

PHI KAPPA PSI FRATERNITY

May 31, 2018

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



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INDEPENDENT AUDITORS' REPORT

To the Executive Council
Phi Kappa Psi Fraternity
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Phi Kappa Psi Fraternity (a nonprofit organization) which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phi Kappa Psi Fraternity as of May 31, 2018 and 2017, and 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

VonLehman & Company Inc.

Indianapolis, Indiana
December 10, 2018

**PHI KAPPA PSI FRATERNITY
STATEMENTS OF FINANCIAL POSITION**

ASSETS

	May 31,	
	2018	2017
Cash and Cash Equivalents	\$ 254,691	\$ 190,549
Chapter Accounts Receivable, Net	393,700	205,502
Accounts Receivable - Related Party	1,144	17,219
Grants Receivable - Related Party	145,305	-
Inventory	26,076	32,592
Prepaid Expenses	957,851	540,137
Investments	5,702,683	5,550,477
Furnishings and Equipment, Net	315,944	337,805
Total Assets	\$ 7,797,394	\$ 6,874,281

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable and Accrued Expenses	\$ 678,791	\$ 78,330
Accounts Payable - Related Party	108,035	-
Capital Lease Obligation	75,074	99,561
Deferred Rent	13,208	-
Deferred Revenue	521,404	8,400
Funds Held for Closed Chapters	22,692	22,692
Total Liabilities	1,419,204	208,983

Net Assets

Unrestricted		
Undesignated	506,766	980,295
Designated	5,698,723	5,546,486
Temporarily Restricted	172,701	138,517
Total Net Assets	6,378,190	6,665,298
Total Liabilities and Net Assets	\$ 7,797,394	\$ 6,874,281

See accompanying notes.

**PHI KAPPA PSI FRATERNITY
STATEMENT OF ACTIVITIES**

Year Ended May 31, 2018

	Unrestricted		Total Unrestricted	Temporarily Restricted	Grand Total
	Undesignated	Designated			
Revenues, Gains, and Other Support					
Grants - The Endowment Fund	\$ -	\$ -	\$ -	\$ 791,395	\$ 791,395
Alumni Dues	12,750	-	12,750	-	12,750
Initiation Fees	574,000	-	574,000	-	574,000
Pledge Fees	169,991	-	169,991	-	169,991
Chapter Service Fees	921,486	-	921,486	-	921,486
Insurance Revenues	-	1,254,487	1,254,487	-	1,254,487
Risk Management and Wellness Fee	-	485,760	485,760	-	485,760
Conference Fees	240,606	-	240,606	-	240,606
Administrative Fees - Endowment and Insurance	43,386	-	43,386	-	43,386
Interest and Dividends	55	95,059	95,114	-	95,114
Net Realized and Unrealized Gains on Investments	-	389,945	389,945	-	389,945
Merchandise Sales	6,359	-	6,359	-	6,359
Chapter Finance Charges	106,415	-	106,415	-	106,415
Woodrow Wilson Leadership School Income	19,050	-	19,050	-	19,050
Royalty Income	90,204	-	90,204	-	90,204
Contributions	27,456	-	27,456	-	27,456
Other	1,207	-	1,207	-	1,207
Total Revenues, Gains, and Other Support	2,212,965	2,225,251	4,438,216	791,395	5,229,611
Net Assets Released from Restrictions	757,211	-	757,211	(757,211)	-
Total Revenues, Gains and Other Support and Net Assets Released from Restrictions	2,970,176	2,225,251	5,195,427	34,184	5,229,611
Expenses					
Program Expenses	2,214,193	1,687,852	3,902,045	-	3,902,045
Management and General Expenses	1,614,674	-	1,614,674	-	1,614,674
Total Expenses	3,828,867	1,687,852	5,516,719	-	5,516,719
Change in Net Assets	(858,691)	537,399	(321,292)	34,184	(287,108)
Net Assets at Beginning of Year	980,295	5,546,486	6,526,781	138,517	6,665,298
Transfers	385,162	(385,162)	-	-	-
Net Assets at End of Year	\$ 506,766	\$ 5,698,723	\$ 6,205,489	\$ 172,701	\$ 6,378,190

See accompanying notes.

**PHI KAPPA PSI FRATERNITY
STATEMENT OF ACTIVITIES**

Year Ended May 31, 2017

	Unrestricted		Total	Temporarily	Grand
	Undesignated	Designated	Unrestricted	Restricted	Total
Revenues, Gains, and Other Support					
Grants - The Endowment Fund	\$ -	\$ -	\$ -	\$ 131,911	\$ 131,911
Alumni Dues	13,000	-	13,000	-	13,000
Initiation Fees	542,125	-	542,125	-	542,125
Pledge Fees	159,530	-	159,530	-	159,530
Chapter Service Fees	987,868	-	987,868	-	987,868
Regional Income	29,175	-	29,175	-	29,175
Insurance Revenues	-	1,044,489	1,044,489	-	1,044,489
Risk Management and Wellness Fee	-	494,880	494,880	-	494,880
Conference Fees	246,240	-	246,240	-	246,240
Administrative Fees - Endowment and Insurance	27,755	-	27,755	-	27,755
Interest and Dividends	(28)	120,984	120,956	-	120,956
Net Realized and Unrealized Gains on Investments	-	559,537	559,537	-	559,537
Merchandise Sales	22,968	-	22,968	-	22,968
Chapter Finance Charges	71,134	-	71,134	-	71,134
Grand Arch Council Income	332,625	-	332,625	-	332,625
Royalty Income	71,269	-	71,269	-	71,269
Contributions	4,249	-	4,249	515,000	519,249
Other	1,999	-	1,999	-	1,999
Total Revenues, Gains, and Other Support	<u>2,509,909</u>	<u>2,219,890</u>	<u>4,729,799</u>	<u>646,911</u>	<u>5,376,710</u>
Net Assets Released from Restrictions	671,389	-	671,389	(671,389)	-
Total Revenues, Gains and Other Support and Net Assets Released from Restrictions	<u>3,181,298</u>	<u>2,219,890</u>	<u>5,401,188</u>	<u>(24,478)</u>	<u>5,376,710</u>
Expenses					
Program Expenses	3,173,899	894,415	4,068,314	-	4,068,314
Management and General Expenses	1,825,882	497	1,826,379	-	1,826,379
Total Expenses	<u>4,999,781</u>	<u>894,912</u>	<u>5,894,693</u>	<u>-</u>	<u>5,894,693</u>
Change in Net Assets	(1,818,483)	1,324,978	(493,505)	(24,478)	(517,983)
Net Assets at Beginning of Year	946,709	6,073,577	7,020,286	162,995	7,183,281
Transfers	1,852,069	(1,852,069)	-	-	-
Net Assets at End of Year	<u>\$ 980,295</u>	<u>\$ 5,546,486</u>	<u>\$ 6,526,781</u>	<u>\$ 138,517</u>	<u>\$ 6,665,298</u>

See accompanying notes.

**PHI KAPPA PSI FRATERNITY
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended May 31, 2018

	Program				Management and General	Total Expenses
	Fraternity Activities	Publications and Communications	Convention/ Leadership Activities	Total		
Automobile	\$ -	\$ -	\$ -	\$ -	29,603	\$ 29,603
Conferences and Organizations	52,755	-	-	52,755	-	52,755
Travel and Entertainment	109,057	16,243	18,563	143,863	88,174	232,036
Colony Scholarships	4,000	-	-	4,000	-	4,000
Grand Arch Council	-	-	172,601	172,601	-	172,601
<i>The Shield</i>	-	113,275	-	113,275	-	113,275
ELC Program	-	-	96,666	96,666	-	96,666
ROT Program	-	-	131,459	131,459	-	131,459
Professional Development Conference	-	-	232,868	232,868	-	232,868
Elevate Program	-	-	56,095	56,095	-	56,095
Wellness Program	4,189	-	-	4,189	-	4,189
Other Program Expense	-	-	46,126	46,126	-	46,126
Attorney Fees	-	-	-	-	44,190	44,190
Accounting and Audit	-	-	-	-	35,355	35,355
Club Dues	-	-	-	-	81,974	81,974
Cost of Supply Sales	-	-	-	-	51,804	51,804
Bank Service Charges	-	-	-	-	18,768	18,768
Miscellaneous Expense	-	-	-	-	6,173	6,173
Office Staff Salaries	687,212	102,351	116,972	906,535	555,618	1,462,153
Payroll Tax	55,217	8,224	9,399	72,840	44,644	117,483
Health Insurance	121,824	18,144	20,736	160,704	98,496	259,200
401(k) Contributions	15,325	2,283	2,609	20,217	12,392	32,611
Interest Expense	-	-	-	-	15,179	15,179
Building and Equipment	-	-	-	-	42,057	42,057
Depreciation	-	-	-	-	62,075	62,075
Property Taxes	-	-	-	-	3,037	3,037
Postage, Printing, and Supplies	-	-	-	-	55,250	55,250
Telephone	-	-	-	-	41,606	41,606
Headquarters Rent and Utilities	-	-	-	-	116,818	116,818
Insurance Expenses	1,681,940	-	-	1,681,940	16,135	1,698,075
Investment Management Fees	5,912	-	-	5,912	-	5,912
Professional Fees	-	-	-	-	171,057	171,057
Contributions	-	-	-	-	12,000	12,000
Materials	-	-	-	-	12,269	12,269
	<u>\$ 2,737,431</u>	<u>\$ 260,520</u>	<u>\$ 904,094</u>	<u>\$ 3,902,045</u>	<u>\$ 1,614,674</u>	<u>\$ 5,516,719</u>

See accompanying notes.

**PHI KAPPA PSI FRATERNITY
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended May 31, 2017

	Program				Management and General	Total Expenses
	Fraternity Activities	Publications and Communications	Convention/ Leadership Activities	Total		
Automobile	\$ -	\$ -	\$ -	\$ -	24,747	\$ 24,747
Awards	-	-	6,646	6,646	-	6,646
Conferences and Organizations	18,783	-	-	18,783	-	18,783
Travel and Entertainment	114,776	17,094	19,536	151,406	92,798	244,204
Grand Arch Council	-	-	1,200,093	1,200,093	-	1,200,093
<i>The Shield</i>	-	149,589	-	149,589	-	149,589
PLA Program	-	-	2,246	2,246	-	2,246
ELC Program	-	-	149,862	149,862	-	149,862
ROT Program	-	-	96,315	96,315	-	96,315
Wellness Program	1,609	-	-	1,609	-	1,609
Other Program Expense	-	-	160,463	160,463	-	160,463
Attorney Fees	-	-	-	-	15,055	15,055
Accounting and Audit	-	-	-	-	41,190	41,190
Club Dues	-	-	-	-	103,042	103,042
Cost of Supply Sales	-	-	-	-	53,630	53,630
Bank Service Charges	-	-	-	-	37,646	37,646
Miscellaneous Expense	-	-	-	-	78,852	78,852
Office Staff Salaries	752,013	112,002	128,002	992,017	608,010	1,600,027
Payroll Tax	63,693	9,486	10,841	84,020	51,496	135,516
Health Insurance	115,169	17,153	19,603	151,925	93,115	245,040
401(k) Contributions	6,765	1,008	1,152	8,925	5,470	14,395
Interest Expense	-	-	-	-	3,088	3,088
Building and Equipment	-	-	-	-	51,057	51,057
Depreciation	-	-	-	-	68,012	68,012
Property Taxes	-	-	-	-	2,024	2,024
Postage, Printing, and Supplies	-	-	-	-	90,281	90,281
Telephone	-	-	-	-	35,088	35,088
Headquarters Rent and Utilities	-	-	-	-	93,687	93,687
Insurance Expenses	885,095	-	-	885,095	14,811	899,906
Investment Management Fees	9,320	-	-	9,320	-	9,320
Professional Fees	-	-	-	-	208,615	208,615
Bad Debt Expense	-	-	-	-	41,098	41,098
Materials	-	-	-	-	13,567	13,567
	<u>\$ 1,967,223</u>	<u>\$ 306,332</u>	<u>\$ 1,794,759</u>	<u>\$ 4,068,314</u>	<u>\$ 1,826,379</u>	<u>\$ 5,894,693</u>

See accompanying notes.

**PHI KAPPA PSI FRATERNITY
STATEMENTS OF CASH FLOWS**

	Years Ended May 31,	
	2018	2017
Cash Flows From Operating Activities		
Change in Net Assets	\$ (287,108)	\$ (517,983)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Used by Operating Activities		
Depreciation	62,075	68,012
Net Realized and Unrealized Gains on Investments	(389,945)	(559,537)
Changes in		
Chapter Accounts Receivable, Net	(188,198)	2,245
Accounts Receivable - Related Party	16,075	(17,219)
Grants Receivable - Related Party	(145,305)	-
Inventory	6,516	11,226
Prepaid Expenses	(417,714)	(41,729)
Accounts Payable and Accrued Expenses	600,461	(125,108)
Accounts Payable - Related Party	53,945	-
Deferred Rent	13,208	-
Deferred Revenue	513,004	(235,804)
	<u>(162,986)</u>	<u>(1,415,897)</u>
Net Cash Used by Operating Activities		
Cash Flows From Investing Activities		
Proceeds from Sales and Maturities of Investments	1,641,938	3,967,093
Purchases of Investments	(1,404,199)	(2,924,953)
Purchases of Furnishings and Equipment	(40,214)	(5,368)
	<u>197,525</u>	<u>1,036,772</u>
Net Cash Provided by Investing Activities		
Cash Flows from Financing Activities		
Payments on Capital Lease Obligations	(24,487)	(27,702)
Pass-through Funds Due to Related Party	54,090	-
	<u>29,603</u>	<u>(27,702)</u>
Net Cash Provided (Used) by Financing Activities		
Net Change in Cash and Cash Equivalents	<u>64,142</u>	<u>(406,827)</u>
Beginning Cash and Cash Equivalents	<u>190,549</u>	<u>597,376</u>
Ending Cash and Cash Equivalents	<u>\$ 254,691</u>	<u>\$ 190,549</u>

See accompanying notes.

**PHI KAPPA PSI FRATERNITY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Phi Kappa Psi Fraternity (the Fraternity) is a national college fraternity with headquarters in Indianapolis, Indiana. At May 31, 2018, the Fraternity had 107 chapters and colonies located throughout the United States. The Fraternity provides administrative support, educational services and insurance programs for chapters and colonies located throughout the United States.

Each chapter and colony is an independently governed and managed entity and, accordingly, the financial position, revenues and expenses of the chapters and colonies are not combined in the accompanying financial statements of the national fraternity.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to the assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Chapter Accounts Receivable

Chapter accounts receivable are stated at contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The Fraternity begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the Fraternity's collection history, the financial stability and recent payment history of the chapters, and other pertinent factors. Based on these criteria, the Fraternity has estimated an allowance for doubtful accounts of \$19,359 and \$61,798 at May 31, 2018 and 2017, respectively.

Inventory

Inventory is stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or net realizable value, and consists of member paraphernalia such as buttons, pins, manuals, robes, books, etc. that are held for resale.

Investments

Investments are stated at fair value. Investment income and dividends are included in unrestricted revenue unless restricted by donor or law. Realized and unrealized gains (losses) are shown as increases (decreases) in net assets in the period in which the gains (losses) are incurred.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furnishings and Equipment

Furnishings and equipment are recorded at cost, except for donated works of art and antiques, which are recorded at fair value on the date of receipt. Furnishings, works of art, and antiques are preserved in a museum-like setting and are not depreciated due to their historical nature. Other furnishings and equipment are depreciated using the straight-line method over their estimated useful lives. Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals are capitalized.

The useful lives of furnishings and equipment for purposes of computing depreciation are:

Furniture	10 Years
Equipment	5-10 Years
Computer Software	3 Years
Computer Equipment	3-10 Years
Vehicles	5-10 Years

Long-Lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Long-lived assets were measured for impairment, and no adjustments were deemed necessary during the years ended May 31, 2018 and 2017.

Classes of Net Assets

The accompanying financial statements have been prepared in conformity with the requirements of generally accepted accounting principles. Accordingly, the net assets of the Fraternity are reported in each of the following three classes: a) unrestricted net assets, b) temporarily restricted net assets, and c) permanently restricted net assets.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets are legally unrestricted and are reported as part of the unrestricted class. The Fraternity's unrestricted net assets consist of undesignated and designated net assets. Undesignated net assets represent funds that are available for any purpose within the scope of the Fraternity's general operational activities. Designated net assets represent funds that have been appropriated by the Executive Council for specific activities or a group of activities. Such designations can be changed by action of the Executive Council. Unrestricted net assets include two designated funds. The Insurance Fund includes the cash and investments associated with the insurance for the chapters of the Fraternity. The Permanent, Scholastic, Educational, Charitable, and Fraternal Fund (Permanent Fund) was established to make funds available for scholastic, educational, charitable, and fraternal activities and includes the interest, dividends, and realized and unrealized gains (losses) on investments.

The Fraternity's temporarily restricted net assets are restricted by donors for specific operating purposes or subject to the passage of time and are currently not available for use until commitments regarding their use have been fulfilled. The chapter financial assistance received from Fraternity members is temporarily restricted for the purpose of developing new chapters and providing financial assistance to existing house corporations. Amounts recorded in the Mississippi Alpha Extension Fund are temporarily restricted for scholarships and reorganization. Amounts recorded in the Alumni Association Postcard Fund are temporarily restricted for mailings to alumni.

As of May 31, 2018 and 2017, the Fraternity did not have any permanently restricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue Recognition**

Revenues consist principally of membership fees from collegiate chapters and revenue from alumni chapters. Other sources of revenue include royalties, investment income, grants, and sales of member paraphernalia. Pledge, initiation, and chapter fees are recorded when the number of pledges, initiates, and chapter members are reported and acknowledged by the chapters.

Revenues received to support convention and conference activities are deferred and taken into income as the related conventions and conferences are held. Conventions of the Fraternity and leadership conferences are held biennially in alternating years.

Contributions, including unconditional promises to give, and grants are recorded as made. All contributions and grants are available for unrestricted use unless specifically restricted by a donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Insurance revenues are recognized in the period which the members benefited.

Functional Allocation of Expenses

The costs of supporting various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly certain costs have been allocated among the program and services benefited.

Functional expenses are allocated among the following categories:

Fraternity Activities: includes all activities relating to chapter services, Educational Leadership Consultant program, and membership reporting.

Publications and Communications: includes activities relating to *The Shield* and other publications, and electronic communications with members.

Convention/Leadership Activities: includes the Grand Arch Council, the Woodrow Wilson Leadership School, the Presidents Leadership Academy, and other educational meetings.

Management and General: includes the daily operations, such as personnel and financial management.

Retirement Plan

The Fraternity offers an employee savings and retirement plan to all eligible employees who are at least 21 years of age and have a minimum of one year (1,000 hours) of full-time service. Each year, the Fraternity may make a discretionary contribution based upon a percentage set by the Fraternity prior to the end of the plan year. By its nature, the plan is fully funded.

Income Taxes

The Fraternity is a nonprofit organization as described in Section 501(c)(7) of the Internal Revenue Code and is exempt from federal and state income taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fraternity has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Fraternity recognized no interest or penalties in the statements of activities and change in net assets for the years ended May 31, 2018 and 2017. If the situation arose in which the Fraternity would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statutes of limitations and remain subject to review and change. The Fraternity is not currently under audit nor has the Fraternity been contacted by these jurisdictions.

Based on the evaluation of the Fraternity's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended May 31, 2018 and 2017.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Recently Issued Significant Accounting Standards*Lease Accounting Standard*

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2019.

Revenue Recognition Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard may have an impact on the timing of when an entity recognizes certain revenue. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

Nonprofit Standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958). The core principles of the guidance are a reduction in the number of net asset categories from three to two, reporting investment return net of external and internal investment expenses, the placed-in-service approach for reporting expirations of restrictions on donated assets and enhanced disclosures regarding designations and donor restrictions, qualitative and quantitative liquidity information, expense allocation methods, expenses by natural classification and function, and underwater endowments. The ASU is effective for years beginning after December 15, 2017.

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

NOTE 2 - CASH AND CASH FLOW INFORMATION

At various time throughout the year, the Fraternity May have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to \$250,000 for each business depositor. Cash equivalents that are held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account with a limit of \$250,000 for claims of uninvested cash balances.

For the purposes of the cash flow statements, the Fraternity considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents, except for those funds included in the investment accounts.

Cash paid for interest for the years ended May 31, 2018 and 2017 was \$15,179 and \$3,088, respectively.

The Fraternity had noncash financing and investing transactions as follows:

	Years Ended May 31,	
	2018	2017
Furnishings Financed with Capital Lease	\$ -	\$ 127,263

NOTE 3 - PREPAID EXPENSES

Prepaid expenses consisted of the following:

	May 31,	
	2018	2017
Conference and Convention	\$ 393,302	\$ 87,320
Insurance Premiums	564,549	452,817
Total Prepaid Expenses	\$ 957,851	\$ 540,137

NOTE 4 - INVESTMENTS

The following is a summary of the fair value of investments:

Money Market	\$ 100,222	\$ 65,381
Equity Securities	4,490,312	4,063,402
Fixed Income	1,077,100	1,376,749
Mutual Funds	35,049	44,945
Total Investments	\$ 5,702,683	\$ 5,550,477

NOTE 4 - INVESTMENTS (Continued)

Investment income was as follows:

	Years Ended May 31,	
	2018	2017
Interest and Dividend Income	\$ 95,114	\$ 120,956
Net Realized and Unrealized Gains	389,945	559,537
Total Investment Income	485,059	680,493
Less Investment Related Expenses	5,912	9,320
Net Investment Income	\$ 479,147	\$ 671,173

NOTE 5 - FAIR VALUE MEASUREMENTS

U.S. GAAP provides the framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 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 Fraternity has the ability to access.
- Level 2** - Inputs for the valuation methodology include:
 - Quoted market 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 or liability'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 observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for marketable securities measured at fair value. There have been no changes in the methodologies used at May 31, 2018 and 2017.

Equity Securities - Valued at the closing price reported in the active market in which the individual securities are traded.

Fixed Income, Money Market and Mutual Funds - Valued at the net asset value (NAV) of shares held by the Fraternity at year end.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The preceding methods described May provide a fair value calculation that May not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fraternity believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. All investments held by the Fraternity at May 31, 2018 and 2017 were measured using Level 1 inputs.

NOTE 6 - FURNISHINGS AND EQUIPMENT

Furnishings and equipment consisted of the following:

	May 31,	
	2018	2017
Furniture	\$ 184,425	\$ 183,100
Equipment	41,341	37,697
Computer Software	199,758	196,758
Computer Equipment	107,344	75,099
Vehicles	259,156	259,156
	<u>792,024</u>	<u>751,810</u>
Less Accumulated Depreciation	542,053	479,978
	<u>249,971</u>	<u>271,832</u>
Non-Depreciable Collections	65,973	65,973
	<u>315,944</u>	<u>337,805</u>
Furnishings and Equipment, Net	<u>\$ 315,944</u>	<u>\$ 337,805</u>

NOTE 7 - LINE OF CREDIT

The Fraternity has available a \$700,000 line of credit with a bank. This line of credit is collateralized by a lien on all the Fraternity’s general business assets and bears interest at the daily LIBOR rate (1.71163% at May 31, 2018) plus 2.50%. The line matures in April 2019. As of May 31, 2018 and 2017, there are no outstanding draws on the line of credit.

NOTE 8 - ACCRUED INSURANCE CLAIMS

The Fraternity is a defendant in various lawsuits and potential lawsuits relating to accidents involving personal injury and property damage at its chapters. The Fraternity is liable for losses on claims and any costs associated with defending itself up to \$2,500 per claim and the aggregate self-insured retention limit in the related policy year. For the years ended May 31, 2018 and 2017, the self-insured retention limit was \$250,000. At May 31, 2018, the Fraternity has accrued expenses on unsettled claims of \$474,623.

NOTE 9 - LEASES

Capital Lease Obligation

The Fraternity has a capital lease obligation, collateralized by the furnishings purchased, that bears interest at 3.5%. This capital lease obligation expires May 15, 2021. At the conclusion of the capital lease obligation, the Fraternity can purchase the furnishings for \$1. Depreciation expense for furnishings held under the capital lease obligation was \$25,452 and \$21,211 for the years ended May 31, 2018 and 2017, respectively.

The following is a summary of furniture at cost less accumulated depreciation held under the capital lease obligation:

	May 31,	
	2018	2017
Furniture	\$ 127,263	\$ 127,263
Less Accumulated Depreciation	<u>46,663</u>	<u>21,211</u>
Capital Lease Obligation Property, Net	<u>\$ 80,600</u>	<u>\$ 106,052</u>

The following is a summary of the remaining future minimum capital lease payments and the associated interest expense:

Years Ending May 31,		
2019	\$ 23,974	
2020	27,712	
2021	<u>27,712</u>	
Total Future Payments	79,398	\$ 107,112
Less Interest Portion	<u>4,324</u>	<u>7,551</u>
Capital Lease Obligation, Net	<u>\$ 75,074</u>	<u>\$ 99,561</u>

Operating Leases

The Fraternity leases equipment and rents space from third parties under operating lease agreements with expiration dates through August 2021. Lease expense under the agreements was \$34,492 and \$86,587 for the years ending May 31, 2018 and 2017, respectively.

The Fraternity leases a parking lot and a substantial portion of the headquarters building from the Endowment Fund of the Phi Kappa Psi Fraternity, an affiliated organization, under an agreement, the economic substance of which permitted the parties to change the terms as may be in the best interest of the affiliated organizations. The Fraternity pays all real estate taxes and insurance. The current lease is for a term of ten years, expiring December 31, 2026. Lease expense under the agreement was \$116,618 and \$93,687 at May 31, 2018 and 2017, respectively. Deferred rent liability under this lease was \$13,208 and \$-0- at May 31, 2018 and 2017, respectively.

NOTE 9 - LEASES (Continued)

The future minimum lease payments for both leases is as follows:

Years Ending May 31,		
2019	\$	123,443
2020		107,600
2021		108,170
2022		109,453
2023		110,914
Thereafter		<u>293,111</u>
	\$	<u><u>852,691</u></u>

NOTE 10 - FUNDS HELD FOR CLOSED CHAPTERS

The Fraternity holds certain funds in a trust for chapters that are dissolved or closed. If the chapter reopens within 21 years, the funds are returned to the chapter. If the chapter is not reestablished, the funds become available for general use by the Fraternity. The following amounts were held in trust at both May 31, 2018 and 2017:

		<u>Year Funds Will be Released</u>
Texas Delta	\$ 16,870	2030
Arizona Beta	5,500	2028
Arizona Alpha	<u>322</u>	2032
Total Funds Held for Closed Chapters	<u><u>\$ 22,692</u></u>	

NOTE 11 - NET ASSETS

Net assets were comprised of the following:

	May 31,	
	<u>2018</u>	<u>2017</u>
Unrestricted Net Assets		
Designated		
Insurance Fund	\$ 383,793	\$ 427,440
Permanent Fund	5,314,930	5,119,046
Undesignated	<u>506,766</u>	<u>980,295</u>
Unrestricted Net Assets	<u>6,205,489</u>	<u>6,526,781</u>
Temporarily Restricted Net Assets		
Chapter Financial Assistance	131,017	131,017
AA Post Card Fund	6,000	6,000
Mississippi Alpha Extension - Scholarships	1,500	1,500
Health & Wellness Program	<u>34,184</u>	<u>-</u>
Temporarily Restricted Net Assets	<u>172,701</u>	<u>138,517</u>
Total Net Assets	<u>\$ 6,378,190</u>	<u>\$ 6,665,298</u>

NOTE 12 - TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

Endowment Fund of the Phi Kappa Psi Fraternity

The Endowment Fund of the Phi Kappa Psi Fraternity (Endowment Fund), an affiliated organization, is a legally separate entity organized to solicit contributions and disburse funds in the form of educational grants, scholarships, and loans. Solicitations are made in its name and all funds are used by the Endowment Fund in fulfilling its educational objectives. Accordingly, the accounts of the Endowment Fund have not been combined with the Fraternity in the accompanying financial statements.

The Fraternity had the following transactions with the Endowment Fund:

- The Fraternity leases a parking lot and a substantial portion of the headquarters building from the Endowment Fund. See the Leases note for additional information.
- The Fraternity reimburses the Endowment Fund for costs associated with its allocable share of administrative cost including janitorial services, telecommunications, and computer support.
- The Endowment Fund provides educational grants to the Fraternity for numerous educational programs.
- The Endowment Fund reimburses the Fraternity for an allocable share of the salary, wages, and benefits paid to Fraternity employees.

NOTE 12 - TRANSACTIONS WITH AFFILIATED ORGANIZATIONS (Continued)

Following is a summary of transactions and balances with the Endowment Fund:

	Years Ended May 31,	
	2018	2017
Grant Income	\$ 791,395	\$ 131,911
Grant Receivable	145,305	-
Administrative Services	100,849	24,286
Rent Expense	116,818	93,687
Employee Reimbursement	43,791	56,890
Due to the Endowment Fund	53,945	-
Receivable from the Endowment Fund	-	8,583
Deferred Rent	13,208	-

Phi Kappa Psi Fraternity Educational Foundation

In 2017, Phi Kappa Psi Fraternity Educational Foundation (the Foundation) was formed to provide support to the Fraternity. The Fraternity's financial statements do not include the activities of the Foundation, a separate legal entity.

In 2017, the Fraternity paid for miscellaneous expenses to establish the Foundation. The Fraternity had accounts receivable from the Foundation of \$1,144 and \$8,636 as of May 31, 2018 and 2017, respectively. During the year ended May 31, 2018, the Fraternity made a \$12,000 contribution to the Foundation.

In 2018, the Fraternity entered into an agreement with the Foundation to reimburse the Foundation for the annual cost of software licenses. During the year ended May 31, 2018, the Fraternity reimbursed the Foundation \$79,936.

The Canonsburg Corporation

The Canonsburg Corporation (Canonsburg), an affiliated organization, is a legally separate entity organized to provide housing, financing, and related goods and services to local chapters and housing corporations affiliated with the Fraternity. The Fraternity collects the member fees assessed by Canonsburg from their chapters and colonies and remits them to Canonsburg annually. The Fraternity collected \$110,230 and \$112,470 in assessed Canonsburg fees from their members and remitted \$56,140 and \$168,860 during the years ended May 31, 2018 and 2017, respectively. At May 31, 2018 and 2017, \$54,090 and \$-0-, respectively, is due to Canonsburg.

NOTE 13 - SELF INSURED RETENTION

The Fraternity has adopted the Self Insured Retention (SIR) program offered by FRMT, Ltd. The SIR program requires the Fraternity to provide proof of appropriate security, which May be an irrevocable letter of credit to the benefit of FRMT, Ltd., or a deposit in an investment account with UBS of Cincinnati, Ohio. The investment account restricts principal only for use by the FRMT, Ltd., claim administrator for expense and claim payments. Any excess funds available at the plan's year end May be applied to the new plan year SIR obligation or returned to the Fraternity.

The Executive Council has agreed that all interest income received on these funds will remain in this account. The balance in the investment account at May 31, 2018 and 2017 was \$368,203 and \$411,937, respectively.

NOTE 14 - COMMITMENTS

The Fraternity contracts with hotels for future conventions. The contracts carry cancellation policies which would penalize the Fraternity under a set schedule in the event of cancellation. It is the intent of the Fraternity to honor all outstanding contracts.

NOTE 15 - SUBSEQUENT EVENT

On July 31, 2018 the Permanent Fund investments were transferred to the PKP Permanent, Scholastic, Educational, Charitable and Fraternal Fund, Inc. ("PFI"). At May 31, 2018, these investments were valued at \$5,314,930.

PFI is a nonprofit organization as described in Section 501(c)(2) of the Internal Revenue Code and was incorporated on May 9, 2018 with the Fraternity as the sole member. PFI began operations in July 2018.

Management has evaluated subsequent events through December 10, 2018, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**PHI KAPPA PSI FRATERNITY
SCHEDULES OF REVENUES**

Year Ended May 31, 2018 (with Summarized Totals for 2017)

	Undesignated		Designated		Temporarily Restricted	Total 2018	Total 2017
	General Fund	Insurance Fund	Permanent Fund				
Grants - The Endowment Fund	\$ -	\$ -	\$ -	\$ -	791,395	\$ 791,395	\$ 131,911
Alumni Dues	12,750	-	-	-	-	12,750	13,000
Initiation Fees	574,000	-	-	-	-	574,000	542,125
Pledge Fees	169,991	-	-	-	-	169,991	159,530
Chapter Service Fees	921,486	-	-	-	-	921,486	987,868
Regional Income	-	-	-	-	-	-	29,175
Insurance Revenues	-	1,254,487	-	-	-	1,254,487	1,044,489
Risk Management and Wellness Fee	-	485,760	-	-	-	485,760	494,880
Conference Fees	240,606	-	-	-	-	240,606	246,240
Administrative Fees - Endowment and Insurance	43,386	-	-	-	-	43,386	27,755
Interest and Dividends	55	16,918	78,141	-	-	95,114	120,956
Realized and Unrealized Gain (Loss) on Investments	-	(3,299)	393,244	-	-	389,945	559,537
Merchandise Sales	6,359	-	-	-	-	6,359	22,968
Chapter Finance Charges	106,415	-	-	-	-	106,415	71,134
Grand Arch Council/Woodrow Wilson Leadership School Income	19,050	-	-	-	-	19,050	332,625
Royalty Income	90,204	-	-	-	-	90,204	71,269
Contributions	27,456	-	-	-	-	27,456	519,249
Other	1,207	-	-	-	-	1,207	1,999
Total Revenues, Gains and Other Support	<u>\$ 2,212,965</u>	<u>\$ 1,753,866</u>	<u>\$ 471,385</u>	<u>\$ 791,395</u>	<u>\$ 5,229,611</u>	<u>\$ 5,376,710</u>	

**PHI KAPPA PSI FRATERNITY
SCHEDULES OF PERMANENT FUND INVESTMENTS**

At May 31, 2018, Permanent Fund investments were comprised of the following:

	<u>Cost</u>	<u>Accumulated Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Money Market Accounts	\$ 2,829	\$ -	\$ 2,829
Equity Securities	3,892,346	497,803	4,390,149
Fixed Income	<u>956,351</u>	<u>(34,399)</u>	<u>921,952</u>
	<u>\$ 4,851,526</u>	<u>\$ 463,404</u>	<u>\$ 5,314,930</u>

At May 31, 2017, Permanent Fund investments were comprised of the following:

Money Market Accounts	\$ 3,106	\$ -	\$ 3,106
Equity Securities	3,509,093	430,938	3,940,031
Fixed Income	<u>1,179,273</u>	<u>(3,364)</u>	<u>1,175,909</u>
	<u>\$ 4,691,472</u>	<u>\$ 427,574</u>	<u>\$ 5,119,046</u>

Investment income for the Permanent Fund investments was as follows:

	<u>Years Ended May 31,</u>	
	<u>2018</u>	<u>2017</u>
Interest and Dividend Income	\$ 78,141	\$ 110,518
Net Realized and Unrealized Gains	<u>393,244</u>	<u>542,094</u>
Total Investment Income	471,385	652,612
Less Investment Related Expenses	<u>5,000</u>	<u>5,000</u>
Net Investment Income	<u>\$ 466,385</u>	<u>\$ 647,612</u>