

Phi Kappa Tau Foundation

FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2022 and 2021**

Phi Kappa Tau Foundation

TABLE OF CONTENTS

Independent Auditor’s Report 1-2

Statements of Financial Position..... 3

Statements of Activities..... 4-5

Statements of Functional Expenses 6-7

Statements of Cash Flows 8

Notes to Financial Statements 9



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Phi Kappa Tau Foundation
Oxford, Ohio

Opinion

We have audited the accompanying financial statements of Phi Kappa Tau Foundation (a nonprofit 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 Phi Kappa Tau Foundation as of June 30, 2022 and 2021, 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. 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 Phi Kappa Tau Foundation 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 Phi Kappa Tau Foundation'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Phi Kappa Tau Foundation'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 Phi Kappa Tau Foundation'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.

Kirsch CPA Group, LLC
Hamilton, Ohio
May 12, 2023

Phi Kappa Tau Foundation
Statements of Financial Position
As of June 30, 2022 and 2021

Assets

	2022	2021
Assets		
Cash and Cash Equivalents	\$ 1,075,157	\$ 721,598
Prepaid Expenses	15,342	10,485
Contributions Receivable, net	722,233	768,146
Cash Surrender Value of Life Insurance	111,035	103,403
Property & Equipment, net	662,690	680,205
Investments	8,462,125	8,927,734
Other Receivables	97,500	52,500
Bequests Receivable, net	100,000	-
Board Designated Cash	99,078	31,203
Long-Term Investments Held in Trust	92,403	110,105
Beneficial Interest in Perpetual Trust	4,519,745	5,755,897
	<u>4,519,745</u>	<u>5,755,897</u>
Total Assets	\$ 15,957,308	\$ 17,161,276

Liabilities and Net Assets

Liabilities		
Accounts Payable	\$ 43,760	\$ 20,946
Accrued Expenses	24,554	23,356
Due to Phi Kappa Tau Fraternity	630,052	646,438
Amounts Held in Trust for Others	78,542	93,589
	<u>776,908</u>	<u>784,329</u>
Total Liabilities	776,908	784,329
Net Assets		
Board Designated	3,692,918	3,911,584
Without Donor Restrictions	1,541,520	1,273,805
Total Without Donor Restrictions	5,234,438	5,185,389
With Donor Restrictions	9,945,962	11,191,558
	<u>15,180,400</u>	<u>16,376,947</u>
Total Net Assets	15,180,400	16,376,947
Total Liabilities and Net Assets	\$ 15,957,308	\$ 17,161,276

Phi Kappa Tau Foundation
Statement of Activities
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions of Cash and Other Financial Assets	\$ 262,608	\$ 844,339	\$ 1,106,947
Contributions of Nonfinancial Assets	5,306	-	5,306
Change in Beneficial Interest in Perpetual Trust	-	(1,236,152)	(1,236,152)
Rental and Other Income	6,000	-	6,000
Investment Return	17,918	(483,743)	(465,825)
Net Assets Released from Restrictions	370,040	(370,040)	-
Total Support and Revenue	661,872	(1,245,596)	(583,724)
Functional Expenses			
Program Services			
Scholarship and Grant Program	153,873	-	153,873
Alumni Relations and The Laurel	79,336	-	79,336
Total Program Services	233,209	-	233,209
Supporting Services			
Management and General	277,547	-	277,547
Fundraising and Membership Development	102,067	-	102,067
Total Supporting Services	379,614	-	379,614
Total Expenses	612,823	-	612,823
Change in Net Assets	49,049	(1,245,596)	(1,196,547)
Net Assets at Beginning of Year	5,185,389	11,191,558	16,376,947
Net Assets at End of Year	\$ 5,234,438	\$ 9,945,962	\$ 15,180,400

The accompanying notes are an integral part of these financial statements

Phi Kappa Tau Foundation
Statement of Activities
For the Year Ended June 30, 2021

	Without Donor Restrictions	Restrictions	Total
Support and Revenue			
Contributions of Cash and Other Financial Assets	\$ 204,153	\$ 304,423	\$ 508,577
Contributions of Nonfinancial Assets	5,150	-	5,150
Change in Beneficial Interest in Perpetual Trust	-	1,129,716	1,129,716
Rental and Other Income	3,600	-	3,600
Investment Return	1,084,252	880,396	1,964,648
Net Assets Released from Restrictions	427,946	(427,946)	-
Total Support and Revenue	1,725,101	1,886,589	3,611,690
Functional Expenses			
Program Services			
Scholarship and Grant Program	601,103	-	601,103
Alumni Relations and The Laurel	73,941	-	73,941
Total Program Services	675,044	-	675,044
Supporting Services			
Management and General	234,750	-	234,750
Fundraising and Membership Development	172,428	-	172,428
Total Supporting Services	407,178	-	407,178
Total Expenses	1,082,222	-	1,082,222
Change in Net Assets	642,879	1,886,589	2,529,468
Net Assets at Beginning of Year	4,542,510	9,304,969	13,847,479
Net Assets at End of Year	\$ 5,185,389	\$ 11,191,558	\$ 16,376,947

The accompanying notes are an integral part of these financial statements

Phi Kappa Tau Foundation
Statement of Functional Expenses
For the Year Ended June 30, 2022

	Scholarship and Grant Program	Alumni Relations and The Laurel	Management and General	Fundraising and Membership Development	Total
Salaries and Related Expenses	\$ 2,871	\$ 47,402	\$ 118,633	\$ 62,663	\$ 231,569
Professional Fees & Contract Services	-	8,840	49,316	22,311	80,467
Occupancy	259	4,278	10,707	5,655	20,899
Depreciation	-	-	45,354	-	45,354
Insurance	-	-	2,435	5,875	8,310
Communications	38	619	1,550	820	3,027
Equipment Rental	-	-	11,605	-	11,605
Supplies	-	-	2,057	-	2,057
Printing and Production	-	12,865	-	3,158	16,023
Meeting and Related	-	450	9,522	-	9,972
Meals and Travel	-	158	1,325	569	2,052
Postage and Shipping	-	4,724	1,424	1,441	7,589
Grants and Fellowships	111,205	-	-	-	111,205
Scholarships and Related Expenses	39,500	-	-	-	39,500
Bad Debt Expense (Recovery)	-	-	-	(4,583)	(4,583)
Other	-	-	23,619	4,158	27,777
Total Expenses	\$ 153,873	\$ 79,336	\$ 277,547	\$ 102,067	\$ 612,823

The accompanying notes are an integral part of these financial statements

Phi Kappa Tau Foundation
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Scholarship and Grant Program	Alumni Relations and The Laurel	Management and General	Fundraising and Membership Development	Total
Salaries and Related Expenses	\$ 5,964	\$ 44,738	\$ 76,245	\$ 86,805	\$ 213,752
Professional Fees & Contract Services	-	10,178	44,254	30,589	85,021
Occupancy	730	5,476	9,332	10,625	26,163
Depreciation	-	-	68,745	-	68,745
Insurance	-	-	2,503	5,791	8,294
Communications	96	721	1,229	1,400	3,446
Equipment Rental	-	-	10,070	-	10,070
Supplies	-	-	160	-	160
Printing and Production	-	8,054	-	22,175	30,229
Meeting and Related	-	-	309	-	309
Meals and Travel	-	-	-	-	-
Postage and Shipping	-	4,774	436	4,203	9,413
Grants and Fellowships	556,063	-	-	-	556,063
Scholarships and Related Expenses	38,250	-	-	-	38,250
Bad Debt Expense	-	-	-	7,154	7,154
Other	-	-	21,467	3,686	25,153
Total Expenses	\$ 601,103	\$ 73,941	\$ 234,750	\$ 172,428	\$ 1,082,222

The accompanying notes are an integral part of these financial statements

Phi Kappa Tau Foundation
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in Net Assets	\$ (1,196,547)	\$ 2,529,468
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used in) Operating Activities		
Depreciation	45,354	68,745
Net Realized/Unrealized (Gain) Loss on Investments	1,068,039	(1,396,193)
Loss (Gain) on Beneficial Interest in Perpetual Trust	1,236,152	(1,129,716)
Change in Cash Value of Life Insurance	(7,632)	(9,866)
Change in Contributions Receivable	45,913	242,556
Change in Bequest Receivable	(100,000)	-
Change in Prepaid Expenses	(4,857)	(4,308)
Change in Accounts Payable	22,814	19,685
Change in Accrued Expenses	1,198	(633)
Change in Due to Phi Kappa Tau Fraternity, net	(16,386)	46,438
Net Cash Provided By Operating Activities	1,094,048	366,176
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(27,840)	-
Proceeds from Cash Surrender Value	-	43,381
Purchase of Investments, net	(599,774)	(305,921)
Net Cash Used In Investing Activities	(627,614)	(262,540)
Cash Flows from Financing Activities		
Change in Other Receivables	(45,000)	(52,500)
Net Cash Used In Financing Activities	(45,000)	(52,500)
Net Increase in Cash and Cash Equivalents	421,434	51,136
Beginning Cash and Cash Equivalents	752,801	701,665
Ending Cash and Cash Equivalents	\$ 1,174,235	\$ 752,801
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 1,075,157	\$ 721,598
Board Designated Cash	99,078	31,203
	\$ 1,174,235	\$ 752,801

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

NOTE A - GENERAL INFORMATION

Nature of Operations

The Phi Kappa Tau Foundation (the “Foundation”) was incorporated in Ohio in 1945 as a tax-exempt, public, charitable and educational foundation. It was organized to support the educational undertakings of The Phi Kappa Tau Fraternity (the “Fraternity”) and its chapters. The Foundation is authorized to solicit and receive contributions, to see that restricted contributions are used to accomplish the purpose specified by the donor, and to grant scholarships to the Fraternity’s students to promote education.

The accompanying financial statements include the activities of various program services and supporting services of the Foundation as follows:

Program Services

Scholarship and Grant Program - Provides funds for scholarships and financial assistance for Phi Kappa Tau collegiates and alumni. This program also includes withdrawals from chapter educational grants to cover the construction costs related to the educational portion of chapter houses constructed and other educational expenses and other disbursements from donor restricted funds for chapters.

Alumni Relations and The Laurel Publication - Provides funds to publish The Laurel, the official magazine of the Fraternity. The Fraternity shares in 50% of the publication costs of The Laurel. In addition, this program includes expenses related to alumni engagement meetings and receptions.

Supporting Services

Management and General - General expenses of the Foundation to conduct business and general functions.

Fundraising and Membership Development – Expenses related to securing contributions to support the Foundation.

The revenue sources for the programs are derived mainly from member and alumni contributions and earnings on investments.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual method of accounting.

Accounting Principles Adopted

During fiscal 2022, the Foundation adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets* in these financial statements. The ASU is intended to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The ASU has been applied retrospectively to all periods presented, which resulted in no change to the total previously reported net assets.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

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. Actual results could differ from those estimates.

Recently Issued Significant Accounting Standards

Lease Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2021.

Financial Instruments – Credit Losses Standard

In June 2016, the FASB issued its final standard on measurement of credit losses on financial instruments. This standard, issued as ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, requires that an entity measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. This update is effective for financial statement periods beginning after December 15, 2022, with early adoption permitted.

The Foundation is currently in the process of evaluating the impact of adoption of these ASUs on their financial statements.

Fair Value Measurement

FASB ASC provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. FASB ASC defines fair value 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. FASB ASC also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument's fair value measurement.

The three levels of the fair value hierarchy under FASB ASC are:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access at the measurement date.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The valuation methodologies used for assets measured at fair value have not changed from prior periods. The Foundation has assets valued at Level 1, Level 2 and Level 3 (See Note N).

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Mutual funds/common stock/managed payout funds: Valued by the bid/ask and closing pricing. Each security is valued on a quoted market price and is traded in an active market.

Money market fund: Valued at the net asset value of the underlying asset.

Certificate of deposit: Valued using the present value of expected future cash flows.

The beneficial interest in perpetual trust is valued at Level 3 because there are no significant observable inputs.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2022 and 2021, cash and cash equivalents consisted of bank accounts.

Board Designated Cash

Board designated cash is comprised of a bank account that is Board designated for long-term purposes.

Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position.

Investment return includes dividend, interest, and other investment income net of related investment fees, realized and unrealized gains and losses on investments carried at fair value, and distributions from the beneficial interest in perpetual trust.

Investment return is reflected in the statements of activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowment and other funds. Interest and dividend income and realized and unrealized gains and losses from investments in the pooled investment accounts are allocated quarterly to the individual funds based on the relationship of the fair value of the interest of each fund to the total fair value of the pooled investments accounts, as adjusted for additions to or from those accounts.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Income Taxes

The Foundation has received an exemption from the Internal Revenue Service indicating that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended and does not currently conduct any activities which would result in the imposition of the unrelated business income tax. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Uncertain Tax Positions

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would fail to be sustained upon examination by the Internal Revenue Service.

As discussed above, the Foundation is exempt from federal income taxes and management believes the Foundation has not engaged in any activities that would disqualify it from tax-exempt status or incur a tax obligation for the years ended June 30, 2022 and 2021. The Foundation believes their estimates are appropriate based on current facts and circumstances. The Foundation's policy with regard to interest and penalties, if incurred, is to recognize interest through interest expense and penalties through other expenses.

Property and Equipment

Property and equipment are presented at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the change in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Property and equipment is capitalized if it costs \$500 or more. The general range of useful lives for financial reporting is three to thirty-five years.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Impairment of Long-Lived Assets

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less the costs to sell. Management has determined that no impairment exists at June 30, 2022 or 2021.

Net Assets

The net assets without donor restrictions are available for the purpose and operations of the Foundation. Board designated net assets are set by the Board of Trustees and represent a Board designated endowment fund. The Board's spending policy is currently 5.0% of the endowment fund's average fair value over the prior five years.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Such net assets require that resources be used for specific purposes, in a later period, after a specified date, or maintained in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as with donor restrictions and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

The Foundation has been named as the beneficiary in a number of wills. However, revenue is not recognized until there is reasonable assurance of collection and the amount can be reasonably estimated, which does not occur until after the donor's death. At June 30, 2022, the Foundation has been notified of bequests of approximately \$2,760,000 (2021 - \$2,860,000), which have not been included in the statements of activities.

Contributions receivable are stated at the amount management expects to collect from outstanding pledges. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the appropriate contributions receivable.

Contributions of Nonfinancial Assets

Contributions of nonfinancial assets are comprised primarily of contributed professional accounting services. These contributed services are recognized as revenue at their estimated fair value based on current rates for similar accounting services. There were no associated donor restrictions on the contributed services.

The Foundation's Trustees, among others, have made significant contributions of their time to promote and administer the activities of the Foundation. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such contributions under accounting principles generally accepted in the United States have not been satisfied.

Revenue Recognition

Management has evaluated ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Foundation has no revenue streams during fiscal 2022 or 2021 covered under Topic 606.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Functional Allocation of Expenses

The cost of providing program services, management and general expenses, and fundraising expenses is presented in the statement of functional expenses. Certain costs have been allocated among program services, management and general, and fundraising expenses. Wages, payroll taxes, employee benefits, utilities, maintenance, cleaning, telephone, and internet expenses were allocated based on estimated time expended by each employee. Expenditures which could be directly classified to a category were directly allocated and were not allocated on an estimated basis.

Advertising Costs

Advertising costs are expensed as incurred. There were no advertising costs for the years ended June 30, 2022 or 2021.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 12, 2023, the date the financial statements were available to be issued.

NOTE C - CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is \$424,029 (2021 - \$220,909) that is donor restricted for chapter educational grants, scholarships/sponsorships, memorials, and Hole in the Wall camp. There are no time restrictions on when these funds may be spent.

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ -	\$ 151,703	\$ 151,703
Due in one to five years	-	562,433	562,433
Thereafter	-	150,000	150,000
	-	864,136	864,136
Less:			
Allowance for uncollectible contributions	-	(42,903)	(42,903)
Unamortized discount	-	(99,000)	(99,000)
	<u>\$ -</u>	<u>\$ 722,233</u>	<u>\$ 722,233</u>

The discount rate used for 2022 was 5.00%.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Contributions receivable consisted of the following at June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ -	\$ 106,287	\$ 106,287
Due in one to five years	-	544,749	544,749
Thereafter	-	300,250	300,250
	-	951,286	951,286
Less:			
Allowance for uncollectible contributions	-	(47,487)	(47,487)
Unamortized discount	-	(135,653)	(135,653)
	\$ -	\$ 768,146	\$ 768,146

The discount rate used for 2021 was 5.00%.

Because of the inherent uncertainties in estimating the allowance for uncollectible contributions, it is at least reasonably possible that the estimates used will change within the near term.

NOTE E – BEQUEST RECEIVABLE

At June 30, 2022, the Foundation has been informed that it had been named in a decedent’s estate and recorded a bequest receivable totaling \$100,000. There were no bequests receivable at June 31, 2021.

NOTE F - INVESTMENTS AND INVESTMENT RETURNS

See Note N for the breakdown of the Foundation’s investments. Investments are subject to the following restrictions:

	2022	2021
Without donor restrictions - Board Designated	\$ 3,593,840	\$ 3,806,959
With donor restrictions	4,868,285	5,120,775
	\$ 8,462,125	\$ 8,927,734

Board designated cash and investments are held in a board designated endowment fund. See Note K for additional information. The Board has not placed any designations on how the annual spending from the board designated endowment fund can be spent.

Total investment return is comprised of the following:

	2022	2021
Interest and Dividend Income	\$ 312,269	\$ 319,540
Net Realized and Unrealized Gains/(Losses) on Investments Reported at Fair Value	(1,068,038)	1,396,192
Distributions from Boles Perpetual Trust	289,944	248,916
	\$ (465,825)	\$ 1,964,648

**Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021**

At June 30, 2022, a certificate of deposit for \$59,295 is pledged as collateral for a mortgage obtained by a chapter of the Fraternity (2021 - \$59,235). This certificate of deposit matures May 26, 2024. This certificate of deposit bears interest at 0.1% at June 30, 2022 and 2021.

NOTE G - LONG-TERM INVESTMENTS HELD IN TRUST AND AMOUNTS HELD IN TRUST FOR OTHERS

The Foundation administers a charitable trust fund held at Fifth Third Bank for which it is a beneficiary along with other not-for-profit organizations. The trust makes distributions to its beneficiaries once each year. The Foundation determines the annual distribution amount based on the provisions of the trust document.

The Foundation is the ultimate beneficiary of 15% of the trust, for which 10% is unrestricted and 5% is temporarily restricted for the Beta Gamma Chapter Educational Grant. This portion of the charitable trust fund was recorded as contribution revenue at the time the charitable trust was established. The remaining 85% of the trust is recorded as a liability, as other not-for-profit organizations are the beneficiaries.

The balance in the trust account was \$92,403 and \$110,105 and the related liability for amounts held in trust for others was \$78,542 and \$93,589 at June 30, 2022 and 2021, respectively.

The balance of Amounts Held in Trust for Others consists of:

	2022	2021
University of Idaho Foundation	\$ 46,202	\$ 55,051
Cotley Junior College	9,240	11,011
PEO Idaho State Chapter House	4,620	5,505
Canyon County Pet Haven	9,240	11,011
Special Olympics Idaho	9,240	11,011
	\$ 78,542	\$ 93,589

NOTE H - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Foundation is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the Boles trust, the Foundation has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receive the assets held in trust. The estimated value of the expected future cash flows is \$4,519,745, which represents the fair value of the trust assets at June 30, 2022 (2021 - \$5,755,897). The realized and unrealized gains/(losses) and interest and dividend income, net of investment fees, from this trust was (\$946,208) and \$1,378,632 during fiscal 2022 and 2021, respectively.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

NOTE I - PROPERTY AND EQUIPMENT

Property and equipment consist of:

	2022	2021
Building	\$ 1,506,650	\$ 1,478,810
Land	175,000	175,000
Computer Equipment and Furniture	200,274	200,274
	<u>1,881,924</u>	<u>1,854,084</u>
Less: Accumulated Depreciation	(1,219,234)	(1,173,879)
Total	<u>\$ 662,690</u>	<u>\$ 680,205</u>

NOTE J - NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Subject to Expenditure for a Specified Purpose:		
Educational	\$ 2,805,101	\$ 2,850,298
Scholarships/Sponsorships	924,304	1,022,963
Memorials	69,669	72,104
Hole in the Wall	158,026	169,460
Accumulated endowment investment income available for appropriation		
Scholarships	254,985	370,553
Educational	50,637	72,878
	<u>4,262,722</u>	<u>4,558,256</u>
Total Purpose and Time Restrictions	4,262,722	4,558,256
Net Assets Held in Perpetuity		
Beneficial Interest in Perpetual Trust	4,519,745	5,755,897
Scholarships	668,797	668,797
Educational	494,698	208,608
	<u>5,683,240</u>	<u>6,633,302</u>
Total Net Assets Held in Perpetuity	5,683,240	6,633,302
Total Net Assets With Donor Restrictions	\$ 9,945,962	\$ 11,191,558

Investment income earned on donor restricted cash and investments is restricted for the original contribution's purpose.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of other events specified by donors, or through appropriation for expenditure from endowment funds are as follows:

	2022	2021
Purpose Spending		
Chapter Educational Grants	\$ 274,653	\$ 310,506
Scholarship/Sponsorships	37,931	12,036
Memorials	1,338	1,354
Hole in the Wall	27,570	74,564
Physical Plant	1,548	2,486
Release of appropriated endowment amounts for scholarships	27,000	27,000
	\$ 370,040	\$ 427,946

NOTE K - ENDOWMENT

The Foundation’s endowments consist of a donor-restricted endowment fund for the purpose of granting scholarships and a fund designated by the Board of Trustees to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation’s Board of Trustees has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) in the state of Ohio regarding endowments 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. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income earned on the donor-restricted endowment fund is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation goals of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Changes in Endowment Net Assets

	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	\$ 3,078,386	\$ 1,093,823	\$ 4,172,209
Contributions	28,477	9,848	38,325
Transfers In	43,381	-	43,381
Investment Return:			
Investment Income (Loss)	144,485	(11,191)	133,294
Net Appreciation (realized & unrealized)	663,719	258,455	922,174
Appropriation of endowment assets for expenditure	(46,864)	(30,100)	(76,964)
Endowment net assets, June 30, 2021	<u>\$ 3,911,584</u>	<u>\$ 1,320,835</u>	<u>\$ 5,232,419</u>
Contributions	19,917	312,070	331,987
Investment Return:			
Investment Income	78,694	29,310	108,004
Net Depreciation (realized & unrealized)	(171,911)	(166,098)	(338,009)
Appropriation of endowment assets for expenditure	(145,366)	(27,000)	(172,366)
Endowment net assets, June 30, 2022	<u>\$ 3,692,918</u>	<u>\$ 1,469,117</u>	<u>\$ 5,162,035</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2022:

	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,469,117	\$ 1,469,117
Board-designated endowment funds	3,692,918	-	3,692,918
Total Funds	<u>\$ 3,692,918</u>	<u>\$ 1,469,117</u>	<u>\$ 5,162,035</u>

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

Endowment Net Asset Composition by Type of Fund as of June 30, 2021:

	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,320,835	\$ 1,320,835
Board-designated endowment funds	3,911,584	-	3,911,584
Total Funds	<u>\$ 3,911,584</u>	<u>\$ 1,320,835</u>	<u>\$ 5,232,419</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration due to unfavorable market conditions. At June 30, 2022, there was one fund balance that was less than its original endowment value by \$25,980 (2021 – no funds with deficiencies).

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under the Foundation’s investment management policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide for the preservation of capital with a reasonable amount of long-term growth without undue exposure to risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation with investment of assets into cash equivalents, fixed income securities and equity securities to achieve its long-term return objectives of the growth of capital while maintaining liquidity based on expected cash needs within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year not more than 5.0% of its endowment fund’s average fair value over the prior five years. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow the endowment balance to remain steady.

NOTE L - DEFINED CONTRIBUTION PLAN

The Foundation has a defined contribution plan (the “Plan”) which allows for all eligible employees to contribute a percentage of their compensation to the Plan. New employees are eligible to enroll in the Plan 30 days after the initial date of hire. The Foundation will match the employee’s contribution up to 3% of the employees’ compensation. The Foundation will match 3.5% if the employee’s contribution is 4% and match 4% of employee contributions over 5% of the employee’s compensation. Amounts expensed under this plan were \$5,794 for the year ended June 30, 2022 (2021 - \$5,810).

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

NOTE M - RELATED PARTY TRANSACTIONS

The Foundation may make grants to the Fraternity for expenses incurred for administering educational grants, scholarships, educational programming, and chapter services. In addition, the Fraternity charges the Foundation for certain shared costs such as payroll, payroll taxes, employee benefits and communications. The Foundation paid the Fraternity for attendee registration fees at Leadership Academy, Presidents Academy, and various other regional conferences.

The Foundation charges the Fraternity for shared costs such as maintenance, utilities, real estate taxes, computer usage and cleaning supplies. Related party transactions are as follows:

	2022	2021
Shared Costs Charged by Fraternity	\$ 234,433	\$ 216,195
Shared Costs Charged by Foundation	47,244	22,103
Grant to Fraternity for Educational Programming	-	35,000
Rescission of Grant to Fraternity for Edu. Programming	28,050	-
Computer Rental Expense Charged by Foundation	19,509	9,747

The Foundation owed the following to Fraternity at June 30:

	2022	2021
Advance to chapter for housing project	\$ 600,000	\$ 600,000
Grant for educational programming	6,950	35,000
Related to operations	23,102	11,438
	<u>\$ 630,052</u>	<u>\$ 646,438</u>

The balances are non-interest bearing and are unsecured. The chapter housing project cost approximately \$6 million, and the project was funded via a construction loan for \$3.2 million with the remaining \$2.5 million funded via an equity injection. The entire equity injection was required to be paid for the housing project prior to any construction loan proceeds being disbursed by the lender. The equity injection, which was completed by June 30, 2021, was comprised of \$450,000 loaned by the Fraternity, \$600,000 advanced by the Foundation, approximately \$870,000 funded via contributions to the Foundation, and \$700,000 loaned from another organization.

The \$600,000 advance by the Foundation is intended to be repaid with pledges received by the Foundation for the chapter's housing project. The Foundation currently has net contributions receivable for this housing project of approximately \$700,000 at June 30, 2022 (2021 - \$755,000).

While the Foundation intends to support the project via donations received designated for the chapter, the organization secured a line of credit on July 1, 2020 in the amount of \$600,000. The credit line had an interest rate at the prime rate less 0.75% and matured on July 1, 2021 and was secured by one of the Foundation's investment accounts. The credit line was closed during fiscal 2022 and was never drawn upon.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

The Foundation is a guarantor on this construction loan until the chapter attains a 40% equity value in the property, the chapter's debt service coverage is at least 1.15, the chapter has funded all required escrow reserves pursuant to the loan agreement, and the loan is in good standing with no event of default. At this time, the guarantee reverts to non-recourse. The construction loan termed out on December 24, 2021 and principal and interest payments on the chapter loan began in January 2022. The loan is amortized over 300 months and a balloon payment will be due in December 2026. The interest rate during the construction period was prime less .25% with a floor of 4% while the interest rate beginning in January 2022 is fixed at the 5-year US treasury rate plus 2.85% with a floor of 4.6%. At June 30, 2022, the loan had a balance of approximately \$3,130,000 (June 30, 2021 – approximately \$2,900,000).

The balance in Other Receivables represents amounts paid on behalf of the chapter that will be reimbursed to the Foundation.

In December 2018, the Fraternity refinanced a mortgage on their executive offices in the amount of \$216,772. The Foundation and Phi Kappa Tau Properties (Properties) are guarantors of the loan. The guarantee is on the Fraternity's current mortgage and any future obligations between the Fraternity and the lender. The Foundation has granted a security interest in all property to the lender. The loan requires monthly payments of \$2,415 until December 2023, at which time a balloon payment of \$127,096 is due. The Foundation and/or Properties would be obligated to perform under this guarantee if the Fraternity failed to pay principal and interest payments to the lender when due. At June 30, 2022, the maximum potential amount of future (undiscounted) payments would be \$168,151 (2021 - \$197,132). As of June 30, 2022, the Fraternity is current with its debt payments and Foundation management believes the risk of default by the Fraternity in the future is very low.

In addition, many members of the Foundation's Board of Trustees are significant contributors to the Foundation.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

NOTE N - FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis are as follows:

	Fair Value Measurements Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of June 30, 2022				
Assets:				
Investments				
Money Market Funds	\$ -	\$ 28,773	\$ -	\$ 28,773
Equity Mutual Funds	317,671	-	-	317,671
Fixed Income Mutual Funds	892,833	-	-	892,833
Common Stock	273,440	-	-	273,440
Managed Payouts	6,890,113	-	-	6,890,113
Certificate of Deposit	-	59,295	-	59,295
Total Investments	<u>8,374,057</u>	<u>88,068</u>	<u>-</u>	<u>8,462,125</u>
Long-Term Investments				
Money Market Fund	-	2,808	-	2,808
Equity Mutual Funds	89,595	-	-	89,595
Total Long-Term Inv.	<u>89,595</u>	<u>2,808</u>	<u>-</u>	<u>92,403</u>
Beneficial Interest in Trust	<u>-</u>	<u>-</u>	<u>4,519,745</u>	<u>4,519,745</u>
Total Assets	<u>\$ 8,463,652</u>	<u>\$ 90,876</u>	<u>\$ 4,519,745</u>	<u>\$ 13,074,273</u>

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
As of June 30, 2021				
Assets:				
Investments				
Money Market Funds	\$ -	\$ 27,560	\$ -	\$ 27,560
Equity Mutual Funds	364,387	-	-	364,387
Fixed Income Mutual Funds	996,043	-	-	996,043
Managed Payouts	7,480,509	-	-	7,480,509
Certificate of Deposit	-	59,235	-	59,235
Total Investments	<u>8,840,939</u>	<u>86,795</u>	<u>-</u>	<u>8,927,734</u>
Long-Term Investments				
Money Market Fund	-	3,636	-	3,636
Equity Mutual Funds	106,469	-	-	106,469
Total Long-Term Inv.	<u>106,469</u>	<u>3,636</u>	<u>-</u>	<u>110,105</u>
Beneficial Interest in Trust	-	-	5,755,897	5,755,897
Total Assets	<u>\$ 8,947,408</u>	<u>\$ 90,431</u>	<u>\$ 5,755,897</u>	<u>\$ 14,793,736</u>

The following table presents information about fair value measurements using significant unobservable inputs (Level 3):

Balance at July 1, 2020	\$ 4,626,181
Change in value of perpetual trust	<u>1,129,716</u>
Balance at June 30, 2021	\$ 5,755,897
Change in value of perpetual trust	<u>(1,236,152)</u>
Balance at June 30, 2022	<u>\$ 4,519,745</u>

There were no transfers in or out of Level 3 nor were there any purchases or issues during the years ended June 30, 2022 and 2021. The annual disbursement from the Beneficial Interest in Perpetual Trust is made in June of each year for the upcoming year.

Interest and dividends, disbursements, fees and expenses and total gains or losses are reported in the statement of activities as change in beneficial interest in perpetual trust.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

NOTE O - OPERATING LEASES

The Foundation leases a copy machine and graphics equipment under an operating lease agreement. Rental expense for all operating leases included in the statement of activities for the year ended June 30, 2022 was \$11,605 (2021 - \$10,070). The minimum rentals under this agreement as of June 31, 2022 are as follows:

2023	\$ 13,384
2024	<u>5,577</u>
	<u>\$ 18,961</u>

NOTE P - CONCENTRATIONS, RISKS, AND UNCERTAINTIES

The Foundation's investments are not insured and are subject to market value fluctuation. The investment portfolio consists of managed payout funds, equity securities, mutual funds and a certificate of deposit which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The Foundation's financial instruments that are potentially exposed to concentrations of credit risk are primarily cash and contributions receivable. The cash balance in a financial institution during the year may exceed the \$250,000 amount insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2022, the amount in excess of the FDIC limit was \$904,222 (2021 - \$564,949). Management believes this risk is acceptable.

The Foundation's contributions receivable are pledges made by individuals, and, accordingly the collection is subject to the economic stability of the supporting individuals. At June 30, 2022, 93% of gross contributions receivable are due from one individual (2021 - 88% due from one individual). The entire balance in other receivables is due from one organization.

NOTE Q – LIQUIDITY AND AVAILABILITY

Financial assets and liquidity resources available for general expenditures, such as operating expenses within one year were as follows as of June 30:

	2022	2021
Financial Assets:		
Cash and cash equivalents	\$ 1,075,157	\$ 721,598
Less: cash with donor restrictions	(254,909)	(220,909)
Current Portion of Contributions Receivable, net	<u>108,800</u>	<u>58,800</u>
Total Financial Assets available within one year	929,048	559,489
 Liquidity Resources:		
Allocation of 5% of general endowment	<u>173,225</u>	<u>164,130</u>
Total financial assets and liquidity resources available within one year	<u>\$ 1,102,273</u>	<u>\$ 723,619</u>

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2022 and 2021

The Foundation's governing board has an investment policy to grow a portion of its resources without donor restriction for long-term purposes. These funds are invested for long-term appreciation but remain available and may be spent at the discretion of the board. The Board has designated cash and investments for endowment purposes, but can re-designate those assets for general expenditure at any time. Cash and investments with donor restrictions include donor-restricted endowments and funds that must be spent on certain donor-restricted purposes.

The Foundation's cash flows have variations during the year attributable to timing of donations and cash disbursements from liquidity resources.