

Phi Kappa Tau Foundation

FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2023 and 2022**

Phi Kappa Tau Foundation

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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, 2023 and 2022, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phi Kappa Tau Foundation as of June 30, 2023 and 2022, 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 21, 2024

Phi Kappa Tau Foundation
Statements of Financial Position
As of June 30, 2023 and 2022

Assets

	2023	2022
Assets		
Cash and Cash Equivalents	\$ 811,887	\$ 1,075,157
Prepaid Expenses	13,352	15,342
Contributions Receivable, net	6,845	722,233
Cash Surrender Value of Life Insurance	118,451	111,035
Property & Equipment, net	696,807	662,690
Investments	8,870,789	8,462,125
Other Receivables	313,500	97,500
Bequests Receivable, net	530,361	100,000
Board Designated Cash	447,875	99,078
Long-Term Investments Held in Trust	105,390	92,403
Beneficial Interest in Perpetual Trust	4,636,416	4,519,745
	<u>4,636,416</u>	<u>4,519,745</u>
Total Assets	\$ 16,551,673	\$ 15,957,308

Liabilities and Net Assets

Liabilities		
Accounts Payable	\$ 5,834	\$ 43,760
Accrued Expenses	22,207	24,554
Due to Phi Kappa Tau Fraternity	323,941	630,052
Amounts Held in Trust for Others	89,581	78,542
	<u>441,563</u>	<u>776,908</u>
Total Liabilities	441,563	776,908
Net Assets		
Board Designated	3,265,372	3,692,918
Without Donor Restrictions	1,924,829	1,541,520
	<u>5,190,201</u>	<u>5,234,438</u>
Total Without Donor Restrictions	5,190,201	5,234,438
With Donor Restrictions	10,919,909	9,945,962
	<u>10,919,909</u>	<u>9,945,962</u>
Total Net Assets	16,110,110	15,180,400
Total Liabilities and Net Assets	\$ 16,551,673	\$ 15,957,308

Phi Kappa Tau Foundation
Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions of Cash and Other Financial Assets	\$ 701,537	\$ 821,189	\$ 1,522,726
Contributions of Nonfinancial Assets	5,970	-	5,970
Change in Beneficial Interest in Perpetual Trust	-	116,671	116,671
Rental and Other Income	6,000	-	6,000
Investment Return	545,372	427,701	973,073
Net Assets Released from Restrictions	391,614	(391,614)	-
Total Support and Revenue	1,650,493	973,947	2,624,440
Functional Expenses			
Program Services			
Scholarship and Grant Program	297,186	-	297,186
Alumni Relations and The Laurel	127,737	-	127,737
Total Program Services	424,923	-	424,923
Supporting Services			
Management and General	408,505	-	408,505
Fundraising and Membership Development	861,302	-	861,302
Total Supporting Services	1,269,807	-	1,269,807
Total Expenses	1,694,730	-	1,694,730
Change in Net Assets	(44,237)	973,947	929,710
Net Assets at Beginning of Year	5,234,438	9,945,962	15,180,400
Net Assets at End of Year	\$ 5,190,201	\$ 10,919,909	\$ 16,110,110

The accompanying notes are an integral part of these financial statements

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 Functional Expenses
For the Year Ended June 30, 2023

	Scholarship and Grant Program	Alumni Relations and The Laurel	Management and General	Fundraising and Membership Development	Total
Salaries and Related Expenses	\$ 17,303	\$ 72,873	\$ 182,887	\$ 125,453	\$ 398,516
Professional Fees & Contract Services	-	5,950	106,263	39,297	151,510
Occupancy	1,259	5,307	13,318	9,136	29,020
Depreciation	-	-	47,888	-	47,888
Insurance	-	-	2,925	5,796	8,721
Communications	132	557	1,398	959	3,046
Equipment Rental	-	10,818	-	-	10,818
Supplies	-	1,384	2,967	3,071	7,422
Printing and Production	-	8,251	1,909	12,100	22,260
Meeting and Related	-	16,447	-	-	16,447
Meals and Travel	-	871	8,945	572	10,388
Postage and Shipping	-	5,279	3,630	9,005	17,914
Grants and Fellowships	242,852	-	-	-	242,852
Scholarships and Related Expenses	35,640	-	-	-	35,640
Bad Debt Expense	-	-	-	647,939	647,939
Other	-	-	36,375	7,974	44,349
Total Expenses	\$ 297,186	\$ 127,737	\$ 408,505	\$ 861,302	\$ 1,694,730

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

	2023	2022
Cash Flows from Operating Activities		
Change in Net Assets	\$ 929,710	\$ (1,196,547)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities		
Depreciation	47,888	45,354
Net Realized/Unrealized (Gain) Loss on Investments	(355,461)	1,068,039
Loss (Gain) on Beneficial Interest in Perpetual Trust	(116,671)	1,236,152
Change in Prepaid Expenses	1,990	(4,857)
Change in Contributions Receivable	715,388	45,913
Change in Cash Value of Life Insurance	(7,416)	(7,632)
Change in Bequest Receivable	(430,361)	(100,000)
Change in Accounts Payable	(37,926)	22,814
Change in Accrued Expenses	(2,347)	1,198
Change in Due to Phi Kappa Tau Fraternity	(306,111)	(16,386)
Net Cash Provided By Operating Activities	438,683	1,094,048
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(82,006)	(27,840)
Purchase of Investments, net	(55,150)	(599,774)
Net Cash Used In Investing Activities	(137,156)	(627,614)
Cash Flows from Financing Activities		
Change in Other Receivables	(216,000)	(45,000)
Net Cash Used In Financing Activities	(216,000)	(45,000)
Net Increase in Cash and Cash Equivalents	85,527	421,434
Beginning Cash and Cash Equivalents	1,174,235	752,801
Ending Cash and Cash Equivalents	\$ 1,259,762	\$ 1,174,235
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 811,887	\$ 1,075,157
Board Designated Cash	447,875	99,078
	\$ 1,259,762	\$ 1,174,235

The accompanying notes are an integral part of these financial statements

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

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

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under Topic 840, *Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

The Foundation elected to adopt this ASU effective July 1, 2022 and utilized all of the available practical expedients. The adoption did not have a material impact on the Foundation's statements of financial position or on the statements of activities, as the Foundation has not entered into any material operating leases. As such, the Foundation has not recorded any ROU assets or lease liabilities during the current year.

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

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 this ASU on their financial statements.

Fair Value Measurement

FASB Accounting Standards Codification (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.

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.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

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/moderate growth 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, 2023 and 2022, 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.

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.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022. 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.

Leases

The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

If the Foundation did have material operating leases, the Foundation would record ROU assets to represent the Foundation's right to use an underlying asset for the lease term and would also record lease liabilities to represent the Foundation's obligation to make lease payments arising from the lease.

Lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Foundation uses the implicit rate when it is readily determinable. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise those options.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 or 2022.

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 statements 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, 2023 and 2022, the Foundation has been notified of bequests of approximately \$2,760,000, 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.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

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 statements 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 2023 or 2022 covered under Topic 606.

Functional Allocation of Expenses

The cost of providing program services, management and general expenses, and fundraising expenses is presented in the statements 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, 2023 or 2022.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 21, 2024, the date the financial statements were available to be issued.

NOTE C - CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is \$193,028 (2022 - \$424,029) 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.

Phi Kappa Tau Foundation
Notes to Financial Statements
June 30, 2023 and 2022

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ -	\$ 42,840	\$ 42,840
Due in one to five years	-	3,234	3,234
Thereafter	-	-	-
	<u>-</u>	<u>46,074</u>	<u>46,074</u>
Less:			
Allowance for uncollectible contributions	-	(39,039)	(39,039)
Unamortized discount	-	(190)	(190)
	<u>\$ -</u>	<u>\$ 6,845</u>	<u>\$ 6,845</u>

The discount rate used for 2023 was 5.00%.

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
	<u>-</u>	<u>864,136</u>	<u>864,136</u>
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%.

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, 2023, the Foundation has been informed that it had been named in two decedent's estates and have recorded bequest receivables totaling \$530,361 (2022 – one decedent's estate for \$100,000).

Phi Kappa Tau Foundation
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NOTE F - INVESTMENTS AND INVESTMENT RETURNS

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

	2023	2022
Without donor restrictions - Board Designated	\$ 2,817,496	\$ 3,593,840
With donor restrictions	<u>6,053,293</u>	<u>4,868,285</u>
	<u>\$ 8,870,789</u>	<u>\$ 8,462,125</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:

	2023	2022
Interest and Dividend Income	\$ 371,570	\$ 312,269
Net Realized and Unrealized Gains/(Losses) on Investments Reported at Fair Value	355,461	(1,068,038)
Distributions from Boles Perpetual Trust	<u>246,042</u>	<u>289,944</u>
	<u>\$ 973,073</u>	<u>\$ (465,825)</u>

At June 30, 2023, a certificate of deposit for \$59,354 is pledged as collateral for a mortgage obtained by a chapter of the Fraternity (2022 - \$59,295). This certificate of deposit matures May 26, 2024. This certificate of deposit bears interest at 0.1% at June 30, 2023 and 2022.

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 \$105,390 and \$92,403 and the related liability for amounts held in trust for others was \$89,581 and \$78,542 at June 30, 2023 and 2022, respectively.

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

	2023	2022
University of Idaho Foundation	\$ 52,695	\$ 46,202
Cottey Junior College	10,539	9,240
PEO Idaho State Chapter House	5,269	4,620
Canyon County Pet Haven	10,539	9,240
Special Olympics Idaho	10,539	9,240
	<u>\$ 89,581</u>	<u>\$ 78,542</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 \$4,636,416, which represents the fair value of the trust assets at June 30, 2023 (2022 - \$4,519,745). The realized and unrealized gains/(losses) and interest and dividend income, net of investment fees, from this trust was \$362,713 and (\$946,208) during fiscal 2023 and 2022, respectively.

NOTE I - PROPERTY AND EQUIPMENT

Property and equipment consist of:

	2023	2022
Building	\$ 1,588,656	\$ 1,506,650
Land	175,000	175,000
Computer Equipment and Furniture	200,274	200,274
	<u>1,963,930</u>	<u>1,881,924</u>
Less: Accumulated Depreciation	(1,267,123)	(1,219,234)
Total	<u>\$ 696,807</u>	<u>\$ 662,690</u>

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NOTE J - NET ASSETS

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

	2023	2022
Subject to Expenditure for a Specified Purpose:		
Educational	\$ 3,021,696	\$ 2,805,101
Scholarships/Sponsorships	1,056,994	924,304
Memorials	73,224	69,669
Hole in the Wall	148,945	158,026
Accumulated endowment investment income available for appropriation		
Scholarships	301,890	254,985
Educational	93,556	50,637
	<u>4,696,305</u>	<u>4,262,722</u>
Total Purpose and Time Restrictions		
Net Assets Held in Perpetuity		
Beneficial Interest in Perpetual Trust	4,636,416	4,519,745
Scholarships	711,195	668,797
Educational	875,993	494,698
	<u>6,223,604</u>	<u>5,683,240</u>
Total Net Assets Held in Perpetuity		
Total Net Assets With Donor Restrictions	<u>\$ 10,919,909</u>	<u>\$ 9,945,962</u>

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

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:

	2023	2022
Purpose Spending		
Chapter Educational Grants	\$ 305,567	\$ 274,653
Scholarship/Sponsorships	2,597	37,931
Memorials	1,405	1,338
Hole in the Wall	29,472	27,570
Physical Plant	1,273	1,548
Release of appropriated endowment amounts for scholarships		
	51,300	27,000
	<u>\$ 391,614</u>	<u>\$ 370,040</u>

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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, 2021	\$ 3,911,584	\$ 1,320,835	\$ 5,232,419
Contributions	19,917	312,070	331,987
Investment Return:			
Investment Income	137,431	29,310	166,741
Net Depreciation (realized & unrealized)	(429,349)	(166,098)	(595,447)
Appropriation of endowment assets for expenditure	(165,183)	(27,000)	(192,183)
Endowment net assets, June 30, 2022	<u>\$ 3,474,400</u>	<u>\$ 1,469,117</u>	<u>\$ 4,943,517</u>
Contributions	150	423,693	423,843
Investment Return:			
Investment Income	142,505	50,874	193,379
Net Appreciation (realized & unrealized)	130,390	90,250	220,640
Appropriation of endowment assets for expenditure	(482,073)	(51,300)	(533,373)
Endowment net assets, June 30, 2023	<u>\$ 3,265,372</u>	<u>\$ 1,982,634</u>	<u>\$ 5,248,006</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2023:

	Without Donor Restrictions Board Designated	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,982,634	\$ 1,982,634
Board-designated endowment funds	3,265,372	-	3,265,372
Total Funds	<u>\$ 3,265,372</u>	<u>\$ 1,982,634</u>	<u>\$ 5,248,006</u>

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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	3,474,400	-	3,474,400
Total Funds	\$ 3,474,400	\$ 1,469,117	\$ 4,943,517

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, 2023, there were no funds with deficiencies (2022 - one fund balance that was less than its original endowment value by \$25,980).

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 \$8,895 for the year ended June 30, 2023 (2022 - \$5,794).

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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, computer usage and cleaning supplies. Related party transactions are as follows:

	2023	2022
Shared Costs Charged by Fraternity	\$ 411,868	\$ 234,433
Leadership Academy Sponsorships/Registration Fees		
Charged by Fraternity	10,085	-
Shared Costs Charged by Foundation	33,996	47,244
Rescission of Grant to Fraternity for Edu. Programming	-	28,050
Computer Rental Expense Charged by Foundation	-	19,509

The Foundation owed the following to Fraternity at June 30:

	2023	2022
Advance to chapter for housing project	\$ 312,000	\$ 600,000
Grant for educational programming	-	6,950
Related to operations	11,941	23,102
	<u>\$ 323,941</u>	<u>\$ 630,052</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 and/or repayments from the chapter. The Foundation currently has net contributions receivable for this housing project of approximately \$6,000 at June 30, 2023 (2022 - \$700,000).

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.

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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, 2023, the loan had a balance of approximately \$3,140,000 (June 30, 2022 – approximately \$3,130,000).

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 Fraternity was been granted a 90 day extension and subsequently refinanced the loan, which is now due in March 2025. 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, 2023, the maximum potential amount of future (undiscounted) payments would be \$139,171 (2022 - \$168,151). As of June 30, 2023, 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.

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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, 2023				
Assets:				
Investments				
Cash	\$ 267	\$ -	\$ -	\$ 267
Money Market Funds	-	110,345	-	110,345
Equity Mutual Funds	336,648	-	-	336,648
Fixed Income Mutual Funds	843,029	-	-	843,029
Common Stock	-	-	-	-
Moderate Growth	7,521,146	-	-	7,521,146
Certificate of Deposit	-	59,354	-	59,354
Total Investments	<u>8,701,090</u>	<u>169,699</u>	<u>-</u>	<u>8,870,789</u>
Long-Term Investments				
Money Market Fund	-	3,303	-	3,303
Equity Mutual Funds	102,087	-	-	102,087
Total Long-Term Inv.	<u>102,087</u>	<u>3,303</u>	<u>-</u>	<u>105,390</u>
Beneficial Interest in Trust	-	-	4,636,416	4,636,416
Total Assets	<u>\$ 8,803,177</u>	<u>\$ 173,002</u>	<u>\$ 4,636,416</u>	<u>\$ 13,612,595</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
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	8,374,057	88,068	-	8,462,125
Long-Term Investments				
Money Market Fund	-	2,808	-	2,808
Equity Mutual Funds	89,595	-	-	89,595
Total Long-Term Inv.	89,595	2,808	-	92,403
Beneficial Interest in Trust	-	-	4,519,745	4,519,745
Total Assets	\$ 8,463,652	\$ 90,876	\$ 4,519,745	\$ 13,074,273

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

Balance at July 1, 2021	\$ 5,755,897
Change in value of perpetual trust	(1,236,152)
Balance at June 30, 2022	\$ 4,519,745
Change in value of perpetual trust	116,671
Balance at June 30, 2023	\$ 4,636,416

There were no transfers in or out of Level 3 nor were there any purchases or issues during the years ended June 30, 2023 and 2022. 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.

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NOTE O - 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/moderate growth 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, 2023, the amount in excess of the FDIC limit was \$432,619 (2022 - \$904,222). 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 (2023 – no material concentrations). The entire balance in other receivables is due from one organization.

NOTE P – 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:

	2023	2022
Financial Assets:		
Cash and cash equivalents	\$ 811,887	\$ 1,075,157
Less: cash with donor restrictions	(193,028)	(254,909)
Current Portion of Contributions Receivable, net	3,801	108,800
Total Financial Assets available within one year	622,660	929,048
Liquidity Resources:		
Allocation of 5% of general endowment	171,725	173,225
Total financial assets and liquidity resources available within one year	\$ 794,385	\$ 1,102,273

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.