

# **Phi Kappa Tau Foundation**

## **FINANCIAL STATEMENTS**

**For the Years Ended  
June 30, 2021 and 2020**

**Phi Kappa Tau Foundation**

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

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, 2021 and 2020, 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.

*Kirsch CPA Group, LLC*  
Oxford, Ohio  
November 23, 2022

**Phi Kappa Tau Foundation**  
**Statements of Financial Position**  
**As of June 30, 2021 and 2020**

**Assets**

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 721,598	\$ 660,274
Prepaid Expenses	10,485	6,177
Contributions Receivable, net	768,146	1,010,702
Cash Surrender Value of Life Insurance	103,403	136,918
Property & Equipment, net	680,205	748,949
Investments	8,927,734	7,230,135
Other Receivables	52,500	-
Board Designated Cash	31,203	41,391
Long-Term Investments Held in Trust	110,105	80,008
Beneficial Interest in Perpetual Trust	5,755,897	4,626,181
	<u>\$ 17,161,276</u>	<u>\$ 14,540,736</u>
<b>Total Assets</b>	<b>\$ 17,161,276</b>	<b>\$ 14,540,736</b>

**Liabilities and Net Assets**

<b>Liabilities</b>		
Accounts Payable	\$ 20,946	\$ 1,261
Accrued Expenses	23,356	23,989
Due to Phi Kappa Tau Fraternity	646,438	600,000
Amounts Held in Trust for Others	93,589	68,007
	784,329	693,257
<b>Total Liabilities</b>	<b>784,329</b>	<b>693,257</b>
<b>Net Assets</b>		
Board Designated	3,911,584	3,078,386
Without Donor Restrictions	1,273,805	1,464,124
Total Without Donor Restrictions	5,185,389	4,542,510
With Donor Restrictions	11,191,558	9,304,969
	<u>16,376,947</u>	<u>13,847,479</u>
<b>Total Net Assets</b>	<b>16,376,947</b>	<b>13,847,479</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 17,161,276</b>	<b>\$ 14,540,736</b>

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
Contributions	\$ 209,303	\$ 304,423	\$ 513,726
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)	-
<b>Total Support and Revenue</b>	1,725,101	1,886,589	3,611,690
<b>Functional Expenses</b>			
<b>Program Services</b>			
Scholarship and Grant Program	601,103	-	601,103
Alumni Relations and The Laurel	73,941	-	73,941
<b>Total Program Services</b>	675,044	-	675,044
<b>Supporting Services</b>			
Management and General	234,750	-	234,750
Fundraising and Membership Development	172,428	-	172,428
<b>Total Supporting Services</b>	407,178	-	407,178
<b>Total Expenses</b>	1,082,222	-	1,082,222
<b>Change in Net Assets</b>	642,879	1,886,589	2,529,468
<b>Net Assets at Beginning of Year</b>	4,542,510	9,304,969	13,847,479
<b>Net Assets at End of Year</b>	\$ 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 Activities**  
**For the Year Ended June 30, 2020**

	Without Donor Restrictions	Restrictions	Total
<b>Support and Revenue</b>			
Contributions	\$ 210,079	\$ 1,490,459	\$ 1,700,539
Change in Beneficial Interest in Perpetual Trust	-	(192,851)	(192,851)
Rental and Other Income	17,202	-	17,202
Investment Return	415,141	2,104	417,245
Net Assets Released from Restrictions	1,297,149	(1,297,149)	-
<b>Total Support and Revenue</b>	1,939,570	2,564	1,942,134
<b>Functional Expenses</b>			
<b>Program Services</b>			
Scholarship and Grant Program	1,263,294	-	1,263,294
Alumni Relations and The Laurel	69,989	-	69,989
<b>Total Program Services</b>	1,333,283	-	1,333,283
<b>Supporting Services</b>			
Management and General	324,904	-	324,904
Fundraising and Membership Development	165,356	-	165,356
<b>Total Supporting Services</b>	490,260	-	490,260
<b>Total Expenses</b>	1,823,543	-	1,823,543
<b>Change in Net Assets</b>	116,027	2,564	118,591
<b>Net Assets at Beginning of Year</b>	4,426,483	9,302,405	13,728,888
<b>Net Assets at End of Year</b>	\$ 4,542,510	\$ 9,304,969	\$ 13,847,479

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**

	<b>Scholarship and Grant Program</b>	<b>Alumni Relations and The Laurel</b>	<b>Management and General</b>	<b>Fundraising and Membership Development</b>	<b>Total</b>
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
<b>Total Expenses</b>	<b>\$ 601,103</b>	<b>\$ 73,941</b>	<b>\$ 234,750</b>	<b>\$ 172,428</b>	<b>\$ 1,082,222</b>

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, 2020**

	<b>Scholarship and Grant Program</b>	<b>Alumni Relations and The Laurel</b>	<b>Management and General</b>	<b>Fundraising and Membership Development</b>	<b>Total</b>
Salaries and Related Expenses	\$ 714	\$ 39,769	\$ 147,120	\$ 50,533	\$ 238,136
Professional Fees & Contract Services	-	7,988	38,038	15,953	61,979
Occupancy	100	5,594	20,693	7,108	33,495
Depreciation	-	-	69,660	-	69,660
Insurance	-	-	1,835	6,306	8,141
Communications	10	552	2,041	701	3,304
Equipment Rental	-	-	13,530	-	13,530
Supplies	-	108	417	-	525
Printing and Production	-	9,349	-	43,598	52,947
Meeting and Related	-	-	11,496	5,073	16,569
Meals and Travel	-	-	465	440	905
Postage and Shipping	-	6,629	1,329	5,003	12,961
Grants and Fellowships	1,220,666	-	-	-	1,220,666
Scholarships and Related Expenses	41,804	-	-	-	41,804
Bad Debt Expense	-	-	-	26,875	26,875
Other	-	-	18,280	3,766	22,046
<b>Total Expenses</b>	<b>\$ 1,263,294</b>	<b>\$ 69,989</b>	<b>\$ 324,904</b>	<b>\$ 165,356</b>	<b>\$ 1,823,543</b>

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, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 2,529,468	\$ 118,591
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used in) Operating Activities		
Depreciation	68,745	69,660
Net Realized/Unrealized (Gain) Loss on Investments	(1,396,193)	486,695
(Gain) Loss on Beneficial Interest in Perpetual Trust	(1,129,716)	192,851
Change in Cash Value of Life Insurance	(9,866)	(9,960)
Change in Contributions Receivable	242,556	(854,094)
Change in Bequest Receivable	-	25,000
Change in Prepaid Expenses	(4,308)	(5,423)
Change in Accounts Payable	19,685	(7,260)
Change in Accrued Expenses	(633)	1,433
Change in Due to Phi Kappa Tau Fraternity, net	46,438	545,920
<b>Net Cash Provided By Operating Activities</b>	<b>313,676</b>	<b>563,413</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of Fixed Assets	-	(13,400)
Proceeds from Cash Surrender Value	43,381	-
Purchase of Investments, net	(305,921)	(413,361)
<b>Net Cash Used In Investing Activities</b>	<b>(262,540)</b>	<b>(426,761)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>51,136</b>	<b>136,652</b>
<b>Beginning Cash and Cash Equivalents</b>	<b>701,665</b>	<b>565,013</b>
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 752,801</b>	<b>\$ 701,665</b>
<b>RECONCILIATION TO STATEMENT OF FINANCIAL POSITION</b>		
Cash and Cash Equivalents	\$ 721,598	\$ 660,274
Board Designated Cash	31,203	41,391
	<b>\$ 752,801</b>	<b>\$ 701,665</b>

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**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.

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.

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

Accounting Principles Adopted

*Fair Value Measurement Standard*

The Foundation adopted Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* in these financial statements. Topic 820 is intended to improve the effectiveness of disclosures related to fair value measurements. The ASU has been applied retrospectively to all periods presented, which resulted in no change to the total previously reported net assets.

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.

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

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.

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/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. The remaining bequests receivable balance was fully allowed for during the year ended June 30, 2020, and was written off for the year ended June 30, 2021.

#### 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, 2021 and 2020, 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.

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

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.

#### 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, 2021 and 2020. 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, 2021 or 2020.

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

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.

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, 2021 and 2020, the Foundation has been notified of bequests of approximately \$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.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. There were \$5,150 of contributed services for the year ended June 30, 2021 (2020 - \$4,862).

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.

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

Revenue Recognition

Management has evaluated ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As the Foundation has no revenue streams during fiscal 2021 covered under Topic 606, there has been no change in revenue recognition.

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, 2021 or 2020.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 23, 2022, the date the financial statements were available to be issued. See Note R.

**NOTE C - CASH AND CASH EQUIVALENTS**

Included in cash and cash equivalents is \$220,909 (2020 - \$77,562) 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, 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)
	<u>\$ -</u>	<u>\$ 768,146</u>	<u>\$ 768,146</u>

The discount rate used for 2021 was 5.00%.

**Phi Kappa Tau Foundation**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

Contributions receivable consisted of the following at June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ -	\$ 267,037	\$ 267,037
Due in one to five years	-	544,866	544,866
Thereafter	-	400,550	400,550
	<u>-</u>	<u>1,212,453</u>	<u>1,212,453</u>
Less:			
Allowance for uncollectible contributions	-	(40,333)	(40,333)
Unamortized discount	-	(161,418)	(161,418)
	<u>\$ -</u>	<u>\$ 1,010,702</u>	<u>\$ 1,010,702</u>

The discount rate used for 2020 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 - BEQUESTS RECEIVABLE**

The Foundation had been informed that it had been named as a beneficiary in two other decedents' estates and had recorded bequests receivable totaling \$25,000. During the year ended June 30, 2020, the Foundation established an allowance of \$25,000 on these two bequests. As of June 30, 2021, these bequests are not expected to be received and have been written off by the Foundation.

**NOTE F - INVESTMENTS AND INVESTMENT RETURNS**

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

	2021	2020
Without donor restrictions - Board Designated	\$ 3,806,959	\$ 3,036,995
With donor restrictions	<u>5,120,775</u>	<u>4,193,140</u>
	<u>\$ 8,927,734</u>	<u>\$ 7,230,135</u>

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:

	2021	2020
Interest and Dividend Income	\$ 319,540	\$ 427,817
Net Realized and Unrealized Gains/(Losses) on Investments Reported at Fair Value	1,396,192	(486,695)
Distributions from Boles Perpetual Trust	<u>248,916</u>	<u>476,123</u>
	<u>\$ 1,964,648</u>	<u>\$ 417,245</u>

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At June 30, 2021, a certificate of deposit for \$59,235 is pledged as collateral for a mortgage obtained by a chapter of the Fraternity (2020 - \$59,122). This certificate of deposit matured during May 2021 and was renewed for a 3-year term through May 26, 2024. This certificate of deposit bears interest at 0.1% (2020 - 0.2%).

**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 \$110,105 and \$80,008 and the related liability for amounts held in trust for others was \$93,589 and \$68,007 at June 30, 2021 and 2020, respectively.

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

	<b>2021</b>	<b>2020</b>
University of Idaho Foundation	\$ 55,051	\$ 40,004
Cottey Junior College	11,011	8,001
PEO Idaho State Chapter House	5,505	4,000
Canyon County Pet Haven	11,011	8,001
Special Olympics Idaho	11,011	8,001
	<u>\$ 93,589</u>	<u>\$ 68,007</u>

**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 \$5,755,897, which represents the fair value of the trust assets at June 30, 2021 (2020 - \$4,626,181). The realized and unrealized gains and interest and dividend income, net of investment fees, from this trust was \$1,378,632 and \$283,272 during fiscal 2021 and 2020, respectively.

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**NOTE I - PROPERTY AND EQUIPMENT**

Property and equipment consist of:

	<b>2021</b>	<b>2020</b>
Building	\$ 1,478,810	\$ 1,478,810
Land	175,000	175,000
Computer Equipment and Furniture	200,274	200,274
	<u>1,854,084</u>	<u>1,854,084</u>
Less: Accumulated Depreciation	(1,173,879)	(1,105,135)
Total	<u>\$ 680,205</u>	<u>\$ 748,949</u>

**NOTE J - NET ASSETS**

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

	<b>2021</b>	<b>2020</b>
<b>Subject to Expenditure for a Specified Purpose:</b>		
Educational	\$ 2,850,298	\$ 2,525,664
Scholarships/Sponsorships	1,022,963	796,843
Memorials	72,104	59,360
Hole in the Wall	169,460	203,098
<b>Accumulated endowment investment income available for appropriation</b>		
Scholarships	370,553	189,693
Educational	<u>72,878</u>	<u>36,573</u>
<b>Total Purpose and Time Restrictions</b>	4,558,256	3,811,231
<b>Net Assets Held in Perpetuity</b>		
Beneficial Interest in Perpetual Trust	5,755,897	4,626,181
Scholarships	668,797	668,797
Educational	<u>208,608</u>	<u>198,760</u>
<b>Total Net Assets Held in Perpetuity</b>	<u>6,633,302</u>	<u>5,493,738</u>
<b>Total Net Assets With Donor Restrictions</b>	<u>\$ 11,191,558</u>	<u>\$ 9,304,969</u>

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

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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:

	<b>2021</b>	<b>2020</b>
Purpose Spending		
Chapter Educational Grants	\$ 310,506	\$ 1,101,482
Scholarship/Sponsorships	12,036	29,606
Memorials	1,354	1,269
Hole in the Wall	74,564	137,186
Physical Plant	2,486	606
Release of appropriated endowment amounts for scholarships	27,000	27,000
	<u>\$ 427,946</u>	<u>\$ 1,297,149</u>

**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

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**Changes in Endowment Net Assets**

	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 3,303,579	\$ 1,136,355	\$ 4,439,934
Contributions	2,649	8,813	11,462
Investment Return:			
Investment Income	202,476	52,001	254,477
Net Depreciation (realized & unrealized)	(274,043)	(76,346)	(350,389)
Appropriation of endowment assets for expenditure	(156,275)	(27,000)	(183,275)
Endowment net assets, June 30, 2020	<u>\$ 3,078,386</u>	<u>\$ 1,093,823</u>	<u>\$ 4,172,209</u>
Contributions	28,477	9,848	38,325
Transfers In	43,381	-	43,381
Investment Return:			
Investment Income	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>

**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>

**Phi Kappa Tau Foundation**  
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**Endowment Net Asset Composition by Type of Fund as of June 30, 2020:**

	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,093,823	\$ 1,093,823
Board-designated endowment funds	3,078,386	-	3,078,386
<b>Total Funds</b>	<b>\$ 3,078,386</b>	<b>\$ 1,093,823</b>	<b>\$ 4,172,209</b>

**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, 2021 and 2020, there were no 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 \$5,810 for the year ended June 30, 2021 (2020 - \$5,820).

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**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 and cleaning supplies. The Foundation also charged the Fraternity rent for computer usage during fiscal 2020, but during fiscal 2021, the Foundation split the actual costs with the Fraternity.

Related party transactions are as follows:

	<b>2021</b>	<b>2020</b>
Shared Costs charged by Fraternity	\$ 216,195	\$ 237,634
Leadership Academy sponsorships/ Registration fees charged by Fraternity	-	18,508
Shared Costs charged by Foundation	22,103	26,024
Rental Income charged by Foundation	9,747	16,026
Grant to Fraternity for Educational Programming	35,000	-

The Foundation owed the following to Fraternity at June 30:

	<b>2021</b>	<b>2020</b>
Advance to chapter for housing project	\$ 600,000	\$ 600,000
Grant for educational programming	35,000	-
Related to operations	11,438	-
	<u>\$ 646,438</u>	<u>\$ 600,000</u>

The balances are non-interest bearing and are unsecured. The advance during fiscal 2020 for a chapter housing project is intended to be repaid with pledges received by the Foundation for the chapter's housing project. 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 to be funded via an equity injection. The entire equity injection was required to be paid prior to any construction loan proceeds being disbursed by the lender.

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 at an interest rate of prime less .25% with a floor of 4% and a balloon payment will be due in December 2026.

At June 30, 2021, the construction loan had a balance of approximately \$2,900,000. An additional \$200,000 was funded subsequent to year end. During fiscal 2020 and 2021 the Foundation advanced approximately \$670,000 to the project, which was funded by contributions. In addition, the Foundation advanced an additional \$600,000, the Fraternity has loaned the chapter \$450,000, and another organization has loaned the chapter \$700,000 at June 30, 2021. The Foundation currently has net contributions receivable for this housing project of approximately \$755,000 at June 30, 2021 (2020 - \$963,000).

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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 that was valued at \$1,387,990 at June 30, 2021. The credit line was closed subsequent to year end and had not been drawn on as of June 30, 2021.

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, 2021, the maximum potential amount of future (undiscounted) payments would be \$197,132 (2020 - \$226,112). As of June 30, 2021, 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.

**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)	
<b>As of June 30, 2021</b>				
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	<u>-</u>	<u>-</u>	<u>5,755,897</u>	<u>5,755,897</u>
Total Assets	<u>\$ 8,947,408</u>	<u>\$ 90,431</u>	<u>\$ 5,755,897</u>	<u>\$ 14,793,736</u>

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	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
<b>As of June 30, 2020</b>				
Assets:				
Investments				
Money Market Funds	\$ -	\$ 28,800	\$ -	\$ 28,800
Equity Mutual Funds	297,275	-	-	297,275
Fixed Income Mutual Funds	931,790	-	-	931,790
Managed Payouts	5,913,148	-	-	5,913,148
Certificate of Deposit	-	59,122	-	59,122
Total Investments	7,142,213	87,922	-	7,230,135
Long-Term Investments				
Money Market Fund	-	3,021	-	3,021
Equity Mutual Funds	76,987	-	-	76,987
Total Long-Term Inv.	76,987	3,021	-	80,008
Beneficial Interest in Trust	-	-	4,626,181	4,626,181
Total Assets	\$ 7,219,200	\$ 90,943	\$ 4,626,181	\$ 11,936,324

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

Balance at July 1, 2019	\$ 4,819,032
Change in value of perpetual trust	(192,851)
Balance at June 30, 2020	\$ 4,626,181
Change in value of perpetual trust	1,129,716
Balance at June 30, 2021	\$ 5,755,897

There were no transfers in or out of Level 3 nor were there any purchases or issues during the years ended June 30, 2021 and 2020. The annual disbursement from the Beneficial Interest in Perpetual Trust is made in June of each year for the upcoming year. The fiscal 2020 disbursement was made in July 2019 and the fiscal 2021 disbursement was made in June 2020, resulting in two disbursements in the same fiscal year. The fiscal 2022 disbursement was made in June 2021.

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.

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**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, 2021, was \$10,070 (2020 - \$13,530). This lease agreement expired during fiscal year 2021 and has continued on a month-to-month basis.

**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 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, 2021, the amount in excess of the FDIC limit was \$564,949 (2020 - \$464,148). 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, 2021, 88% of gross contributions receivable are due from one individual (2020 - 91% due from two individuals).

In March 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventive or protective measures, such as travel and business restrictions and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact on many sectors of the economy. Consequently, there were disruptions in the Foundation's programs and operations during both fiscal 2020 and fiscal 2021.

**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:

	<b>2021</b>	<b>2020</b>
Financial Assets:		
Cash and cash equivalents	\$ 721,598	\$ 660,274
Less: cash with donor restrictions	(220,909)	(77,562)
Current Portion of Contributions Receivable, net	58,800	226,704
Total Financial Assets available within one year	<u>559,489</u>	<u>809,416</u>
Liquidity Resources:		
Allocation of 5% of general endowment	<u>164,130</u>	<u>156,620</u>
Total financial assets and liquidity resources available within one year	<u>\$ 723,619</u>	<u>\$ 966,036</u>

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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.

**NOTE R – SUBSEQUENT EVENTS**

Subsequent to June 30, 2021, the Foundation was notified that it was the beneficiary of a \$100,000 bequest from an estate.