

**THE HONOR SOCIETY OF
PHI KAPPA PHI**

Audited Financial Statements

June 30, 2023 and 2022



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Financial Statements

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of The Honor Society of Phi Kappa Phi (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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 26, 2023

THE HONOR SOCIETY OF PHI KAPPA PHI
Statements of Financial Position
June 30, 2023 and 2022

| | 2023 | 2022 |
|------------------------------------|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 211,988 | \$ 219,701 |
| Investments | 60,920,147 | 58,803,708 |
| Inventory | 13,161 | 52,746 |
| Accounts Receivable | 90,293 | 62,753 |
| Contributions Receivable | 322,106 | 311,614 |
| Other Current Assets | 156,043 | 225,568 |
| Total Current Assets | 61,713,738 | 59,676,090 |
| Property and Equipment, Net | 1,379,619 | 1,422,584 |
| Other Assets | | |
| Deposits | 60,334 | 19,708 |
| Operating Right-of-Use Assets | 17,231 | - |
| Investments - Donor-Restricted | 3,174,278 | 3,015,829 |
| Investments - Board-Designated | 1,410,135 | 1,383,164 |
| Total Assets | \$ 67,755,335 | \$ 65,517,375 |

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

THE HONOR SOCIETY OF PHI KAPPA PHI
Statements of Financial Position (Continued)
June 30, 2023 and 2022

| | 2023 | 2022 |
|-----------------------------------------------------------|----------------------|---------------|
| Liabilities and Net Assets | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Expenses | \$ 412,255 | \$ 446,369 |
| Advanced Payment of Dues, Current Portion | 1,486,589 | 1,538,994 |
| Due to Chapters | 128,528 | 89,600 |
| Operating Lease Right-of-Use Liabilities, Current Portion | 9,558 | - |
| Total Current Liabilities | 2,036,930 | 2,074,963 |
| Long-Term Liabilities | | |
| Advanced Payment of Dues, Net of Current Portion | 9,336,568 | 9,259,383 |
| Operating Lease Right-of-Use Liabilities | 7,673 | - |
| Total Long-Term Liabilities | 9,344,241 | 9,259,383 |
| Total Liabilities | 11,381,171 | 11,334,346 |
| Net Assets | | |
| Without Donor Restrictions | | |
| Designated by the Board for: | | |
| Sherrill Carlson Fellowship | 910,135 | 883,164 |
| Contingency | 500,000 | 500,000 |
| Undesignated | 51,789,751 | 49,784,036 |
| | 53,199,886 | 51,167,200 |
| With Donor Restrictions | 3,174,278 | 3,015,829 |
| Total Net Assets | 56,374,164 | 54,183,029 |
| Total Liabilities and Net Assets | \$ 67,755,335 | \$ 65,517,375 |

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, 2023 and 2022

| | 2023 | | | 2022 | | |
|----------------------------------------------------------------|----------------------------|-------------------------|----------------------|----------------------------|-------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue, Gains, and Other Support | | | | | | |
| Contributions | \$ 218,478 | \$ 116,653 | \$ 335,131 | \$ 464,131 | \$ 17,745 | \$ 481,876 |
| Annual Membership Dues | 1,723,010 | - | 1,723,010 | 1,678,583 | - | 1,678,583 |
| Initiation Fees | 590,070 | - | 590,070 | 665,700 | - | 665,700 |
| Life Memberships | 246,530 | - | 246,530 | 237,790 | - | 237,790 |
| Convention Revenue | 61,281 | - | 61,281 | - | - | - |
| Investment Return, Net | 4,815,695 | 121,241 | 4,936,936 | (9,518,040) | (330,248) | (9,848,288) |
| Sales of Jewelry, Certificate Frames, Apparel, and Other Items | 11,641 | - | 11,641 | 10,898 | - | 10,898 |
| Royalty Income | 244,122 | - | 244,122 | 211,510 | - | 211,510 |
| Other Revenues | 74,061 | - | 74,061 | 24,087 | - | 24,087 |
| Release of Restrictions | 169,044 | (169,044) | - | 1,041,712 | (1,041,712) | - |
| Total Revenues, Gains, and Other Support | 8,153,932 | 68,850 | 8,222,782 | (5,183,629) | (1,354,215) | (6,537,844) |
| Expenses | | | | | | |
| National Office - Salaries | 1,763,244 | - | 1,763,244 | 1,755,138 | - | 1,755,138 |
| Awards, Fellowships, and Grants | 1,203,245 | - | 1,203,245 | 1,054,070 | - | 1,054,070 |
| National Office - Fringe Benefits | 507,702 | - | 507,702 | 538,195 | - | 538,195 |
| Convention Expense | 470,897 | - | 470,897 | - | - | - |
| Publications | 368,300 | - | 368,300 | 350,854 | - | 350,854 |
| National Office - Facilities and Operations | 360,014 | - | 360,014 | 313,458 | - | 313,458 |
| Other National Office Expense | 328,501 | - | 328,501 | 393,771 | - | 393,771 |
| Information Technology | 324,596 | - | 324,596 | 269,785 | - | 269,785 |
| Chapter Growth | 298,157 | - | 298,157 | 223,348 | - | 223,348 |
| Marketing and Communications | 106,640 | - | 106,640 | 145,733 | - | 145,733 |
| Board of Directors | 95,874 | - | 95,874 | 86,813 | - | 86,813 |
| Depreciation | 75,760 | - | 75,760 | 76,810 | - | 76,810 |
| Resale Items | 75,039 | - | 75,039 | 68,203 | - | 68,203 |
| Development | 53,678 | - | 53,678 | 27,240 | - | 27,240 |
| Total Expenses | 6,031,647 | - | 6,031,647 | 5,303,418 | - | 5,303,418 |
| Change in Net Assets | 2,122,285 | 68,850 | 2,191,135 | (10,487,047) | (1,354,215) | (11,841,262) |
| Net Assets, Beginning of Year | 51,167,200 | 3,015,829 | 54,183,029 | 61,654,247 | 4,370,044 | 66,024,291 |
| Net Assets, End of Year | \$ 53,289,485 | \$ 3,084,679 | \$ 56,374,164 | \$ 51,167,200 | \$ 3,015,829 | \$ 54,183,029 |

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, 2023

| | 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 | \$ 22,017 | \$ 11,969 | \$ 15,319 | \$ 8,620 | \$ 11,969 | \$ 18,668 | \$ 13,681 | \$ 8,620 | \$ 473,421 | \$ 531,453 | \$ 1,115,737 | \$ 553,823 | \$ 93,684 | \$ 1,763,244 |
| Awards, Fellowships, and Grants | 660,500 | 33,991 | 121,000 | 2,000.00 | 150,000 | 100,000 | 100,000 | 30,000 | - | 5,754 | 1,203,245 | - | - | 1,203,245 |
| National Office - Fringe Benefits | 6,234 | 3,389 | 4,337 | 2,441 | 3,389 | 5,285 | 3,873 | 2,441 | 134,041 | 150,472 | 315,902 | 165,275 | 26,525 | 507,702 |
| Convention Expense | - | - | - | - | - | - | - | - | 470,897 | - | 470,897 | - | - | 470,897 |
| Publications | - | - | - | - | - | - | - | - | - | 368,300 | 368,300 | - | - | 368,300 |
| National Office - Facilities and Operations | - | - | - | - | - | - | - | - | - | - | - | 360,014 | - | 360,014 |
| Other Society National Office Expense | - | - | - | - | - | - | - | - | - | - | - | 328,501 | - | 328,501 |
| Information Technology | - | - | - | - | - | - | - | - | - | - | - | 324,596 | - | 324,596 |
| Chapter Growth | - | - | - | - | - | - | - | - | 298,157 | - | 298,157 | - | - | 298,157 |
| Marketing and Communications | - | - | - | - | - | - | - | - | - | 106,640 | 106,640 | - | - | 106,640 |
| Board of Directors | - | - | - | - | - | - | - | - | - | - | - | 95,874 | - | 95,874 |
| Depreciation | - | - | - | - | - | - | - | - | - | - | - | 75,760 | - | 75,760 |
| Resale Items | - | - | - | - | - | - | - | - | - | 75,039 | 75,039 | - | - | 75,039 |
| Development | - | - | - | - | - | - | - | - | - | - | - | - | 53,678 | 53,678 |
| Total | \$ 688,751 | \$ 49,349 | \$ 140,656 | \$ 13,061 | \$ 165,358 | \$ 123,953 | \$ 117,554 | \$ 41,061 | \$ 1,376,516 | \$ 1,237,658 | \$ 3,953,917 | \$ 1,903,843 | \$ 173,887 | \$ 6,031,647 |

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
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|----------------------------------------------------------------------------------------|--------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Change in Net Assets | \$ 2,191,135 | \$ (11,841,262) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities | | |
| Depreciation | 75,760 | 76,810 |
| Net Realized and Unrealized (Gain) Loss on Investment Securities | (6,286,129) | 11,503,944 |
| Changes in Operating Assets and Liabilities | | |
| Decrease (Increase) in Inventory | 39,585 | (7,902) |
| Decrease (Increase) in Accounts Receivable | | |
| Contributions Receivable and Other Current Assets | 31,493 | (282,429) |
| Increase in Deposits | (40,626) | - |
| Increase in Advanced Payment of Dues | 24,780 | 120,206 |
| (Decrease) Increase in Accounts Payable and Accrued Expenses | (34,114) | 125,207 |
| Increase (Decrease) in Due to Chapters | 38,928 | (17,776) |
| Net Cash Used in Operating Activities | (3,959,188) | (323,202) |
| Cash Flows from Investing Activities | | |
| Purchases of Investment Securities | (66,538,835) | (1,751,522) |
| Proceeds from Sales and Maturities of Investment Securities | 70,523,105 | 1,967,908 |
| Purchases of Property and Equipment | (32,795) | (11,762) |
| Net Cash Provided by Investing Activities | 3,951,475 | 204,624 |
| Net Decrease in Cash and Cash Equivalents | (7,713) | (118,578) |
| Cash and Cash Equivalents, Beginning of Year | 219,701 | 338,279 |
| Cash and Cash Equivalents, End of Year | \$ 211,988 | \$ 219,701 |
| Supplemental Disclosures of Cash Flow Information | | |
| Recognition of Right-of-Use Assets for Operating Leases Under ASC 842 | \$ 70,231 | \$ - |
| Operating Lease Liabilities Arising from Obtaining Right-of-Use Assets | \$ (70,231) | \$ - |

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.

One of the primary ways Phi Kappa Phi promotes and recognizes academic excellence is through its competitive awards program. Since 1932, Phi Kappa Phi has supported the educational pursuits of its members through robust award and grant programs. The Society awards over \$1 million each year to outstanding students, members, chapters and institutions to further their academic interests.

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, 2023 or 2022.

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, 2023 or 2022. The opening balance of accounts receivable on July 1, 2021 was \$41,002.

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, 2023 or 2022.

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.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

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

Property and Equipment (Continued)

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, 2023 and 2022 totaled \$75,760 and \$76,810, respectively.

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, 2023 and 2022.

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 HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

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

Revenue Recognition (Continued)

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, 2023 and 2022.

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, 2023 and 2022:

| | |
|---------------------------------------------------------------------|----------------------|
| Advanced Payment of Dues, July 1, 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 | 10,798,377 |
| Revenue Recognized that was Included in Deferred Membership Dues | (1,969,540) |
| Increase in Deferred Revenue due to Cash Received during the Period | <u>1,994,320</u> |
| Advanced Payment of Dues, June 30, 2023 | <u>\$ 10,823,157</u> |

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses charged to operations for the years ended June 30, 2023 and 2022 were \$72,209 and \$139,939, respectively, and are included in marketing and communications on the statements of activities.

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

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*.

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

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

Leases (Continued)

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease or January 1, 2022, for existing leases upon the adoption of Topic 842. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date or remaining term for leases existing upon the adoption of Topic 842.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its equipment asset classes. The non-lease components typically represent additional services transferred to the Organization, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Organization's operating leases of approximately \$70,231, at July 1, 2022. The adoption of the new lease standard did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Reclassifications

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

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

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, 2023 and 2022:

| | 2023 | 2022 |
|---------------------------|----------------------|----------------------|
| Cash and Cash Equivalents | \$ 211,988 | \$ 219,701 |
| Investments | 60,920,147 | 58,803,708 |
| Accounts Receivable | 90,293 | 62,753 |
| Contributions Receivable | 322,106 | 311,614 |
| Total | \$ 61,544,534 | \$ 59,397,776 |

As part of the Organization's liquidity management plan, the Organization invests balances in excess of daily requirements in equity 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 maintains its cash and cash equivalent accounts with various institutions. Its operating cash account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. The Securities Investor Protection Corporation insures amounts up to \$500,000 per institution (with a limit of \$250,000 for cash). For the year ended June 30, 2023, the Organization had \$1,486,502 in excess of the insured limits related to cash held within investment accounts. There were no amounts in excess of the insured limit at June 30, 2022.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 4. Investments

The following is a summary of investments held at June 30, 2023 and 2022:

| | 2023 | 2022 |
|------------------------------------------------------------|----------------------|----------------------|
| Mutual Funds | | |
| Equity Funds | \$ 36,821,615 | \$ 34,294,496 |
| Alternative Funds | 3,809,853 | 3,284,878 |
| Fixed Income Funds | 23,136,596 | 25,623,327 |
| Money Market Accounts | 1,736,496 | - |
| | 65,504,560 | 63,202,701 |
| Less: Donor-Restricted and Board-Designated Investments | (4,584,413) | (4,398,993) |
| Total Unrestricted Investments | \$ 60,920,147 | \$ 58,803,708 |

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 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 HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

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 are 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, 2023 and 2022.

Money Market Accounts: Valued at quoted market prices that represent the NAV of shares held by the Organization at year-end.

The preceding methods 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 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

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The valuation of the Organization's assets measured at fair value on a recurring basis at June 30, 2023 and 2022 is as follows:

| June 30, 2023 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|----------------------|-------------|-------------|----------------------|
| Mutual Funds | | | | |
| Equity Funds | \$ 36,821,615 | \$ - | \$ - | \$ 36,821,615 |
| Alternative Funds | 3,809,853 | - | - | 3,809,853 |
| Fixed Income Funds | 23,136,596 | - | - | 23,136,596 |
| Money Market Accounts | 1,736,496 | - | - | 1,736,496 |
| Total | \$ 65,504,560 | \$ - | \$ - | \$ 65,504,560 |
| <hr/> | | | | |
| June 30, 2022 | Level 1 | Level 2 | Level 3 | Total |
| Mutual Funds | | | | |
| Equity Funds | \$ 34,294,496 | \$ - | \$ - | \$ 34,294,496 |
| Alternative Funds | 3,284,878 | - | - | 3,284,878 |
| Fixed Income Funds | 25,623,327 | - | - | 25,623,327 |
| Total | \$ 63,202,701 | \$ - | \$ - | \$ 63,202,701 |

Note 6. Property and Equipment, Net

Property and equipment, net, at June 30, 2023 and 2022 consisted of the following:

| | 2023 | 2022 |
|------------------------------------|---------------------|--------------|
| Land | \$ 114,000 | \$ 114,000 |
| Land Improvements | 418,371 | 418,371 |
| Building and Improvements | 1,438,395 | 1,439,242 |
| Furniture and Equipment | 792,893 | 942,676 |
| | 2,763,659 | 2,914,289 |
| Less: Accumulated Depreciation | (1,384,040) | (1,491,705) |
| Property and Equipment, Net | \$ 1,379,619 | \$ 1,422,584 |

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 7. Leases

Operating leases

The Organization leases equipment under noncancelable operating leases. Monthly rentals range from \$54 to \$1,002, expiring through December 2026.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended June 30, 2023:

| | | |
|-------------------------|-----------|----------------------|
| Operating Lease Cost | \$ | 15,799 |
| Short-Term Lease Cost | | <u>6,306</u> |
| Total Lease Cost | \$ | <u>22,105</u> |

All leases

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental information related to leases is as follows as of June 30, 2023:

| | |
|---------------------------------------------------|------|
| Weighted-Average Remaining Lease Term (in Years): | |
| Operating Leases | 2.4 |
| Weighted-Average Discount Rate Applied (%): | |
| Operating Leases | 1.73 |

Future undiscounted cash flows for each of the next four years and a reconciliation to the lease liabilities recognized on the statements of financial position are as follows:

| Years Ending June 30, | Operating Leases |
|--------------------------------------------------|-----------------------------|
| 2024 | \$ 9,733 |
| 2025 | 3,127 |
| 2026 | 3,127 |
| 2027 | <u>1,564</u> |
| Total Lease Payments | 17,551 |
| Less: Imputed Interest | (320) |
| Less: Lease Liabilities, Current Portion | <u>(9,558)</u> |
| Lease Liabilities, Net of Current Portion | \$ <u>7,673</u> |

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 8. 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 \$128,528 and \$89,600 at June 30, 2023 and 2022, 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 \$11,336 and \$8,473 for the years ended June 30, 2023 and 2022, respectively.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2023 and 2022:

| | 2023 | 2022 |
|--------------------------------------------------------------|---------------------|---------------------|
| Endowments | | |
| Subject to Phi Kappa Phi's Spending Policy and Appropriation | | |
| Fellowship Program | \$ 1,737,700 | \$ 1,634,722 |
| Bond Fellowships | 680,000 | 680,000 |
| Building Fund | 390,527 | 383,027 |
| True Foundation Fellowship | 300,000 | 300,000 |
| Yeakel Fellowship | 106,150 | 106,150 |
| Agatha Burnet Fellowship | 88,996 | 88,996 |
| Study Abroad Program | 56,798 | 54,398 |
| Love of Learning | 24,226 | 21,551 |
| Scholar and Artist Program | 15,388 | 14,863 |
| Excellence in Innovation | 10,725 | 10,220 |
| Ruth E. Brasher Fellowships | 15,000 | 10,000 |
| Drs. Diane G. and Webb M. Smathers, Jr. | 7,500 | 7,500 |
| Literacy Program | 7,865 | 7,250 |
| Dissertation Fellowship | 7,150 | 6,875 |
| Promotion of Excellence Grant Program | 6,612 | 6,612 |
| Ray Sylvester Distinguished Service | 2,980 | 2,950 |
| Graduate Research Grant | 3,690 | 2,040 |
| Underwater Endowments | (287,029) | (321,325) |
| Total Net Assets With Donor Restrictions | \$ 3,174,278 | \$ 3,015,829 |

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 9. 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, 2023 and 2022, the Organization had the following endowment net asset composition by fund type:

| June 30, 2023 | With Donor Restrictions | Total |
|----------------------------------------------------------------------------------------------------------|------------------------------------|---------------------|
| Donor-restricted endowment funds | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ 3,461,307 | \$ 3,461,307 |
| Accumulated investment losses | (287,029) | (287,029) |
| Total | \$ 3,174,278 | \$ 3,174,278 |
| <hr/> | | |
| 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 |

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 9. Net Assets With Donor Restrictions (Continued)

Changes in endowment net assets for the years ended June 30, 2023 and 2022 were as follows:

| | With Donor Restrictions |
|---------------------------------|------------------------------------|
| Balance at July 1, 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 | 3,015,829 |
| Investment Return, Net | 210,840 |
| Contributions | 116,653 |
| Appropriation for Expenditure | <u>(169,044)</u> |
| Balance at June 30, 2023 | <u><u>\$ 3,174,278</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, 2023, funds with original gift values of \$3,461,307, fair values of \$3,174,278, and deficiencies of \$287,029 were reported in net assets with donor restrictions. At June 30, 2022, funds with original gift values of \$3,337,157, fair values of \$3,015,829 and deficiencies of \$321,325 were reported in net assets with donor restrictions.

Note 10. 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 \$139,138 and \$158,711 for the years ended June 30, 2023 and 2022, respectively.

THE HONOR SOCIETY OF PHI KAPPA PHI

Notes to Financial Statements

Note 11. 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 12. 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 13. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 26, 2023, 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.