

**THE HONOR SOCIETY OF
PHI KAPPA PHI**

Audited Financial Statements

June 30, 2022 and 2021



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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Honor Society of Phi Kappa Phi (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



A Professional Accounting Corporation

Baton Rouge, LA
September 23, 2022

THE HONOR SOCIETY OF PHI KAPPA PHI
Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 219,701	\$ 338,279
Investments	58,803,708	68,732,626
Inventory	52,746	44,844
Accounts Receivable	62,753	41,002
Contributions Receivable	311,614	148,903
Other Current Assets	225,568	127,601
Total Current Assets	59,676,090	69,433,255
Property and Equipment, Net	1,422,584	1,487,632
Other Assets		
Deposits	19,708	19,708
Investments - Donor-Restricted	3,015,829	4,370,044
Investments - Board-Designated	1,383,164	1,820,361
Total Assets	\$ 65,517,375	\$ 77,131,000
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 446,369	\$ 321,162
Advanced Payment of Dues, Current Portion	1,538,994	1,518,051
Due to Chapters	89,600	107,376
Total Current Liabilities	2,074,963	1,946,589
Long-Term Liabilities		
Advanced Payment of Dues, Net of Current Portion	9,259,383	9,160,120
Total Liabilities	11,334,346	11,106,709
Net Assets		
Without Donor Restrictions		
Designated by the Board for:		
Sherrill Carlson Fellowship	883,164	1,320,361
Contingency	500,000	500,000
Undesignated	49,784,036	59,833,886
	51,167,200	61,654,247
With Donor Restrictions	3,015,829	4,370,044
Total Net Assets	54,183,029	66,024,291
Total Liabilities and Net Assets	\$ 65,517,375	\$ 77,131,000

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

THE HONOR SOCIETY OF PHI KAPPA PHI
Statements of Activities
For the Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions	\$ 464,131	\$ 17,745	\$ 481,876	\$ 821,580	\$ 699,561	\$ 1,521,141
Annual Membership Dues	1,678,583	-	1,678,583	1,621,981	-	1,621,981
Initiation Fees	665,700	-	665,700	645,300	-	645,300
Life Memberships	237,790	-	237,790	229,344	-	229,344
Investment Return, Net	(9,518,040)	(330,248)	(9,848,288)	14,079,040	738,591	14,817,631
Sales of Jewelry, Certificate Frames, Apparel, and Other Items	10,898	-	10,898	7,166	-	7,166
Royalty Income	211,510	-	211,510	187,902	-	187,902
Other Revenues	24,087	-	24,087	384,264	-	384,264
Release of Restrictions	1,041,712	(1,041,712)	-	112,268	(112,268)	-
Total Revenues, Gains, and Other Support	(5,183,629)	(1,354,215)	(6,537,844)	18,088,845	1,325,884	19,414,729
Expenses						
National Office - Salaries	1,755,138	-	1,755,138	1,719,840	-	1,719,840
Awards, Fellowships, and Grants	1,054,070	-	1,054,070	969,076	-	969,076
National Office - Fringe Benefits	538,195	-	538,195	539,520	-	539,520
Other National Office Expense	393,771	-	393,771	438,265	-	438,265
Publications	350,854	-	350,854	289,600	-	289,600
National Office - Facilities and Operations	313,458	-	313,458	254,415	-	254,415
Information Technology	269,785	-	269,785	279,818	-	279,818
Chapter Growth	223,348	-	223,348	237,504	-	237,504
Marketing and Communications	145,733	-	145,733	227,484	-	227,484
Board of Directors	86,813	-	86,813	21,890	-	21,890
Depreciation	76,810	-	76,810	97,347	-	97,347
Resale Items	68,203	-	68,203	73,149	-	73,149
Development	27,240	-	27,240	29,074	-	29,074
Convention Expense	-	-	-	5,569	-	5,569
Interest Expense	-	-	-	1,644	-	1,644
Total Expenses	5,303,418	-	5,303,418	5,184,195	-	5,184,195
Change in Net Assets	(10,487,047)	(1,354,215)	(11,841,262)	12,904,650	1,325,884	14,230,534
Net Assets, Beginning of Year	61,654,247	4,370,044	66,024,291	48,749,597	3,044,160	51,793,757
Net Assets, End of Year	\$ 51,167,200	\$ 3,015,829	\$ 54,183,029	\$ 61,654,247	\$ 4,370,044	\$ 66,024,291

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, 2022

	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	\$ 20,209	\$ 11,272	\$ 14,252	\$ 8,293	\$ 11,272	\$ 17,230	\$ 13,073	\$ 8,294	\$ 539,470	\$ 558,992	\$ 1,202,357	\$ 493,959	\$ 58,822	\$ 1,755,138
Awards, Fellowships, and Grants	666,000	28,610	124,000	-	100,000	100,000	-	30,000	-	5,460	1,054,070	-	-	1,054,070
National Office - Fringe Benefits	6,120	3,413	4,315	2,511	3,413	5,217	3,959	2,511	163,358	169,269	364,086	156,295	17,814	538,195
Other Society National Office Expense	-	-	-	-	-	-	-	-	-	-	-	393,771	-	393,771
Publications	-	-	-	-	-	-	-	-	-	350,854	350,854	-	-	350,854
National Office - Facilities and Operations	-	-	-	-	-	-	-	-	-	-	-	313,458	-	313,458
Information Technology	-	-	-	-	-	-	-	-	40,500	-	40,500	229,285	-	269,785
Chapter Growth	-	-	-	-	-	-	-	-	223,348	-	223,348	-	-	223,348
Marketing and Communications	-	-	-	-	-	-	-	-	-	145,733	145,733	-	-	145,733
Board of Directors	-	-	-	-	-	-	-	-	-	-	-	86,813	-	86,813
Depreciation	-	-	-	-	-	-	-	-	-	-	-	76,810	-	76,810
Resale Items	-	-	-	-	-	-	-	-	-	68,203	68,203	-	-	68,203
Development	-	-	-	-	-	-	-	-	-	-	-	-	27,240	27,240
Total	\$ 692,329	\$ 43,295	\$ 142,567	\$ 10,804	\$ 114,685	\$ 122,447	\$ 17,032	\$ 40,805	\$ 966,676	\$ 1,298,511	\$ 3,449,151	\$ 1,750,391	\$ 103,876	\$ 5,303,418

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
Total	\$ 628,507	\$ 41,613	\$ 16,148	\$ 11,788	\$ 112,467	\$ 119,328	\$ 114,388	\$ 37,520	\$ 729,270	\$ 1,163,790	\$ 2,974,819	\$ 2,119,046	\$ 90,330	\$ 5,184,195

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

THE HONOR SOCIETY OF PHI KAPPA PHI
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in Net Assets	\$ (11,841,262)	\$ 14,230,534
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Depreciation	76,810	97,347
Net Realized and Unrealized Loss (Gain) on Investment Securities	11,503,944	(13,265,737)
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	(7,902)	(5,961)
Increase in Accounts Receivable		
Contributions Receivable and Other Assets	(282,429)	(31,660)
Increase in Advanced Payment of Dues	120,206	272,664
Increase (Decrease) in Accounts Payable and Accrued Expenses	125,207	(128,827)
Decrease in Due to Chapters	(17,776)	(23,107)
	<hr/>	<hr/>
Net Cash (Used in) Provided by Operating Activities	(323,202)	875,493
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Cash Flows from Investing Activities		
Purchases of Investment Securities	(1,751,522)	(43,823,119)
Proceeds from Sales and Maturities of Investment Securities	1,967,908	43,007,873
Purchases of Property and Equipment	(11,762)	(21,417)
	<hr/>	<hr/>
Net Cash Provided by (Used in) Investing Activities	204,624	(836,663)
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Net (Decrease) Increase in Cash and Cash Equivalents	(118,578)	38,830
Cash and Cash Equivalents, Beginning of Year	338,279	299,449
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Cash and Cash Equivalents, End of Year	\$ 219,701	\$ 338,279
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The accompanying notes are an integral part of these financial statements.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The Honor Society of Phi Kappa Phi (the Organization) 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.

The accounting policies which materially affect the determination of financial position and results of activities are summarized below.

Basis of Accounting

The Organization 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.

Tax Status

As an organization described in Internal Revenue Code (IRC) Section 501(c)(3), the Organization 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 the Organization engage in activities unrelated to the purpose for which it was created, taxable income could result. The Organization had no material unrelated business income for the fiscal years ended June 30, 2022 or 2021.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization 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

Notes to Financial Statements

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 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 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

The Organization determines past due accounts based on contractual terms and does not charge interest on the past due accounts. Accounts receivable consist primarily of amounts due from chapters related to inventory items. The Organization 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, 2022 or 2021. The opening balance of accounts receivable on July 1, 2020 was \$85,026.

Contributions Receivable

Contributions receivable consist of unconditional promises to give to the Organization. Unconditional promises to give are recognized as contribution revenue in the period received and are recorded at their net realizable value. Management does not believe an allowance for doubtful accounts is necessary at either June 30, 2022 or 2021.

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 the Organization 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, 2022 and 2021 totaled \$76,810 and \$97,347, respectively.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

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

Impairment of Long-Lived Assets

The Organization 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. The Organization did not record any impairment loss during the years ended June 30, 2022 and 2021.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization 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 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 the Organization'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.

The Organization 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, 2022 and 2021.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

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

Revenue Recognition (Continued)

Membership dues are comprised of an exchange element based on the benefits provided over a period of time. The Organization recognizes revenue from membership 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, the Organization 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 following table provides information about significant changes in contract liabilities for the years ended June 30, 2022 and 2021:

Advanced Payment of Dues, July 1, 2020	\$ 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>
Advanced Payment of Dues, June 30, 2021	10,678,171
Revenue Recognized that was Included in Deferred Membership Dues	(1,916,373)
Increase in Deferred Revenue due to Cash Received during the Period	<u>2,036,579</u>
Advanced Payment of Dues, June 30, 2022	<u><u>\$ 10,798,377</u></u>

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses charged to operations for the years ended June 30, 2022 and 2021 were \$139,939 and \$114,224, respectively, and are included in marketing and communications on the statements of activities.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

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

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.

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 the Organization 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, 2022 and 2021:

	2022	2021
Cash and Cash Equivalents	\$ 219,701	\$ 338,279
Investments	58,803,708	68,732,626
Accounts Receivable	62,753	41,002
Contributions Receivable	311,614	148,903
Total	\$ 59,397,776	\$ 69,260,810

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 2. Liquidity and Availability (Continued)

As part of the Organization's liquidity management plan, the Organization 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. The Organization can request the money management company to process sales of securities in order to cover any temporary cash needs. The Organization 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.

Note 3. Concentration of Credit Risk for Cash Held in Bank

The Organization periodically maintains cash in bank accounts in excess of insured limits. The Organization 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, 2022 and 2021.

Note 4. Investments

The following is a summary of investments held at June 30, 2022 and 2021:

	2022	2021
Mutual Funds		
Domestic Company Stock Funds	\$ 20,470,284	\$ 26,612,301
International Company Stock Funds	13,824,212	17,097,056
Domestic Real Estate Investment Trust (REIT) Funds	3,284,878	4,613,169
Investment Grade Bond Funds	25,623,327	26,600,505
	<u>63,202,701</u>	<u>74,923,031</u>
Less: Donor-Restricted and Board-Designated Securities	<u>(4,398,993)</u>	<u>(6,190,405)</u>
Total Unrestricted Securities	<u>\$ 58,803,708</u>	<u>\$ 68,732,626</u>

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 5. Fair Value Measurements

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

The Organization 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 Organization'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 the Organization 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 the Organization are deemed to be actively traded. There have been no changes in the methodology used at June 30, 2022 and 2021.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

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 the Organization'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 the Organization's assets measured at fair value on a recurring basis at June 30, 2022 and 2021 is as follows:

June 30, 2022	Level 1	Level 2	Level 3	Total
Mutual Funds				
Domestic Company Stock Funds	\$ 20,470,284	\$ -	\$ -	\$ 20,470,284
International Company Stock Funds	13,824,212	-	-	13,824,212
Domestic REIT Funds	3,284,878	-	-	3,284,878
Investment Grade Bond Funds	25,623,327	-	-	25,623,327
Total	\$ 63,202,701	\$ -	\$ -	\$ 63,202,701
June 30, 2021				
Mutual Funds				
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
Total	\$ 74,923,031	\$ -	\$ -	\$ 74,923,031

Note 6. Property and Equipment, Net

Property and equipment, net, at June 30, 2022 and 2021 consisted of the following:

	2022	2021
Land	\$ 114,000	\$ 114,000
Land Improvements	418,371	418,371
Building and Improvements	1,439,242	1,439,242
Furniture and Equipment	942,676	930,913
	2,914,289	2,902,526
Less: Accumulated Depreciation	(1,491,705)	(1,414,894)
Property and Equipment, Net	\$ 1,422,584	\$ 1,487,632

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Notes to Financial Statements

Note 7. Affiliated Chapters

In accordance with the bylaws of the Organization, the residual assets of any chapter placed on inactive status or whose charter has been withdrawn shall be deposited in a restricted society account. The Organization holds these funds in a restricted interest-bearing account and records the funds as amounts due to chapters. The amount due to chapters was \$89,600 and \$107,376 at June 30, 2022 and 2021, 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 \$8,473 and \$4,628 for the years ended June 30, 2022 and 2021, respectively.

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2022 and 2021:

	2022	2021
Endowments		
Subject to Phi Kappa Phi's Spending Policy and Appropriation		
Fellowship Program	\$ 1,634,721	\$ 2,331,538
Bond Fellowships	680,000	719,957
Building Fund	391,082	456,418
True Foundation Fellowship	300,000	428,089
Yeakel Fellowship	106,150	143,688
Agatha Burnet Fellowship	88,996	126,848
Study Abroad Program	54,398	73,752
Love of Learning	21,551	17,819
Scholar and Artist Program	14,863	18,957
Excellence in Innovation	10,220	10,943
Ruth E. Brasher Fellowships	10,000	5,193
Drs. Diane G. and Webb M. Smathers, Jr.	7,500	8,893
Literacy Program	7,250	7,318
Dissertation Fellowship	6,875	7,736
Promotion of Excellence Grant Program	6,612	8,348
Ray Sylvester Distinguished Service	2,950	2,993
Graduate Research Grant	2,040	1,554
Underwater Endowments	(329,379)	-
Total Net Assets With Donor Restrictions	\$ 3,015,829	\$ 4,370,044

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions (Continued)

The Organization 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 the Organization. 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 the Organization 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, the Organization 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 the Organization 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.

As of June 30, 2022 and 2021, the Organization had the following endowment net asset composition by fund type:

June 30, 2022	With Donor Restrictions	Total
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 3,337,154	\$ 3,337,154
Accumulated investment losses	(321,325)	(321,325)
Total	\$ 3,015,829	\$ 3,015,829
<hr/>		
June 30, 2021	With Donor Restrictions	Total
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 3,319,409	\$ 3,319,409
Accumulated investment gains	1,050,635	1,050,635
Total	\$ 4,370,044	\$ 4,370,044

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Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions (Continued)

Changes in endowment net assets for the years ended June 30, 2022 and 2021 were as follows:

	With Donor Restrictions
Balance at July 1, 2020	\$ 3,044,160
Investment Return, Net	738,591
Contributions	699,561
Appropriation for Expenditure	<u>(112,268)</u>
Balance at June 30, 2021	4,370,044
Investment Return, Net	(330,248)
Contributions	17,745
Appropriation for Expenditure	<u>(1,041,712)</u>
Balance at June 30, 2022	<u><u>\$ 3,015,829</u></u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, funds with original gift values of \$2,954,126, fair values of \$2,624,747, and deficiencies of \$329,379 were reported in net assets with donor restrictions.

Note 9. Benefit Plan

The Organization has a defined contribution pension plan that covers all full-time employees. The Organization contributes an amount equal to 11% of the eligible employees' salaries. Employees make no contributions and are immediately vested in the employer contribution. Pension expense totaled \$158,711 and \$174,936 for the years ended June 30, 2022 and 2021, respectively.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 10. 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.

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. The Organization 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

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 23, 2022, and determined that no subsequent events have event occurred that require disclosure. No subsequent events occurring after that date have been evaluated for inclusion in these financial statements.