,494	-	29,494
Marketing and Communications	466,304	43,197	-	509,501
Publications	268,865	9,308	-	278,173
Investments Expense	-	162,995	-	162,995
Information Technology	-	101,941	-	101,941
Interest Expense	-	11,413	-	11,413
Other Society Headquarters Office Expense	-	170,850	13,512	184,362
Professional Fees	-	43,472	-	43,472
Convention Expense	121,901	121,902	-	243,803
<b>Total</b>	<b>\$ 2,558,231</b>	<b>\$ 1,759,816</b>	<b>\$ 59,043</b>	<b>\$ 4,377,090</b>

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

**Notes to the Combined Financial Statements**

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**Note 11. Uncertain Tax Positions**

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

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

**Note 12. Subsequent Events**

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

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 6, 2016, and determined that no other events have occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

## **SUPPLEMENTARY INFORMATION**



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## Independent Auditor's Report on Supplementary Information

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

We have audited the combined financial statements of The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation as of and for the years ended June 30, 2016 and 2015, have issued our report thereon dated September 6, 2016 which expressed an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information as of and for the year ended June 30, 2016 and 2015, has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information as of and for the years ended June 30, 2016 and 2015, is fairly stated in all material respects in relation to the combined financial statements as a whole.

A Professional Accounting Corporation

Baton Rouge, LA  
September 6, 2016

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**THE HONOR SOCIETY OF PHI KAPPA PHI AND THE PHI KAPPA PHI FOUNDATION**  
**Combining Statement of Financial Position**  
**June 30, 2016 (with Comparative Combined Totals as of June 30, 2015)**

**Schedule I**

	Society	Foundation	Eliminations	2016 Combined	2015 Combined
<b>Assets</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	\$ 560,648	\$ 62,524	\$ -	\$ 623,172	\$ 456,792
Investments	22,588,345	25,263,970	-	47,852,315	48,095,894
Inventory	217,741	-	-	217,741	228,840
Accounts Receivable	102,975	382	-	103,357	53,802
Other Assets	149,093	-	-	149,093	112,626
Receivable from Foundation/Society	144,405	-	(144,405)	-	-
<b>Total Current Assets</b>	<b>23,763,207</b>	<b>25,326,876</b>	<b>(144,405)</b>	<b>48,945,678</b>	<b>48,947,954</b>
<b>Property and Equipment</b>					
Land	114,000	-	-	114,000	114,000
Building	1,298,644	-	-	1,298,644	1,293,901
Furniture and Equipment	1,520,911	-	-	1,520,911	1,401,459
Less: Accumulated Depreciation	(1,493,354)	-	-	(1,493,354)	(1,380,376)
Net Property and Equipment	1,440,201	-	-	1,440,201	1,428,984
<b>Other Assets</b>					
Deposits	12,000	-	-	12,000	12,000
Investments - Restricted	390,527	219,418	-	2,584,709	2,580,686
<b>Total Assets</b>	<b>\$ 25,605,935</b>	<b>\$ 27,521,058</b>	<b>\$ (144,405)</b>	<b>\$ 52,982,588</b>	<b>\$ 52,969,624</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Expenses	\$ 268,983	\$ 24,687	\$ -	\$ 293,849	\$ 284,656
Advanced Payment of Dues, Current	1,280,828	-	-	1,280,828	1,348,265
Advanced Payment - Convention	58,500	-	-	58,500	21,096
Notes Payable, Current Portion	87,020	-	-	87,020	84,394
Due to Chapters	76,122	-	-	75,943	72,719
Due to Foundation/Society	-	144,405	(144,405)	-	-
<b>Total Current Liabilities</b>	<b>1,771,453</b>	<b>169,092</b>	<b>(144,405)</b>	<b>1,796,140</b>	<b>1,811,130</b>
<b>Long-Term Liabilities</b>					
Advance Payment of Dues, Net of Current Portion	335,456	-	-	335,456	327,263
Notes Payable, Net of Current Portion	173,985	-	-	173,985	260,919
<b>Total Liabilities</b>	<b>2,280,894</b>	<b>169,092</b>	<b>(144,405)</b>	<b>2,305,581</b>	<b>2,399,312</b>
<b>Net Assets</b>					
Unrestricted	22,934,514	25,157,784	-	48,092,298	47,989,626
Permanently Restricted	390,527	2,194,182	-	2,584,709	2,580,686
<b>Total Net Assets</b>	<b>23,325,041</b>	<b>27,351,966</b>	<b>-</b>	<b>50,677,007</b>	<b>50,570,312</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 25,605,935</b>	<b>\$ 27,521,058</b>	<b>\$ (144,405)</b>	<b>\$ 52,982,588</b>	<b>\$ 52,969,624</b>

See accompanying independent auditor's report on supplementary information.

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

Schedule II

Combining Statement of Activities

For the Year ended June 30, 2016 (with Comparative Combined Totals for the Year Ended June 30, 2015)

	Society	Foundation	2016 Combined	2015 Combined
<b>Revenue, Gains, and Other Support</b>				
Contributions	\$ -	\$ 152,858	\$ 152,858	\$ 173,924
Annual Membership Dues	1,862,589	-	1,862,589	1,973,189
Initiation Fees	552,580	-	552,580	560,260
Life Memberships	467,960	-	467,960	496,875
Dividends and Interest	690,834	808,464	1,499,298	1,577,283
Net Unrealized and Realized Losses on Investments	(133,165)	(322,827)	(455,992)	(689,945)
Sales of Jewelry, Certificate Frames, Apparel, and Other Items	302,025	-	302,025	302,343
Royalty Income	114,748	-	114,748	94,927
Other Revenues	35,351	-	35,351	205,022
<b>Total Revenue, Gains, and Other Support</b>	<b>3,892,922</b>	<b>638,495</b>	<b>4,531,417</b>	<b>4,693,878</b>
<b>Expenses</b>				
Fellowship Program	-	339,215	339,215	354,460
Literacy Grants	-	29,183	29,183	29,922
Study Abroad Program	-	50,000	50,000	75,000
Scholar/Artist/Service Awards	-	-	-	3,000
Dissertation Fellowships	-	20,000	20,000	20,000
Love of Learning Award	-	80,000	80,000	114,000
Society Headquarters - Salaries	1,119,570	181,422	1,300,992	1,133,538
Society Headquarters - Fringe Benefits	318,095	51,326	369,421	347,284
Society Headquarters - Facilities and Operations	183,964	10,098	194,062	181,731
Resale Items	220,394	-	220,394	256,546
Board of Directors	69,717	4,093	73,810	104,823
Depreciation	143,589	-	143,589	131,798
Development	-	17,082	17,082	8,552
Chapter Support	186,432	-	186,432	51,282
Committee Meetings	21,261	4,285	25,546	29,494
Marketing and Communications	463,102	50,091	513,193	509,501
Publications	274,130	-	274,130	278,173
Investments Expense	73,439	87,447	160,886	162,995
Interest Expense	9,459	-	9,459	11,413
Information Technology	121,559	5,515	127,074	101,941
Other Society Headquarters Office Expense	211,819	13,196	225,015	184,362
Professional Fees	43,094	5,570	48,664	43,472
Convention Expense	16,576	-	16,576	243,803
<b>Total Expenses</b>	<b>3,476,200</b>	<b>948,523</b>	<b>4,424,723</b>	<b>4,377,090</b>
<b>Change in Net Assets</b>	<b>416,722</b>	<b>(310,028)</b>	<b>106,694</b>	<b>316,788</b>
<b>Net Assets at Beginning of Year</b>	<b>23,008,319</b>	<b>27,561,993</b>	<b>50,570,312</b>	<b>50,253,524</b>
<b>Transfer of Net Assets</b>	<b>(100,000)</b>	<b>100,000</b>	<b>-</b>	<b>-</b>
<b>Net Assets at End of Year</b>	<b>\$ 23,325,041</b>	<b>\$ 27,351,965</b>	<b>\$ 50,677,006</b>	<b>\$ 50,570,312</b>

See accompanying independent auditor's report on supplementary information.