

# **THE HONOR SOCIETY OF PHI KAPPA PHI**

Audits of Financial Statements

June 30, 2021

(with Comparative Consolidated Information about  
The Honor Society of Phi Kappa Phi and  
The Phi Kappa Phi Foundation  
as of June 30, 2020)



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## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of The Honor Society of Phi Kappa Phi, which comprise the statement of financial position as of June 30, 2021 (with comparative consolidated information about The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation as of June 30, 2020), the statements of activities, functional expenses, and cash flows for the year ended June 30, 2021 (with comparative consolidated information about The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation for the year ended June 30, 2020), and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the 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 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 financial statements.

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

## **LOUISIANA • TEXAS**

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Honor Society of Phi Kappa Phi as of June 30, 2021 (with comparative consolidated information about The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation as of June 30, 2020), and the changes in its net assets and its cash flows for the year ended June 30, 2021 (with comparative consolidated information about The Honor Society of Phi Kappa Phi and The Phi Kappa Phi Foundation for the year ended June 30, 2020) 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 28, 2021

**THE HONOR SOCIETY OF PHI KAPPA PHI**  
**Statement of Financial Position**  
**June 30, 2021 (with Comparative Consolidated Information**  
**about the Honor Society of Phi Kappa Phi and**  
**The Phi Kappa Phi Foundation as of June 30, 2020)**

	2021	2020 (Consolidated)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 338,279	\$ 299,449
Investments	68,732,626	56,538,594
Inventory	44,844	38,883
Accounts Receivable	41,002	85,026
Contributions Receivable	148,903	-
Other Current Assets	127,601	200,820
<b>Total Current Assets</b>	<b>69,433,255</b>	<b>57,162,772</b>
<b>Property and Equipment, Net</b>	<b>1,487,632</b>	<b>1,622,692</b>
<b>Other Assets</b>		
Deposits	19,708	19,708
Investments - Donor-Restricted	4,370,044	3,044,160
Investments - Board-Designated	1,820,361	1,259,294
<b>Total Assets</b>	<b>\$ 77,131,000</b>	<b>\$ 63,108,626</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 321,162	\$ 449,989
Advanced Payment of Dues, Current Portion	1,518,051	1,388,778
Notes Payable, Current Portion	-	328,890
Due to Chapters	107,376	130,483
<b>Total Current Liabilities</b>	<b>1,946,589</b>	<b>2,298,140</b>
<b>Long-Term Liabilities</b>		
Advanced Payment of Dues, Net of Current Portion	9,160,120	9,016,729
<b>Total Liabilities</b>	<b>11,106,709</b>	<b>11,314,869</b>
<b>Net Assets</b>		
<b>Without Donor Restrictions</b>		
Designated by the Board for:		
Sherrill Carlson Fellowship	1,320,361	1,074,719
Contingency	500,000	184,575
Undesignated	59,833,886	47,490,303
	<b>61,654,247</b>	<b>48,749,597</b>
<b>With Donor Restrictions</b>		
	<b>4,370,044</b>	<b>3,044,160</b>
<b>Total Net Assets</b>	<b>66,024,291</b>	<b>51,793,757</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 77,131,000</b>	<b>\$ 63,108,626</b>

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

**THE HONOR SOCIETY OF PHI KAPPA PHI**  
**Statement of Activities**  
**For the Year Ended June 30, 2021 (with Comparative Consolidated**  
**Information about The Honor Society of Phi Kappa Phi and**  
**The Phi Kappa Phi Foundation for the Year Ended**  
**June 30, 2020)**

	2021			2020 (Consolidated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains, and Other Support</b>						
Contributions	\$ 821,580	\$ 699,561	\$ 1,521,141	\$ 189,478	\$ 11,927	\$ 201,405
Annual Membership Dues	1,621,981	-	1,621,981	1,735,958	-	1,735,958
Initiation Fees	645,300	-	645,300	626,480	-	626,480
Life Memberships	229,344	-	229,344	222,860	-	222,860
Investment Return, Net	14,079,040	738,591	14,817,631	2,724,067	153,005	2,877,072
Sales of Jewelry, Certificate Frames, Apparel, and Other Items	7,166	-	7,166	-	-	-
Royalty Income	187,902	-	187,902	195,430	-	195,430
Other Revenues	384,264	-	384,264	33,036	-	33,036
Release of Restrictions	112,268	(112,268)	-	91,734	(91,734)	-
<b>Total Revenues, Gains, and Other Support</b>	<b>18,088,845</b>	<b>1,325,884</b>	<b>19,414,729</b>	<b>5,819,043</b>	<b>73,198</b>	<b>5,892,241</b>
<b>Expenses</b>						
National Office - Salaries	1,719,840	-	1,719,840	1,505,040	-	1,505,040
Awards, Fellowships, and Grants	969,076	-	969,076	826,423	-	826,423
National Office - Fringe Benefits	539,520	-	539,520	472,279	-	472,279
Other National Office Expense	438,265	-	438,265	393,197	-	393,197
Publications	289,600	-	289,600	294,522	-	294,522
Information Technology	279,818	-	279,818	65,382	-	65,382
National Office - Facilities and Operations	254,415	-	254,415	256,424	-	256,424
Chapter Growth	237,504	-	237,504	148,073	-	148,073
Marketing and Communications	227,484	-	227,484	552,070	-	552,070
Depreciation	97,347	-	97,347	122,855	-	122,855
Resale Items	73,149	-	73,149	59,960	-	59,960
Development	29,074	-	29,074	32,628	-	32,628
Board of Directors	21,890	-	21,890	24,281	-	24,281
Convention Expense	5,569	-	5,569	23,052	-	23,052
Interest Expense	1,644	-	1,644	494	-	494
Committee Meetings	-	-	-	26,670	-	26,670
<b>Total Expenses</b>	<b>5,184,195</b>	<b>-</b>	<b>5,184,195</b>	<b>4,803,350</b>	<b>-</b>	<b>4,803,350</b>
<b>Change in Net Assets</b>	<b>12,904,650</b>	<b>1,325,884</b>	<b>14,230,534</b>	<b>1,015,693</b>	<b>73,198</b>	<b>1,088,891</b>
<b>Net Assets, Beginning of Year</b>	<b>48,749,597</b>	<b>3,044,160</b>	<b>51,793,757</b>	<b>56,586,751</b>	<b>2,970,962</b>	<b>59,557,713</b>
<b>Cumulative-Effect Adjustment - Change in Accounting Principle</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,852,847)</b>	<b>-</b>	<b>(8,852,847)</b>
<b>Net Assets, July 1, 2020, as Adjusted</b>	<b>48,749,597</b>	<b>3,044,160</b>	<b>51,793,757</b>	<b>47,733,904</b>	<b>2,970,962</b>	<b>50,704,866</b>
<b>Net Assets, End of Year</b>	<b>\$ 61,654,247</b>	<b>\$ 4,370,044</b>	<b>\$ 66,024,291</b>	<b>\$ 48,749,597</b>	<b>\$ 3,044,160</b>	<b>\$ 51,793,757</b>

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

**THE HONOR SOCIETY OF PHI KAPPA PHI**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2021**

	Program Services										Supporting Services			
	Fellowship Program	Literacy Program	Study Abroad Program	Scholar/Artist / Services Program	Dissertation Fellowships	Love of Learning Award	Excellence in Innovation Award	Graduate Research Grants	Chapter Development	Marketing and Communication Initiatives	Total	Management and General	Fundraising	Total
National Office - Salaries	\$ 18,093	\$ 9,596	\$ 12,429	\$ 6,764	\$ 9,596	\$ 15,261	\$ 11,074	\$ 5,788	\$ 356,568	\$ 514,184	\$ 959,353	\$ 717,249	\$ 43,238	\$ 1,719,840
Awards, Fellowships, and Grants	605,000	29,146	-	3,000	100,000	99,500	100,000	30,000	-	2,430	969,076	-	-	969,076
National Office - Fringe Benefits	5,414	2,871	3,719	2,024	2,871	4,567	3,314	1,732	106,696	153,859	287,067	239,515	12,938	539,520
Other Society National Office Expense	-	-	-	-	-	-	-	-	-	-	-	433,185	5,080	438,265
Publications	-	-	-	-	-	-	-	-	-	289,600	289,600	-	-	289,600
Information Technology	-	-	-	-	-	-	-	-	40,000	-	40,000	239,818	-	279,818
National Office - Facilities and Operations	-	-	-	-	-	-	-	-	-	-	-	254,415	-	254,415
Chapter Growth	-	-	-	-	-	-	-	-	220,437	-	220,437	17,067	-	237,504
Marketing and Communications	-	-	-	-	-	-	-	-	-	130,568	130,568	96,916	-	227,484
Depreciation	-	-	-	-	-	-	-	-	-	-	-	97,347	-	97,347
Resale Items	-	-	-	-	-	-	-	-	-	73,149	73,149	-	-	73,149
Development	-	-	-	-	-	-	-	-	-	-	-	-	29,074	29,074
Board of Directors	-	-	-	-	-	-	-	-	-	-	-	21,890	-	21,890
Convention Expense	-	-	-	-	-	-	-	-	5,569	-	5,569	-	-	5,569
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	1,644	-	1,644
<b>Total</b>	<b>\$ 628,507</b>	<b>\$ 41,613</b>	<b>\$ 16,148</b>	<b>\$ 11,788</b>	<b>\$ 112,467</b>	<b>\$ 119,328</b>	<b>\$ 114,388</b>	<b>\$ 37,520</b>	<b>\$ 729,270</b>	<b>\$ 1,163,790</b>	<b>\$ 2,974,819</b>	<b>\$ 2,119,046</b>	<b>\$ 90,330</b>	<b>\$ 5,184,195</b>

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

**THE HONOR SOCIETY OF PHI KAPPA PHI  
AND THE PHI KAPPA PHI FOUNDATION  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2020**

	Program Services										Supporting Services			
	Fellowship Program	Literacy Program	Study Abroad Program	Scholar/Artist/ Services Program	Dissertation Fellowships	Love of Learning Award	Excellence in Innovation Award	Publications	Chapter Development	Marketing and Communication Initiatives	Total	Management and General	Fundraising	Total
National Office - Salaries	\$ 15,388	\$ 7,770	\$ 12,848	\$ 5,230	\$ 7,770	\$ 12,848	\$ 9,115	\$ 98,029	\$ 319,145	\$ 340,150	\$ 828,293	\$ 639,542	\$ 37,205	\$ 1,505,040
Awards, Fellowships, and Grants	606,925	29,998	-	-	90,000	99,500	-	-	-	-	826,423	-	-	826,423
Marketing and Communications	6,495	-	-	-	3,995	-	39,083	-	-	362,161	411,734	10,499	129,837	552,070
National Office - Fringe Benefits	5,838	2,748	4,808	1,719	2,748	4,808	3,093	29,076	107,718	117,080	279,636	180,863	11,780	472,279
Other Society National Office Expense	-	-	-	-	-	-	-	-	-	20,679	20,679	365,332	7,186	393,197
Publications	-	-	-	-	-	-	-	286,717	-	-	286,717	7,805	-	294,522
National Office - Facilities and Operations	-	-	-	-	-	-	-	-	34,904	58,844	93,748	160,978	1,698	256,424
Chapter Growth	-	-	-	-	-	-	-	-	148,073	-	148,073	-	-	148,073
Depreciation	-	-	-	-	-	-	-	-	-	-	-	122,855	-	122,855
Information Technology	-	-	-	-	-	-	-	-	16,344	16,345	32,689	32,693	-	65,382
Resale Items	-	-	-	-	-	-	-	-	-	59,960	59,960	-	-	59,960
Development	-	-	-	-	-	-	-	-	-	-	-	-	32,628	32,628
Committee Meetings	-	-	-	-	-	-	-	-	-	-	-	26,670	-	26,670
Board of Directors	-	-	-	-	-	-	-	-	-	-	-	24,281	-	24,281
Convention Expense	-	-	-	-	-	-	-	-	23,052	-	23,052	-	-	23,052
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	494	-	494
<b>Total</b>	<b>\$ 634,646</b>	<b>\$ 40,516</b>	<b>\$ 17,656</b>	<b>\$ 6,949</b>	<b>\$ 104,513</b>	<b>\$ 117,156</b>	<b>\$ 51,291</b>	<b>\$ 413,822</b>	<b>\$ 649,236</b>	<b>\$ 975,219</b>	<b>\$ 3,011,004</b>	<b>\$ 1,572,012</b>	<b>\$ 220,334</b>	<b>\$ 4,803,350</b>

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



**THE HONOR SOCIETY OF PHI KAPPA PHI**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2021 (with Comparative**  
**Consolidated Information about The Honor Society of Phi Kappa Phi**  
**and the Phi Kappa Phi Foundation for the Year Ended June 30, 2020)**

	2021	2020 (Consolidated)
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 14,230,534	\$ 1,088,891
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	97,347	122,855
Net Realized and Unrealized Gain on Investment Securities	(13,265,737)	(1,456,367)
Loss on Disposal of Property and Equipment	59,130	-
Paycheck Protection Program Loan Forgiveness	(328,890)	-
Changes in Operating Assets and Liabilities		
Increase in Inventory	(5,961)	(13,149)
(Increase) Decrease in Accounts Receivable		
Contributions Receivable and Other Assets	(31,660)	26,282
Increase (Decrease) in Advanced Payment of Dues	272,664	(54,619)
Decrease in Advanced Payment - Convention and Conference	-	(11,750)
(Decrease) Increase in Accounts Payable and Accrued Expenses	(128,827)	136,975
(Decrease) Increase in Due to Chapters	(23,107)	67,130
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>875,493</b>	<b>(93,752)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Investment Securities	(43,823,119)	(8,933,017)
Proceeds from Sales and Maturities of Investment Securities	43,007,873	9,043,376
Purchases of Property and Equipment	(21,417)	(168,347)
<b>Net Cash Used in Investing Activities</b>	<b>(836,663)</b>	<b>(57,988)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Borrowing	-	328,890
<b>Net Cash Provided by Financing Activities</b>	<b>-</b>	<b>328,890</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>38,830</b>	<b>177,150</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>299,449</b>	<b>122,299</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 338,279</b>	<b>\$ 299,449</b>

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

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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

#### **Organization**

The Honor Society of Phi Kappa Phi (the Society or Phi Kappa Phi) is a 501(c)(3) organization with the primary objectives 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. In previous years, the Society worked to achieve its objective with The Phi Kappa Phi Foundation (the Foundation). Following accounting guidance, the Society and the Foundation presented consolidated financial statements and were collectively known as Phi Kappa Phi.

The Foundation's Board of Trustees approved a plan of dissolution on October 1, 2020. The approved plan of dissolution was that the Foundation would liquidate investments held, satisfy any liabilities, and contribute the remaining net assets to the Society. Any donor-imposed restrictions, as well as board-designated net assets, were contributed to the Society with the same donor-imposed restrictions or board designations. The dissolution was completed on March 1, 2021.

The comparative consolidated information as of and for the year ended June 30, 2020 includes the accounts of the Society and the Foundation, (collectively, Phi Kappa Phi). The accounting policies which materially affect the determination of financial position and results of activities are summarized below. All intercompany transactions were eliminated in consolidation.

#### **Basis of Accounting**

Phi Kappa Phi maintains its accounting records and prepares the 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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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

#### **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, 2021 or 2020.

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

For the purposes of the statement 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.

#### **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 are recorded as an increase in net assets with donor restrictions or without donor restrictions 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. Accounts receivable consists 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, 2021 or 2020.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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

#### **Contributions Receivable**

Contributions receivable consist of unconditional promises to give to Phi Kappa Phi. Unconditional promises to give are recognized as contribution revenue in the period received and are recorded at their net realizable value. Contributions receivable totaled \$148,903 and \$-0- at June 30, 2021 and 2020, respectively.

#### **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 betterments and replacements are capitalized.

Depreciation is provided using the straight-line method over the estimated useful lives, which range from 3 to 10 years for furniture and equipment, 5 to 39 years for buildings and improvements, and 25 to 30 years for land improvements. Depreciation expense for the years ended June 30, 2021 and 2020 totaled \$97,347 and \$122,855, respectively.

#### **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, 2021 and 2020.

#### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Phi Kappa Phi reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions include those net assets available for use in general operations and not subject to donor restrictions.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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

#### **Net Assets (Continued)**

The governing board has designated, from net assets without donor restrictions, net assets for contingency that may be drawn upon in the event of financial distress or an immediate liquidity need in line with Phi Kappa Phi's mission. The governing board has also designated, from net assets without donor restrictions, assets from a bequest to fund the Sherrill Carlson Fellowship. Net assets with donor restrictions are those net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### **Revenue Recognition**

Gains and losses on investments and other assets are reported, net of investment expenses, as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Phi Kappa Phi recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. There were no conditional promises to give at June 30, 2021 and 2020.

Membership dues are comprised of an exchange element based on the benefits provided over a period of time. Phi Kappa Phi recognizes revenue member dues as follows: annual - over the one-year membership period; and lifetime - over the estimated life expectancy of the members, determined by the 2016 National Health Center Statistics Report, all races and origins - both sexes estimated life expectancy at birth, less the age that membership can start. As a practical expedient, Phi Kappa Phi uses the portfolio approach for annual membership dues paid by month and for lifetime membership dues paid by year. Initiation fees are recorded as revenue in the period when the fees are due.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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

#### Revenue Recognition (Continued)

The following table provides information about significant changes in the contract liabilities for the years ended June 30, 2021 and 2020:

<b>Advanced Payment of Dues, July 1, 2019 (Consolidated)</b>	\$ 10,460,126
Revenue Recognized that was Included in Deferred Membership Dues	(1,958,818)
Increase in Deferred Revenue due to Cash Received during the Period	<u>1,904,199</u>
<b>Advanced Payment of Dues, June 30, 2020 (Consolidated)</b>	10,405,507
Revenue Recognized that was Included in Deferred Membership Dues	(1,851,325)
Increase in Deferred Revenue due to Cash Received during the Period	<u>2,123,989</u>
<b>Advanced Payment of Dues, June 30, 2021</b>	<u><u>\$ 10,678,171</u></u>

#### Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses charged to operations for the years ended June 30, 2021 and 2020 were \$114,224 and \$125,781, respectively, and are included in marketing and communications on the statement of activities.

#### Recent Accounting Pronouncements - Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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

#### Recent Accounting Pronouncements - Not Yet Adopted (Continued)

In June 2021, the FASB issued ASU 2021-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which provided a limited deferral of the effective dates of ASU 2016-02 for certain entities in the “all other category”. Therefore, ASU 2016-02 will be effective for Phi Kappa Phi beginning in the year ending June 30, 2023. Management is currently evaluating the impact ASU 2016-02 will have on the financial statements.

#### Reclassifications

Certain reclassifications have been made to the prior year balances in order to comply with current year presentation.

### Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2021 and 2020:

	2021	2020 (Consolidated)
Cash and Cash Equivalents	\$ 338,279	\$ 299,449
Investments	68,732,626	56,538,594
Accounts Receivable	41,002	85,026
Contributions Receivable	148,903	-
<b>Total</b>	<b>\$ 69,260,810</b>	<b>\$ 56,923,069</b>

As part of Phi Kappa Phi’s liquidity management plan, Phi Kappa Phi invests balances in excess of daily requirements in domestic equities mutual funds, international equities mutual funds, investment grade bonds mutual funds, and domestic real estate investment trust mutual funds with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual income in support of the organization. The portfolio is invested to maximize total investment returns, within the constraints of a prudent level of risk and diversification, and to provide funding for present and anticipated future obligations. Phi Kappa Phi can request the money management company to process sales of securities in order to cover any temporary cash needs. Phi Kappa Phi has short-term investment balances that are significantly higher than any expected or unforeseen expenditures that could arise in any given year.

The governing board designates, on a biennial basis, a maximum of \$500,000 from the operating investment fund for contingency purposes. The governing board has also designated, from the investment fund, a bequest to fund the Sherrill Carlson Fellowship.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### Note 3. 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. There were no amounts in excess of the Federal Deposit Insurance Corporation (FDIC) insured limit at June 30, 2021 and 2020.

### Note 4. Investments

The following is a summary of investments held at June 30, 2021 and 2020:

	2021	2020 (Consolidated)
<b>Mutual Funds</b>		
Domestic Company Stock Funds	\$ 26,612,301	\$ 20,528,035
International Company Stock Funds	17,097,056	13,693,804
Domestic Real Estate Investment Trust (REIT) Funds	4,613,169	3,380,829
Investment Grade Bond Funds	26,600,505	23,239,380
	<u>74,923,031</u>	<u>60,842,048</u>
Less: Donor-Restricted and Board-Designated Securities	<u>(6,190,405)</u>	<u>(4,303,454)</u>
<b>Total Unrestricted Securities</b>	<u>\$ 68,732,626</u>	<u>\$ 56,538,594</u>



# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### Note 5. Fair Value Measurements

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

Phi Kappa Phi follows the provisions of the FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. Under 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.

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.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### Note 5. Fair Value Measurements (Continued)

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

*Mutual Funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by Phi Kappa Phi are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by Phi Kappa Phi are deemed to be actively traded. There have been no changes in the methodology used at June 30, 2021 and 2020.

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 method is 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 valuation of Phi Kappa Phi's assets measured at fair value on a recurring basis at June 30, 2021 and 2020 is as follows:

June 30, 2021	Level 1	Level 2	Level 3	Total
<b>Mutual Funds</b>				
Domestic Company Stock Funds	\$ 26,612,301	\$ -	\$ -	\$ 26,612,301
International Company Stock Funds	17,097,056	-	-	17,097,056
Domestic REIT Funds	4,613,169	-	-	4,613,169
Investment Grade Bond Funds	26,600,505	-	-	26,600,505
<b>Total</b>	<b>\$ 74,923,031</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 74,923,031</b>
June 30, 2020 (Consolidated)	Level 1	Level 2	Level 3	Total
<b>Mutual Funds</b>				
Domestic Company Stock Funds	\$ 20,528,035	\$ -	\$ -	\$ 20,528,035
International Company Stock Funds	13,693,804	-	-	13,693,804
Domestic REIT Funds	3,380,829	-	-	3,380,829
Investment Grade Bond Funds	23,239,380	-	-	23,239,380
<b>Total</b>	<b>\$ 60,842,048</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 60,842,048</b>

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### Note 6. Property and Equipment, Net

Property and equipment, net, at June 30, 2021 and 2020 consisted of the following:

	2021	2020 (Consolidated)
Land	\$ 114,000	\$ 114,000
Land Improvements	418,371	418,371
Building and Improvements	1,439,242	1,435,942
Furniture and Equipment	930,913	1,574,691
	<u>2,902,526</u>	<u>3,543,004</u>
Less: Accumulated Depreciation	(1,414,894)	(1,979,442)
	<u>1,487,632</u>	<u>1,563,562</u>
Construction in Progress	-	59,130
	<u>-</u>	<u>59,130</u>
<b>Property and Equipment, Net</b>	<b>\$ 1,487,632</b>	<b>\$ 1,622,692</b>

### Note 7. 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 a restricted interest-bearing account and records the funds as amounts due to chapters. The amount due to chapters was \$107,376 and \$130,483 at June 30, 2021 and 2020, 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 \$4,628 and \$4,864 for the years ended June 30, 2021 and 2020, respectively.

### Note 8. Notes Payable

Phi Kappa Phi obtained a \$328,890 loan under the Paycheck Protection Program (PPP) in April 2020. Under the terms of the PPP, up to 100% of the loan (and related interest) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. Phi Kappa Phi received forgiveness of \$328,890 on May 20, 2021 from the Small Business Administration. The amount is presented as a component of other revenues on the statement of activities.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

### Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2021 and 2020:

	2021	2020 (Consolidated)
<b>Endowments</b>		
Subject to Phi Kappa Phi's Spending Policy and Appropriation Investment in Perpetuity (Including Amounts Above Original Investment of \$1,050,635 and \$424,723 at June 30, 2021 and 2020, Respectively), which, Once Appropriated, is Expendable to Support:		
Fellowship Program	\$ 2,331,538	\$ 1,924,470
Bond Fellowships	719,957	-
Building Fund	456,418	424,734
True Foundation Fellowship	428,089	352,277
Yeakel Fellowship	143,688	118,385
Agatha Burnet Fellowship	126,848	104,504
Study Abroad Program	73,752	59,766
Scholar and Artist Program	18,957	15,360
Love of Learning	17,819	10,280
Excellence in Innovation	10,943	6,501
Drs. Diane G. and Webb M. Smathers, Jr.	8,893	8,242
Promotion of Excellence Grant Program	8,348	7,135
Dissertation Fellowship	7,736	5,906
Literacy Program	7,318	4,737
Ruth E. Brasher Fellowships	5,193	-
Ray Sylvester Distinguished Service	2,993	1,863
Graduate Research Grant	1,554	-
<b>Total Net Assets With Donor Restrictions</b>	<b>\$ 4,370,044</b>	<b>\$ 3,044,160</b>

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 HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### Note 9. Net Assets With Donor Restrictions (Continued)

The Board of Directors of Phi Kappa Phi has interpreted the Louisiana State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with UPMIFA, Phi Kappa Phi classifies as net assets with donor restrictions (a) the original value of gift amounts donated to the endowment, and (b) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by Phi Kappa Phi in a manner consistent with the standard of prudence prescribed in UPMIFA, 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.

Changes in endowment net assets for the years ended June 30, 2021 and 2020 were as follows:

	<b>With Donor Restrictions</b>
<b>Balance at June 30, 2019 (Consolidated)</b>	\$ 2,970,962
Investment Return, Net	153,005
Contributions	11,927
Appropriation for Expenditure	<u>(91,734)</u>
<b>Balance at June 30, 2020 (Consolidated)</b>	3,044,160
Investment Return, Net	738,591
Contributions	699,561
Appropriation for Expenditure	<u>(112,268)</u>
<b>Balance at June 30, 2021</b>	<u><u>\$ 4,370,044</u></u>

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### Note 10. 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 \$174,936 and \$147,270 for the years ended June 30, 2021 and 2020 (Consolidated), respectively.

### Note 11. Commitments and Contingencies

Phi Kappa Phi has a contract with a provider of inventory resources, including membership key pins, cords, and stoles, that was originated on December 1, 2015 and extends for five years. On December 1, 2015, 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 twenty days after each calendar month. On July 26, 2021, Phi Kappa Phi entered into a three-year contract with the same inventory provider. See Note 14 for further information.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern", and on March 10, 2021, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which Phi Kappa Phi operates. It is unknown how long these conditions will last and what the complete financial effect will be to Phi Kappa Phi. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near-term as a result of these conditions.

### Note 12. Functional Allocation of Expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the financial statements. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Those expenses are allocated on the basis of time and effort.

# THE HONOR SOCIETY OF PHI KAPPA PHI

## Notes to Financial Statements

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### **Note 13. 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 14. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 28, 2021, and determined that the following event occurred that requires disclosure:

Phi Kappa Phi entered into a three-year contract on July 26, 2021 with the existing provider of inventory resources, including membership key pins, cords, and stoles. As part of the agreement, the provider will pay a royalty equal to 30% of gross receipts from Phi Kappa Phi Graduation Regalia products, 10% for all other store products, and an additional 5% for the sale of custom products purchased by state chapters. Amounts are due to Phi Kappa Phi twenty days after each calendar month.

No other subsequent events occurring after September 28, 2021 have been evaluated for inclusion in these financial statements.