



# **PHI KAPPA TAU FOUNDATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2024**

*CPAs / ADVISORS*



**PHI KAPPA TAU FOUNDATION**

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JUNE 30, 2024

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Phi Kappa Tau Foundation  
Oxford, Ohio

### Opinion

We have audited the accompanying financial statements of Phi Kappa Tau Foundation (the Foundation), a nonprofit organization, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year 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 the Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit 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 the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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

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**REPORT OF INDEPENDENT AUDITORS**  
**(Continued)**

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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

*Blue & Co., LLC*

Carmel, Indiana  
April 23, 2025

# PHI KAPPA TAU FOUNDATION

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

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### ASSETS

Cash	\$ 1,521,080
Other receivables	313,500
Contributions receivable, net	45,993
Bequest receivable	100,000
Prepaid expenses and other assets	13,511
Cash surrender value of life insurance policies	127,715
Property and equipment, net	646,291
Investments	9,809,587
Investments held in trust	125,755
Beneficial interest in perpetual trust	<u>5,059,872</u>
	<u>\$ 17,763,304</u>

### LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 22,447
Due to Phi Kappa Tau Fraternity	295,922
Accrued expenses and other liabilities	6,193
Amounts held in trust for others	<u>106,892</u>
Total liabilities	431,454
Net assets	
Without donor restrictions	
Undesignated	1,602,424
Board designated	<u>3,412,855</u>
	5,015,279
With donor restrictions	
Purpose restricted	4,474,770
Endowment	<u>7,841,801</u>
	<u>12,316,571</u>
Total net assets	<u>17,331,850</u>
	<u>\$ 17,763,304</u>

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*See accompanying notes to financial statements.*

# PHI KAPPA TAU FOUNDATION

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenues</b>			
Contributions	\$ 266,716	\$ 747,048	\$ 1,013,764
Investment return, net	378,563	643,727	1,022,290
Change in cash surrender value of life insurance	9,264	-0-	9,264
Investment income from perpetual trust	-0-	233,413	233,413
Change in value of beneficial interest in perpetual trust, net	-0-	423,456	423,456
Other income	26,500	-0-	26,500
Net assets released from restrictions	650,982	(650,982)	-0-
Total support and revenues	1,332,025	1,396,662	2,728,687
<b>Expenses</b>			
Scholarships and grants	653,025	-0-	653,025
Alumni relations and The Laurel	90,723	-0-	90,723
Total program services	743,748	-0-	743,748
Fundraising	322,443	-0-	322,443
Management and general	440,756	-0-	440,756
Total supporting services	763,199	-0-	763,199
Total expenses	1,506,947	-0-	1,506,947
<b>Change in net assets</b>	(174,922)	1,396,662	1,221,740
<b>Net assets, beginning of year</b>	5,190,201	10,919,909	16,110,110
<b>Net assets, end of year</b>	\$ 5,015,279	\$ 12,316,571	\$ 17,331,850

*See accompanying notes to financial statements.*

**PHI KAPPA TAU FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2024

	Program Services			Supporting Services		Total Expenses
	Scholarships and Grants	Alumni Relations and The Laurel	Total Program Services	Fundraising	Management and General	
Salaries, payroll taxes, and benefits	\$ 39,741	\$ 57,536	\$ 97,277	\$ 219,282	\$ 125,008	\$ 441,567
Professional fees	-0-	4,203	4,203	25,790	154,828	184,821
Occupancy	1,939	2,807	4,746	10,699	6,099	21,544
Depreciation	-0-	-0-	-0-	-0-	50,516	50,516
Insurance	-0-	-0-	-0-	5,816	3,763	9,579
Communications	231	334	565	1,275	727	2,567
Office equipment rental and usage	-0-	-0-	-0-	-0-	11,428	11,428
Supplies	-0-	120	120	3,058	1,995	5,173
Printing and production	-0-	10,514	10,514	20,673	172	31,359
Meetings and related expenses	-0-	6,770	6,770	300	22,485	29,555
Meals and travel	-0-	3,366	3,366	23,629	23,386	50,381
Postage and shipping	-0-	5,073	5,073	5,053	2,555	12,681
Grants and fellowships	569,576	-0-	569,576	-0-	-0-	569,576
Scholarships and related expenses	41,538	-0-	41,538	-0-	-0-	41,538
Other	-0-	-0-	-0-	6,868	37,794	44,662
	<u>\$ 653,025</u>	<u>\$ 90,723</u>	<u>\$ 743,748</u>	<u>\$ 322,443</u>	<u>\$ 440,756</u>	<u>\$ 1,506,947</u>

*See accompanying notes to financial statements.*

# PHI KAPPA TAU FOUNDATION

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2024

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<b>Operating activities</b>	
Change in net assets	\$ 1,221,740
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	50,516
Change in unamortized discount on contributions receivable	6,970
Change in allowance for uncollectible contributions receivable	(1,203)
Change in cash surrender value of life insurance policies	(9,264)
Realized and unrealized gains on investments, net	(732,349)
Contributions restricted for investment in endowment	(249,372)
Change in value of beneficial interest in perpetual trust	(423,456)
Changes in assets and liabilities:	
Contributions receivable	(44,915)
Bequest receivable	430,361
Prepaid expenses and other assets	(159)
Accounts payable	16,613
Due to Phi Kappa Tau Fraternity	(28,019)
Accrued expenses and other liabilities	(16,014)
Amounts held in trust for others	17,311
Net cash flows from operating activities	<u>238,760</u>
<b>Investing activities</b>	
Purchases of investments	(388,536)
Proceeds from sale of investments	<u>161,722</u>
Net cash flows from investing activities	(226,814)
<b>Financing activities</b>	
Contributions restricted for investment in endowment	<u>249,372</u>
Net change in cash	261,318
<b>Cash, beginning of year</b>	<u>1,259,762</u>
<b>Cash, end of year</b>	<u><u>\$ 1,521,080</u></u>

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See accompanying notes to financial statements.

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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### 1. NATURE OF ACTIVITIES

Phi Kappa Tau Foundation (the Foundation) was incorporated in Ohio in 1945 as a tax-exempt, public, charitable and educational foundation. The purpose of the Foundation is to ensure the philanthropic support necessary to sustain high levels of educational programming by fostering lifelong relationship and commitment to Phi Kappa Tau Fraternity's (the Fraternity) ideals. 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The financial statements report net assets and changes in net assets based upon the existence or absence of donor-imposed restrictions, as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Included in this classification are endowment funds, which are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity and invested for the purpose of producing present and future income, with investment return available for operations or specific purposes.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the statement of activities by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

#### 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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### Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents but excludes cash and cash equivalents held by investment managers which are included in investments. There are no such cash equivalents at June 30, 2024.

### Contributions Receivable

Contributions receivable consist of amounts that have been unconditionally promised to the Foundation. Contributions receivable are initially recorded at fair value based on economic future cash flows of the unconditional pledges and are reported net of an allowance for uncollectible amounts and net of the discount to present value.

Contributions receivable were discounted to present value using the prime rate of 8.25%. Amortization of the resulting discount is recognized as additional contribution income.

The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises including an analysis of current economic conditions, historical trends, and current and past experience with their donor base.

### Cash Surrender Value of Life Insurance Policies

Cash surrender value of life insurance policies includes the cash value of policies owned by the Foundation, net of loans. Changes in the value are reported in the statement of activities.

### Property and Equipment

The Foundation capitalizes all significant purchases of property and equipment at cost, including expenditures that substantially increase the useful lives of existing assets. Costs of ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of assets which range from three to 35 years.

### Investments and Investment Return

Investments having a readily determinable market value are carried at fair value. Investment return includes interest, dividends, realized and unrealized gains and losses, and investment fees. Changes in unrealized appreciation or depreciation of investments are recorded in the period such changes occur. Realized gains and losses are recorded based on the cost of the specific securities sold. Interest and dividend income is recorded when earned.

The Foundation maintains an investment pool for its endowments and other invested funds. Interest and dividends and realized and unrealized gains and losses from investments are allocated to the individual endowments or other funds based on the relationship of the market value of each endowment or fund to the total market value of the investment pool, as adjusted for additions or deductions from those accounts.

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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### Accounting for Contributions and Revenue Recognition

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Support that is not restricted by the donor is reported as increases in net assets without donor restrictions. Amounts received that are restricted by the donor for use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a 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. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions.

Revenue is recognized when earned and is reported as an increase in net assets without donor restrictions.

### Functional Allocation of Expenses

The costs of providing the programs and services of the Foundation have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited based on the actual direct expenses and an allocation of indirect expenses based on estimates of time and usage by personnel and programs. Expenses allocated include salaries, payroll taxes and benefits, professional fees, occupancy, insurance, and communications. Although the method used was appropriate, other methods could produce different results.

### Income Taxes

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code and similar state law. As such, the Foundation is generally exempt from income taxes.

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 not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2024, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

The Foundation has filed its federal income tax return for the periods through June 30, 2023 and is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

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three years from the later of the date the return was filed or its due date (including approved extensions).

### Subsequent Events

The Foundation evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 23, 2025, which is the date the financial statements were available to be issued.

### **3. CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following at June 30, 2024:

Contributions receivable	\$	90,989
Less unamortized discount		(7,160)
Less allowance for uncollectible contributions		<u>(37,836)</u>
Contributions receivable	\$	<u><u>45,993</u></u>
Amounts due in:		
Past due	\$	38,236
Less than one year		11,703
One to five years		<u>41,050</u>
	\$	<u><u>90,989</u></u>

### **4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2024:

Building	\$	1,588,656
Land		175,000
Computer equipment and furniture		<u>200,274</u>
		1,963,930
Less accumulated depreciation		<u>(1,317,639)</u>
	\$	<u><u>646,291</u></u>

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# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

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### 5. INVESTMENTS HELD IN TRUST AND AMOUNTS HELD FOR OTHERS

The Foundation administers a charitable trust held at a bank for which it is a beneficiary along with other nonprofit 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 agreement.

The Foundation has been named as a beneficiary of 15% of the trust, for which 10% is unrestricted and 5% is restricted for the Beta Gamma Chapter Educational Grant. This portion of the charitable trust fund was recorded as contribution revenue at the time the trust was established. The remaining 85% of the trust is recorded as a liability owed to the other beneficiaries.

Investments held in trust of \$125,755 are reflected as an asset on the statement of financial position at June 30, 2024. Two mutual funds and two exchange-traded funds represent 80% of the trust's assets at June 30, 2024. Amounts held for others of \$106,892 are reflected as a liability on the statement of financial position at June 30, 2024.

### 6. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Foundation is the sole beneficiary of a perpetual trust. The assets of the trust are held and managed by a third-party trustee and are primarily invested in mutual funds and exchange-traded funds. Under the terms of the trust, the Foundation has the irrevocable right to receive income earned on the trust assets in perpetuity via annual distributions, but never receives the assets held in the trust. For the year ended June 30, 2024, the Foundation's investment income from the trust was \$233,413.

The Foundation's beneficial interest in the trust is reflected as an asset in the statement of financial position in the amount of \$5,059,872 at June 30, 2024. This asset represents the estimated value of the expected future cash flows, which represents the fair value of the trust assets at June 30, 2024. Two mutual funds and one exchange-traded fund represent 51% of the trust's assets at June 30, 2024.

The change in market value of the beneficial interest in perpetual trust of \$423,456 for the year ended June 30, 2024 includes realized and unrealized gains and losses, interest and dividends, and investment fees and is reflected in the statement of activities.

### 7. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- 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.
- 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 or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; 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 asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2024.

- *Money market mutual funds:* Generally, transact subscription and redemption activity at \$1 stable net asset value (NAV), however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.
- *Exchange-traded funds:* Valued at the closing price reported in the active market on which the individual securities are traded.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.
- *Beneficial interest in perpetual trust:* The fair value determination is based on the underlying assets, as reported by the trustee, held within the trust, substantially all of which are valued on a mark-to-market basis.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation 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 different fair value measurements at the reporting date.

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# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

The following table sets forth by level within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of June 30, 2024:

	Level 1	Level 2	Total
Investments:			
Money market mutual funds	\$ -0-	\$ 40,620	\$ 40,620
Mutual funds			
Equity			
Large cap	8,696,411	-0-	8,696,411
Other	104,269	-0-	104,269
Fixed income			
Intermediate term	657,654	-0-	657,654
Other	321,183	-0-	321,183
Other	-0-	-0-	-0-
Exchange traded funds	115,205	-0-	115,205
	\$ 9,894,722	\$ 40,620	\$ 9,935,342
Other assets:			
Beneficial interest in perpetual trust	\$ -0-	\$ 5,059,872	\$ 5,059,872
	\$ -0-	\$ 5,059,872	\$ 5,059,872

The following schedule summarizes investment return for the year ended June 30, 2024:

Interest and dividend income	\$ 289,941
Realized gains on sale of investments, net	121,192
Unrealized gains on investments, net	611,157
	\$ 1,022,290

### 8. NET ASSETS

#### Net Assets Without Donor Restrictions - Board Designated

Included in net assets without donor restrictions are funds which have been designated by the Board of Trustees to function as an endowment. At June 30, 2024, board designated net assets functioning as an endowment totaled \$3,412,855.

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

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### Net Assets with Donor Restrictions

Net assets with donor restrictions are available to support the following purposes or periods at June 30, 2024:

Purpose restricted:

Chapter educational grants	\$	3,157,240
Scholarships and sponsorships		1,044,961
Memorials		82,085
Hole in the Wall		<u>190,484</u>
		4,474,770

Endowment:

Beneficial interest in perpetual trust		5,059,872
Chapter educational grants		1,673,045
Scholarships and sponsorships		<u>1,108,884</u>
		<u>7,841,801</u>
	\$	<u><u>12,316,571</u></u>

### Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the year ended June 30, 2024:

Purpose restricted:

Chapter educational grants	\$	252,946
Scholarships and sponsorships		78,833
Memorials		1,693
Hole in the Wall		18,691
Physical plant		<u>614</u>
		352,777

Endowment:

Perpetual trust distribution		233,413
Chapter educational grants, scholarships, and administrative fees		<u>64,792</u>
	\$	<u><u>650,982</u></u>

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# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

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### 9. ENDOWMENT

The Foundation's endowment consists of both donor restricted funds and funds designated by the Board of Trustees to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of the Foundation has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measure required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation 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

#### Underwater Endowment Funds

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At June 30, 2024, there were no such deficiencies of this nature.

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for assets held for endowment that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Assets held for endowment include those assets of donor-restricted funds the Foundation must hold in

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# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

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perpetuity. Under this policy, as approved by the Board of Trustees, the endowed investments are invested in a manner that is intended to produce a total return which protects the purchasing power of the endowed investments, and which allows spending under the terms of each endowment fund. The Foundation evaluates its investments by comparing actual investment performance to various applicable benchmarks. The Foundation expects its endowment investments to meet or exceed these benchmarks over time. Actual returns in any given year may vary from these benchmarks.

### 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 emphasis on cash equivalents, fixed income securities and equity securities to achieve its long-term return objectives within prudent risk constraints.

### Spending Policy and How the Investment Objectives Relate to Spending Policy

Through April 2024, the Foundation had a policy for its donor-restricted endowment funds of appropriating for distribution each year no more than 5% of its endowment funds' average fair value over the prior five years. Effective April 2024, the Foundation updated the policy for its donor-restricted endowment funds of appropriating for distribution each year 5% of its endowment funds' average fair value over the trailing 12 quarters' ending balances. The Board can approve additional extraordinary distributions from time to time.

In establishing this policy, the Foundation considered the long-term expected return on its assets held for endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The composition of endowment net assets is as follows at June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 3,412,855	\$ -0-	\$ 3,412,855
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-0-	6,896,431	6,896,431
Accumulated investment gains	-0-	945,370	945,370
	<u>\$ 3,412,855</u>	<u>\$ 7,841,801</u>	<u>\$ 11,254,656</u>

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# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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The change in endowment net assets is as follows for the years ended June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,265,372	\$ 6,977,459	\$ 10,242,831
Contributions	315	249,372	249,687
Transfers	431,949	-0-	431,949
Investment return, net	140,815	913,175	1,053,990
Distributions	(425,596)	(298,205)	(723,801)
Endowment net assets, end of year	<u>\$ 3,412,855</u>	<u>\$ 7,841,801</u>	<u>\$ 11,254,656</u>

### 10. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives significant support without donor restrictions that is available to fund general expenditures as well as program services costs. General expenditures include management and general and fundraising expenses.

The Foundation manages its financial assets available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide flexibility to respond to changing needs, as well as to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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The following table reflects the Foundation's financial assets that are available to meet general expenditures within one year of the statement of financial position date at June 30, 2024:

Financial assets	
Cash	\$ 1,521,080
Other receivables	313,500
Contributions receivable, net	45,993
Bequest receivable	100,000
Investments	9,809,587
Investments held in trust	125,755
Beneficial interest in perpetual trust	<u>5,059,872</u>
Total financial assets	16,975,787
Board designated net assets	(3,412,855)
Net assets with donor restrictions	
Purpose restricted	(4,474,770)
Endowment	<u>(7,841,801)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,246,361</u>

Donor-restricted and board designated funds are not available for general expenditure. As described in Note 9, the endowment funds have specific spending policies. Although the Foundation does not intend to spend the board designated net assets to meet general expenditures, the amounts could be made available, if necessary.

### 11. TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

#### Phi Kappa Tau Fraternity

The Fraternity, an affiliated organization, is a legally separate entity committed to the religious, education, cultural, social, and fraternal welfare of its members. The accounts of the Fraternity have not been consolidated with the Foundation in the accompanying financial statements. The following represent the transactions and balances between the Fraternity and the Foundation:

The Foundation granted \$355,647 to the Fraternity during the year ended June 30, 2024 to help fund educational programs and shared staffing pursuant to appropriate grant documentation.

The Fraternity and the Foundation share office space in a building owned by both the Foundation and the Fraternity. The Fraternity charges the Foundation for certain shared costs such as payroll, payroll taxes, employee benefits and communications. The Foundation reimbursed the Fraternity \$38,963 for these expenses during the year ended June 30, 2024. The Foundation charges the Fraternity for certain shared costs such as maintenance, utilities, real estate taxes, computer costs

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# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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and cleaning supplies. The Fraternity reimbursed the Foundation \$55,591 for these expenses during the year ended June 30, 2024.

The Foundation is the guarantor of the Fraternity's notes payable, with an outstanding balance of \$115,740 at June 30, 2024.

At June 30, 2024, the Foundation had amounts due to the Fraternity of \$295,922.

### Phi Kappa Tau House Association of Lexington, KY

The Foundation is the guarantor on a note payable for the Phi Kappa Tau House Association of Lexington, KY (Kappa HC) related to their chapter housing facility. Per the terms of this loan agreement, the Foundation is guarantor 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 such time, the guarantee reverts to non-recourse. The loan is amortized over 300 months with a balloon payment due in December 2026. The interest rate is fixed at the 5-year U.S. Treasury rate plus 2.85% with a floor of 4.6% (7.22% at June 30, 2024). At June 30, 2024, the loan had a balance of approximately \$3,070,000.

The Foundation also has amounts due under a note receivable from Kappa HC of \$313,500 at June 30, 2024 related to funds advanced as part of this construction project. Subsequent to fiscal year end, a mortgage agreement was executed whereby the Foundation's note receivable is secured by a second mortgage on the related property. The chapter utilizing the chapter housing facility is active and in good standing with the university and all debts are current. The net book value of the chapter housing facility is in excess of amounts owed to first mortgagor and the Foundation. Full repayment on the remaining amounts due to the Foundation is expected in fiscal 2025.

## **12. RETIREMENT PLAN**

Through January 31, 2024, the Foundation maintained a defined contributing plan (the Plan) which was qualified under Section 401(k) of the Internal Revenue Code for all eligible employees. The Plan allowed for both employee and employer contributions. Under this Plan, the Foundation matched up to 4% of employee contributions. Effective February 1, 2024, the Foundation maintains a new defined contribution plan (the Plan) which is qualified under Section 401(k) of the Internal Revenue Code for all eligible employees. The Plan allows for both employee and employer contributions. The Foundation matches employee contributions, up to 4% of employee compensation. For the year ended June 30, 2024, the Foundation's contributions to the Plan were \$7,592.

# PHI KAPPA TAU FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024

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### 13. CONCENTRATIONS

The Foundation maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Foundation's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Two custodians hold substantially all of the Foundation's investments at June 30, 2024, with individual percentages of 14% and 85%, respectively. At June 30, 2024, one mutual fund represents 85% of total investments.

At June 30, 2024, one donor accounted for 21% of total contributions.