

BETA UPSILON CHI, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
JULY 31, 2019





INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Beta Upsilon Chi, Inc.
Fort Worth, Texas

We have audited the accompanying financial statements of Beta Upsilon Chi, Inc. (the "Organization"), which comprise the statement of financial position as of July 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 the Organization as of July 31, 2019, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Saville, Dodgen & Co." in a cursive script.

Saville, Dodgen & Company, P.L.L.C.
Dallas, Texas

March 17, 2020

BETA UPSILON CHI, INC.
STATEMENT OF FINANCIAL POSITION
JULY 31, 2019

ASSETS

ASSETS	
Cash and cash equivalents	\$ 367,215
Investments	123,900
Prepaid expenses	<u>45,870</u>
TOTAL ASSETS	<u><u>\$ 536,985</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accrued expenses	\$ 27,951
Deferred revenue	<u>17,000</u>
TOTAL LIABILITIES	<u>44,951</u>
NET ASSETS	
Without donor restriction	309,677
With donor restriction	<u>182,357</u>
TOTAL NET ASSETS	<u>492,034</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 536,985</u></u>

See accompanying independent auditors' report and notes.

BETA UPSILON CHI, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Donations	\$ 299,028	\$ 119,057	\$ 418,085
Chapter dues and fees	755,847	-	755,847
Interest and dividends	-	3,635	3,635
Merchandise royalties	35,996	-	35,996
Event fees	4,216	-	4,216
Net assets released from restrictions	110,868	(110,868)	-
Total revenue and public support	<u>1,205,955</u>	<u>11,824</u>	<u>1,217,779</u>
EXPENSES			
Program expenses	856,294	-	856,294
Fundraising expenses	59,497	-	59,497
General and administrative	270,924	-	270,924
Total expenses	<u>1,186,715</u>	<u>-</u>	<u>1,186,715</u>
CHANGES IN NET ASSETS	19,240	11,824	31,064
NET ASSETS, beginning of year	<u>290,437</u>	<u>170,533</u>	<u>460,970</u>
NET ASSETS, end of year	<u>\$ 309,677</u>	<u>\$ 182,357</u>	<u>\$ 492,034</u>

See accompanying independent auditors' report and notes.

BETA UPSILON CHI, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2019

	Program Expenses	Fundraising Expenses	General and Administrative	Total
Administration	\$ 17,533	\$ -	\$ 244,801	\$ 262,334
Leadership consultants	56,303	-	-	56,303
National leadership development	210,197	-	-	210,197
Payroll	427,253	50,265	25,133	502,651
Travel expenses	50,746	9,232	990	60,968
Chapter expenses	49,390	-	-	49,390
Scholarships	44,872	-	-	44,872
Total expenses	\$ 856,294	\$ 59,497	\$ 270,924	\$ 1,186,715

See accompanying independent auditors' report and notes.

BETA UPSILON CHI, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 31,064
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Loss on disposal of assets	2,193
Changes in operating account balances:	
Related party receivables	6,432
Prepaid expenses	(9,346)
Security deposit	1,450
Accrued expenses	42
Deferred revenue	17,000
Net cash provided by operating activities	<u>48,835</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(98,728)
Redemption of investment cash	99,828
Net cash provided by investing activities	<u>1,100</u>
INCREASE IN CASH AND CASH EQUIVALENTS	49,935
CASH AND CASH EQUIVALENTS, beginning of year	<u>317,280</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 367,215</u></u>

See accompanying independent auditors' report and notes.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2019

NATURE OF ORGANIZATION

Beta Upsilon Chi is a Christian fraternity founded at the University of Texas in 1985. Since it was founded, it has spread to 39 campuses in 18 states, creating 39 chapters. The fraternity's purpose is to establish brotherhood and unity among college men, based on the common bond of Jesus Christ.

Beta Upsilon Chi, Inc. (the "Organization") represents the managing entity, which oversees operations of each individual chapter. The individual chapters are held under an umbrella entity, not consolidated as part of these financial statements. The Organization hosts events annually, including leadership retreats and national summits for all members and alumni. Through the collection of third-party donations, the Organization helps fund scholarships and chapter related expenses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP). Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restriction – Assets that are not subject to donor-imposed stipulations.

Net assets with donor restriction – Assets subject to donor-imposed stipulations that expire through the passage of time, through actions of the Organization, or are maintained in perpetuity

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Under the guidance, Not-for-Profit Entities (NFP) are required to present on the face of the statement of financial position and the statement of activities amounts for two classes of net assets at the end of the period, rather than the previously required three classes. That is, a NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the previously required amount for total net assets. The amendments also require enhanced disclosures for NFP's liquidity, expense classification, and endowment funds. Because the amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, the financial statements reflect the implementation of this update. The implementation of this update had no effect on total net assets for the year ended July 31, 2019.

Cash and Cash Equivalents

The Organization considers cash and highly liquid investments with an original maturity date of less than three months to be cash equivalents. At times, bank deposits may exceed amounts insured by the Federal Deposit Insurance Corporation.

Investments

Investments in equity and other marketable securities are recorded at fair value with realized and unrealized gains and losses included in the statements of activities. Realized gains are recorded at the difference between amortized cost and the sales proceeds.

Prepaid Expenses

Prepaid expenses primarily consist of amounts paid in advance for insurance and events and conferences that have not taken place as of July 31, 2019.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist primarily of credit card expenses and salaries and wages as of July 31, 2019.

Deferred Revenue

Deferred revenue consists primarily of leadership event fees collected from individuals for events that have not occurred as of July 31, 2019.

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Contributions

The Organization records contributions for scholarships and general donations at the date received at fair value. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. When the purpose or time restriction is accomplished, these amounts are reclassified from net assets with donor restrictions to net assets without donor restrictions.

The Organization also receives revenues from chapter dues and fees that are due twice a year from each member of the 39 chapters, in order to fund leadership retreats, national leadership summits, and other events held by the Organization. Additionally, the Organization receives royalty income for the use of the Beta Upsilon Chi's name on chapter paraphernalia.

Functional Allocation of Expenses

The costs of providing various activities have been summarized on a functional basis in the statement of functional expenses. The allocation of expenses on a functional basis excludes gains and losses. All operating expenses are allocated to functional areas in an amount proportionate to the benefit received.

Federal Income Taxes

The Organization is organized as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from federal income tax on income related to its tax-exempt purpose. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements. The Organization is no longer subject to U.S. federal examinations by tax authorities for fiscal years before 2016.

INVESTMENTS

Investments of the Organization are stated at fair value. The following describes the components of the Organization's investments at July 31 2019:

Investment cash	\$ 25,107
Equity securities	51,626
Mutual funds	<u>47,167</u>
Total investments	<u>\$ 123,900</u>

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS

In accordance with GAAP, fair value standards (“FV Standards”) define fair value, establish a framework for measuring fair value, and require certain enhanced disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

The FV Standards established a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs used in measuring fair value, as follows:

- *Level 1* - Inputs based on unadjusted quoted prices in active markets for identical assets or liabilities the Organization has the ability to access. Since inputs are based on quoted prices that are readily and regularly available in an active market, Level 1 inputs require the least judgment.
- *Level 2* - Inputs based on quoted prices for similar instruments in active markets, or are observable either directly or indirectly. Inputs are obtained from various sources including financial institutions and brokers.
- *Level 3* - Inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised by the Organization in determining fair value is greatest for fair value measurements categorized in Level 3.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS (Continued)

The following is a summary of the categorization within the fair value hierarchy of the Organization's financial assets and liabilities measured at fair value:

Description	Fair Value Measurements at July 31, 2019 Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investment cash	\$ 25,107			\$ 25,107
Equity securities	51,626	\$ -	\$ -	51,626
Mutual funds	47,167	-	-	47,167
Total investments	\$ 123,900	\$ -	\$ -	\$ 123,900

The methods described herein used to estimate fair value may not be realized or incurred in the future due to changes in events and circumstances that are not known as of the measurement date, or estimates included in calculating the fair values may not be achieved. While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

ENDOWMENTS

The Organization's endowment assets consist of funds established for collegiate scholarship purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has determined that it would be desirable for the Organization to preserve, on a long-term basis, the original value of a contribution of a donor-restricted endowment fund as of the gift date, subject to any express language in the applicable endowment agreement indicating otherwise and pursuant to the Uniform Prudent Management of Institutional Funds Act (UPMIFA or "Act"). Notwithstanding the foregoing, this determination is not intended to, and shall not, affect the Organization's authority under the Act to spend amounts from an endowment fund on a short-term basis, even if the market value of the endowment fund is below the original value of the contributions by the donors. As a result of this determination, the Organization classifies as permanently restricted net assets (a) the original value of gifts contributed to a permanent donor-restricted endowment fund and (b) the original value of subsequent gifts to a permanent donor-restricted endowment fund.

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

ENDOWMENTS (Continued)

Investment income and appreciation related to the permanently restricted endowment funds and any other amounts of the endowment fund not classified as permanently restricted are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The preservation of the endowment fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. Other resources of the Organization
6. The investment policies of the Organization

A summary of the Organization's endowment funds by net asset class at July 31, 2019 are as follows:

<u>Endowment Fund Type</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 123,900</u>	<u>\$ 123,900</u>
Total endowment funds	<u>\$ -</u>	<u>\$ 123,900</u>	<u>\$ 123,900</u>

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

ENDOWMENTS (Continued)

Changes in endowment funds for the year ended July 31, 2019 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment funds, August 1, 2018	\$ -	\$ 125,000	\$ 125,000
Investment return:			
Investment income	-	3,635	3,635
Total investment return	-	3,635	3,635
Contributions	-	-	-
Expenditure of endowment funds	-	(4,735)	(4,735)
Subtotal	-	(4,735)	(4,735)
Endowment funds, July 31, 2019	<u>\$ -</u>	<u>\$ 123,900</u>	<u>\$ 123,900</u>

Funds with Deficiencies

It is possible the fair value of endowment assets may fall below the level the donor or Act requires. Deficiencies of this nature would first reduce temporarily restricted net assets associated with the respective endowment and then unrestricted net assets. Subsequent gains that restore the fair value of the endowment assets to the required level would be classified as an increase in unrestricted net assets and then temporarily restricted net assets. As a result of overall market appreciation, there was no deficiency as of July 31, 2019.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, endowment assets are to be invested in a manner that, over a long-term investment horizon, is intended to produce results that at a minimum equal inflation, annual distributions, administrative costs, and management fees, while assuming a moderate level of investment risk.

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

ENDOWMENTS (Continued)

Strategies Employed for Achieving Objectives

To satisfy long-term return objectives, the Organization 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 Organization targets a diversified asset allocation that places emphasis on investments in growth, income, and inflation protection assets to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating its scholarships and leadership development costs. In monitoring this policy, the Organization considers the long-term expected return on its endowments. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowments to preserve asset value by growing at a rate equal to or greater than annual distributions, administrative costs, management fees, and inflation.

NET ASSETS

At July 31, 2019, net assets with and without donor restrictions consisted of contributions to be used for the following purposes:

Without donor restriction	\$ 309,677
With donor restriction:	
Scholarship funds	58,457
Endowment	123,900
Total with donor restriction	<u>182,357</u>
Total net assets	<u>\$ 492,034</u>

See accompanying independent auditors' report.

BETA UPSILON CHI, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the statement of financial position sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position sheet date. Financial assets at July 31, 2019, include cash and cash equivalents and investments.

Financial assets, at year-end	\$ 491,115
Less those unavailable for general expenditures within one year, due	
Restricted by donor for purpose restrictions	<u>182,357</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 304,758</u>

As of July 31, 2019, the Organization has \$306,758 of financial assets that are available within one year to meet cash needs for general expenditures. Historically, the Organization has been funded substantially enough by receipts from chapters and donors to cover all general expenditures when they become due.

SIGNIFICANT RISKS, UNCERTAINTIES, CONTINGENCIES, AND CONCENTRATIONS

The Organization is highly dependent on contributions and donations. Therefore, the Organization's programs and activities are affected by the level of donations and related factors, including general economic conditions. Based on these factors, the Organization may experience substantial period-to-period fluctuations.

RELATED PARTY TRANSACTIONS

The Organization collects revenue from a related party, which is comprised of 39 local chapters, in the form of chapter dues and fees. These amounts are used to pay chapter level expenses as well as overall program expenses. The Organization also obtains donations from third-parties which are used towards chapter expenses, scholarships, and related events.

SUBSEQUENT EVENTS

The Organization evaluated events that occurred after the statement of financial position date through March 17, 2020, which is the date these financial statements were issued, and no subsequent events that met recognition or disclosure criteria were identified.

See accompanying independent auditors' report.