

PHI KAPPA PSI FRATERNITY

May 31, 2017

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



**PHI KAPPA PSI FRATERNITY
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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, 2017 and 2016, 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, 2017 and 2016, 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 taken 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.

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

	May 31,	
ASSETS	2017	2016
Cash and Cash Equivalents	\$ 190,549	\$ 597,376
Chapter Accounts Receivable, Net	205,502	200,929
Due from Related Parties	17,219	-
Employee Advances	-	6,818
Inventory	32,592	43,818
Prepaid Expenses	540,137	498,408
Investments	5,550,477	6,033,080
Furnishings and Equipment, Net	337,805	273,186
Total Assets	\$ 6,874,281	\$ 7,653,615
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable and Accrued Expenses	\$ 78,330	\$ 203,438
Capital Lease Obligation	99,561	-
Deferred Revenue	8,400	244,204
Funds Held in Trust	22,692	22,692
Total Liabilities	208,983	470,334
Net Assets		
Unrestricted		
Undesignated	980,295	946,709
Designated	5,546,486	6,073,577
Temporarily Restricted	138,517	162,995
Total Net Assets	6,665,298	7,183,281
Total Liabilities and Net Assets	\$ 6,874,281	\$ 7,653,615

**PHI KAPPA PSI FRATERNITY
STATEMENT OF ACTIVITIES**

Year Ended May 31, 2017

	<u>Unrestricted</u>		<u>Total</u>	<u>Temporarily</u>	<u>Grand</u>
	<u>Undesignated</u>	<u>Designated</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
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
Realized and Unrealized Gain 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
Other	1,999	-	1,999	-	1,999
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
	<u>2,509,909</u>	<u>2,219,890</u>	<u>4,729,799</u>	<u>646,911</u>	<u>5,376,710</u>
Total Revenues, Gains, and Other Support					
Net Assets Released from Restrictions	671,389	-	671,389	(671,389)	-
	<u>3,181,298</u>	<u>2,219,890</u>	<u>5,401,188</u>	<u>(24,478)</u>	<u>5,376,710</u>
Total Revenues, Gains and Other Support and Net Assets Released from Restrictions					
Expenses					
Program Expenses	3,165,924	894,415	4,060,339	-	4,060,339
Management and General Expenses	1,833,857	497	1,834,354	-	1,834,354
	<u>4,999,781</u>	<u>894,912</u>	<u>5,894,693</u>	<u>-</u>	<u>5,894,693</u>
Total Expenses					
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)	-	-	-
	<u>980,295</u>	<u>5,546,486</u>	<u>6,526,781</u>	<u>138,517</u>	<u>6,665,298</u>
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 ACTIVITIES**

	Year Ended May 31, 2016				
	Unrestricted		Total	Temporarily	Grand
	Undesignated	Designated	Unrestricted	Restricted	Total
Revenues, Gains, and Other Support					
Grants - The Endowment Fund	\$ -	\$ -	\$ -	\$ 260,260	\$ 260,260
Alumni Dues	5,125	-	5,125	-	5,125
Initiation Fees	567,750	-	567,750	-	567,750
Pledge Fees	143,650	-	143,650	-	143,650
Chapter Service Fees	914,372	-	914,372	-	914,372
Insurance Revenues	-	1,369,495	1,369,495	-	1,369,495
Conference Fees	81,975	-	81,975	-	81,975
Administrative Fees - Endowment and Insurance	106,457	-	106,457	-	106,457
Interest and Dividends	7,829	133,001	140,830	2,681	143,511
Realized and Unrealized Loss on Investments	(7,148)	(247,739)	(254,887)	(17,464)	(272,351)
Merchandise Sales	11,536	-	11,536	-	11,536
Chapter Finance Charges	102,160	-	102,160	-	102,160
Other	16,153	-	16,153	-	16,153
Woodrow Wilson Leadership School Income	62,760	-	62,760	-	62,760
Royalty Income	60,716	-	60,716	-	60,716
Contributions	4,977	-	4,977	265,000	269,977
	<u>2,078,312</u>	<u>1,254,757</u>	<u>3,333,069</u>	<u>510,477</u>	<u>3,843,546</u>
Net Assets Released from Restrictions	1,302,276	-	1,302,276	(1,302,276)	-
	<u>3,380,588</u>	<u>1,254,757</u>	<u>4,635,345</u>	<u>(791,799)</u>	<u>3,843,546</u>
Expenses					
Program Expenses	2,692,859	903,947	3,596,806	-	3,596,806
Management and General Expenses	1,885,447	10,818	1,896,265	-	1,896,265
	<u>4,578,306</u>	<u>914,765</u>	<u>5,493,071</u>	<u>-</u>	<u>5,493,071</u>
Change in Net Assets	(1,197,718)	339,992	(857,726)	(791,799)	(1,649,525)
Net Assets at Beginning of Year	1,653,627	6,224,385	7,878,012	954,794	8,832,806
Transfers	490,800	(490,800)	-	-	-
	<u>946,709</u>	<u>6,073,577</u>	<u>7,020,286</u>	<u>162,995</u>	<u>7,183,281</u>
Net Assets at End of Year	\$ <u>946,709</u>	\$ <u>6,073,577</u>	\$ <u>7,020,286</u>	\$ <u>162,995</u>	\$ <u>7,183,281</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	\$ -	\$ -	\$ -	\$ -	\$ 37,610	\$ 37,610
Awards	-	-	6,646	6,646	-	6,646
Conferences and Organizations	18,783	-	-	18,783	-	18,783
Travel and Entertainment	108,730	16,194	18,507	143,431	87,910	231,341
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>\$ 1,961,177</u>	<u>\$ 305,432</u>	<u>\$ 1,793,730</u>	<u>\$ 4,060,339</u>	<u>\$ 1,834,354</u>	<u>\$ 5,894,693</u>

See accompanying notes.

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

Year Ended May 31, 2016

	Program			Total	Management and General	Total Expenses
	Fraternity Activities	Publications and Communications	Convention/ Leadership Activities			
Automobile	\$ -	\$ -	\$ -	\$ -	\$ 37,650	\$ 37,650
Awards	-	-	309	309	-	309
Conferences and Organizations	21,006	-	-	21,006	-	21,006
Chapter Installation	1,233	-	-	1,233	-	1,233
Travel and Entertainment	379,522	56,525	64,600	500,647	306,848	807,495
Woodrow Wilson Leadership School	-	-	757,939	757,939	-	757,939
<i>The Shield</i>	-	157,900	-	157,900	-	157,900
LDC Program	-	-	34,125	34,125	-	34,125
ELC Program	-	-	58,122	58,122	-	58,122
PLA Program	-	-	179,711	179,711	-	179,711
Wellness Program	35,907	-	-	35,907	-	35,907
Other Program Expense	-	-	34,850	34,850	-	34,850
Attorney Fees	-	-	-	-	13,632	13,632
Accounting and Audit	-	-	-	-	58,555	58,555
Club Dues	-	-	-	-	47,587	47,587
Cost of Supply Sales	-	-	-	-	61,235	61,235
Bank Service Charges	-	-	-	-	26,279	26,279
Miscellaneous Expense	-	-	-	-	3,787	3,787
Office Staff Salaries	565,684	84,251	96,287	746,222	457,362	1,203,584
Payroll Tax	47,674	7,100	8,115	62,889	38,545	101,434
Health Insurance	73,148	10,894	12,451	96,493	59,141	155,634
401(k) Contributions	4,208	627	716	5,551	3,402	8,953
Building and Equipment	-	-	-	-	23,813	23,813
Depreciation	-	-	-	-	38,179	38,179
Property Taxes	-	-	-	-	1,855	1,855
Postage, Printing, and Supplies	-	-	-	-	161,093	161,093
Telephone	-	-	-	-	33,853	33,853
Headquarters Rent and Utilities	-	-	-	-	108,480	108,480
Insurance Expenses	873,738	-	-	873,738	12,200	885,938
Investment Management Fees	30,164	-	-	30,164	-	30,164
Professional Fees	-	-	-	-	315,316	315,316
Bad Debt Expense	-	-	-	-	33,260	33,260
Materials	-	-	-	-	54,193	54,193
	<u>\$ 2,032,284</u>	<u>\$ 317,297</u>	<u>\$ 1,247,225</u>	<u>\$ 3,596,806</u>	<u>\$ 1,896,265</u>	<u>\$ 5,493,071</u>

See accompanying notes.

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

	Years Ended May 31,	
	2017	2016
Cash Flows From Operating Activities		
Change in Net Assets	\$ (517,983)	\$ (1,649,525)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation	68,012	38,179
Realized and Unrealized (Gain) Loss on Investments	(559,537)	272,351
Changes in		
Chapter Accounts Receivable and Employee Advances	2,245	(173,259)
Due from Related Parties	(17,219)	-
Inventory	11,226	(8,858)
Prepaid Expenses	(41,729)	418,309
Accounts Payable and Accrued Expenses	(125,108)	(147,908)
Deferred Revenue	(235,804)	236,454
	(1,415,897)	(1,014,257)
Net Cash Used by Operating Activities		
Cash Flows From Investing Activities		
Proceeds from Sales and Maturities of Investments	3,967,093	4,692,809
Purchases of Investments	(2,924,953)	(4,044,668)
Purchases of Furnishings and Equipment	(5,368)	(160,830)
	1,036,772	487,311
Net Cash Provided by Investing Activities		
Cash Flows from Financing Activities		
Payments on Capital Lease Obligations	(27,702)	-
	(27,702)	-
Net Change in Cash and Cash Equivalents	(406,827)	(526,946)
Beginning Cash and Cash Equivalents	597,376	1,124,322
Ending Cash and Cash Equivalents	\$ 190,549	\$ 597,376

**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, 2017, the Fraternity had 106 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 \$61,798 and \$53,990 at May 31, 2017 and 2016, respectively.

Inventory

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

Investments

Investments are stated at fair market 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 gain (loss) is 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 market 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, 2017 and 2016.

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 gain (loss) 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, 2017 and 2016, the Fraternity did not have any permanently restricted net assets.

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

Pledge, initiation, and chapter service fees income is recorded when the number of pledges, initiates, and chapter members are reported and acknowledged by the chapters. Other income is recorded when earned.

Interest and dividend income is recorded when earned. Such income is reported in the net assets classification in which the related income-producing assets are maintained.

Insurance revenues (and their related costs) are recognized when billed, which is during the school year which the coverage 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.

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, 2017 and 2016. 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, 2017 and 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Subsequent Events

Management has evaluated subsequent events through August 10, 2017, which is the date the financial statements were available to be issued.

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) and the Securities Investor Protection Corporation (SIPC) insure account balances up to \$250,000 for each business depositor. As of May 31, 2017 and 2016, the Fraternity had \$-0- and \$373,301, respectively, of cash and money market funds in financial institutions in excess of insured limits.

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, 2017 and 2016 was \$3,088 and \$-0-, respectively.

The Fraternity had noncash financing and investing transactions as follows:

	Years Ended May 31,	
	2017	2016
Furnishings Financed with Capital Lease	\$ 127,263	\$ -

NOTE 3 - PREPAID EXPENSES

Prepaid expenses consisted of the following:

	May 31,	
	2017	2016
Conference and Convention	\$ 87,320	\$ 25,000
Insurance Premiums	452,817	451,735
Prepaid Operating Expenses	-	21,673
Total Prepaid Expenses	\$ 540,137	\$ 498,408

NOTE 4 - INVESTMENTS

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

	May 31,	
	2017	2016
Money Market	\$ 65,381	\$ 117,068
Equity Securities	4,063,402	4,370,779
Fixed Income	1,376,749	1,516,589
Mutual Funds	44,945	28,644
Total Investments	\$ 5,550,477	\$ 6,033,080

Investment income was as follows:

	Years Ended May 31,	
	2017	2016
Interest and Dividend Income	\$ 120,956	\$ 143,511
Net Realized and Unrealized Gain (Loss)	559,537	(272,351)
Total Investment Income (Loss)	680,493	(128,840)
Less Investment Related Expenses	9,320	30,164
Net Investment Income (Loss)	\$ 671,173	\$ (159,004)

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.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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, 2017 and 2016.

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.

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, 2017 and 2016 were measured using Level 1 inputs.

NOTE 6 - FURNISHINGS AND EQUIPMENT

Furnishings and equipment consisted of the following:

	May 31,	
	2017	2016
Furniture	\$ 183,100	\$ 55,837
Equipment	37,697	36,425
Computer Software	196,758	196,758
Computer Equipment	75,099	71,003
Vehicles	259,156	276,107
	751,810	636,130
Less Accumulated Depreciation	479,978	428,917
	271,832	207,213
Non-Depreciable Collections	65,973	65,973
Furnishings and Equipment, Net	\$ 337,805	\$ 273,186

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 (0.93111% at May 31, 2017) plus 2.50%. The line matures in April 2018. As of May 31, 2017, there have been no draws on the line of credit.

NOTE 8 - LEASES

Capital Lease

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 \$21,211 for the year ended May 31, 2017. Interest expense incurred on the capital lease obligation was the \$3,088 for the year ended May 31, 2017.

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

	May 31,	
	2017	2016
Furniture	\$ 127,263	\$ -
Less Accumulated Depreciation	21,211	-
Net Capital Lease Obligation Property	\$ 106,052	\$ -

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

Years Ending May 31,	
2018	\$ 23,976
2019	27,712
2020	27,712
2021	27,712
Total Future Payments	107,112
Less Interest Portion	7,551
Net Capital Lease Obligation	\$ 99,561

NOTE 8 - LEASES (Continued)

Operating Leases

The Fraternity leases equipment and rents space from third parties under operating lease agreements with expiration dates through March 2019. Lease expense under the agreements was \$86,587 and \$21,508 for the years ending May 31, 2017 and 2016, respectively. Future minimum lease payments are as follows:

Years Ending May 31,		
2018	\$	12,876
2019		3,510
Total	\$	16,386

NOTE 9 - FUNDS HELD IN TRUST

The Fraternity holds certain funds in trust for chapters that are dissolved or closed. If the chapter reopens within 20 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:

	May 31,	
	2017	2016
Texas Delta	\$ 16,870	\$ 16,870
Arizona Beta	5,500	5,500
Arizona Alpha	322	322
	\$ 22,692	\$ 22,692

NOTE 10 - NET ASSETS

Net assets were comprised of the following:

	May 31,	
	2017	2016
Unrestricted Net Assets		
Designated		
Insurance Fund	\$ 427,440	\$ 386,283
Permanent Fund	5,119,046	5,687,294
Undesignated	980,295	946,709
Unrestricted Net Assets	6,526,781	7,020,286
Temporarily Restricted Net Assets		
Staffing and Programming Assistance	-	24,478
Chapter Financial Assistance	131,017	131,017
AA Post Card Fund	6,000	6,000
Mississippi Alpha Extension - Scholarships	1,500	1,500
Temporarily Restricted Net Assets	138,517	162,995
Total Net Assets	\$ 6,665,298	\$ 7,183,281

NOTE 11 - TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

Phi Kappa Psi Fraternity (Endowment Fund)

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.

NOTE 11 - TRANSACTIONS WITH AFFILIATED ORGANIZATIONS (Continued)

The Endowment Fund leases a parking lot and a substantial portion of the headquarters building to the Fraternity 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. Future minimum lease payments under this lease agreement are as follows:

Years Ending May 31,		
2018	\$	103,610
2019		105,071
2020		106,532
2021		107,992
2022		109,453
Thereafter		404,025
Total	\$	936,683

The Fraternity paid the Endowment Fund \$93,687 and \$108,480 for the use of these facilities in 2017 and 2016, respectively.

In 2017 and 2016, the Endowment Fund granted the Fraternity \$131,911 and \$260,260, respectively, for educational purposes. At May 31, 2017 and 2016, the Fraternity had accounts receivable from the Endowment Fund of \$8,583 and accounts payable to the Endowment Fund of \$11,902, respectively.

Phi Kappa Psi Foundation

In 2017, the Board of Directors of the Fraternity formed a nonprofit organization named the Phi Kappa Psi Foundation (the 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 legal fees and miscellaneous expenses to establish the Phi Kappa Psi Foundation. At May 31, 2017, the Fraternity had accounts receivable from the Phi Kappa Psi Foundation of \$8,636.

NOTE 12 - 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, 2017 and 2016 was \$411,937 and \$261,840, respectively.

NOTE 13 - COMMITMENTS

The Fraternity entered into an agreement with a third party to provide educational programming services to their chapters. The agreement requires quarterly payments of \$32,500 and expires on May 31, 2018. During the years ended May 31, 2017 and 2016, the Fraternity paid \$130,000 and \$-0-, respectively under this agreement.

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 14 - CONTINGENCIES

Various legal claims have been made against the Fraternity and remain open at May 31, 2017. Management estimates the potential liability of all outstanding claims as of May 31, 2017 is \$366,000. The potential liability has not been accrued in these financial statements because the determination of the various claims is uncertain.

SUPPLEMENTARY INFORMATION

**PHI KAPPA PSI FRATERNITY
SCHEDULES OF REVENUES**

Year Ended May 31, 2017 (with Summarized Totals for 2016)

	Undesignated		Designated		Temporarily Restricted	Total 2017	Total 2016
	General Fund	Insurance Fund	Permanent Fund				
Grants - The Endowment Fund	\$ -	\$ -	\$ -	\$ -	131,911	\$ 131,911	\$ 260,260
Alumni Dues	13,000	-	-	-	-	13,000	5,125
Initiation Fees	542,125	-	-	-	-	542,125	567,750
Pledge Fees	159,530	-	-	-	-	159,530	143,650
Chapter Service Fees	987,868	-	-	-	-	987,868	914,372
Regional Income	29,175	-	-	-	-	29,175	-
Insurance Revenues	-	1,044,489	-	-	-	1,044,489	1,369,495
Risk Management and Wellness Fee	-	494,880	-	-	-	494,880	-
Conference Fees	246,240	-	-	-	-	246,240	81,975
Administrative Fees - Endowment and Insurance	27,755	-	-	-	-	27,755	106,457
Interest and Dividends	(28)	10,466	110,518	-	-	120,956	143,511
Realized and Unrealized Gain (Loss) on Investments	-	17,443	542,094	-	-	559,537	(272,351)
Merchandise Sales	22,968	-	-	-	-	22,968	11,536
Chapter Finance Charges	71,134	-	-	-	-	71,134	102,160
Other	1,999	-	-	-	-	1,999	16,153
Grand Arch Council/Woodrow Wilson Leadership School Income	332,625	-	-	-	-	332,625	62,760
Royalty Income	71,269	-	-	-	-	71,269	60,716
Contributions	4,249	-	-	-	515,000	519,249	269,977
Total Revenues, Gains and Other Support	\$ 2,509,909	\$ 1,567,278	\$ 652,612	\$ 646,911	\$ 5,376,710	\$ 3,843,546	

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

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

	<u>Cost</u>	<u>Accumulated Unrealized Gain (Loss)</u>	<u>Fair Value</u>
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>

At May 31, 2016, Permanent Fund investments were comprised of the following:

Money Market Accounts	\$ 5,407	\$ -	\$ 5,407
Equity Securities	4,227,307	65,814	4,293,121
Fixed Income	<u>1,431,011</u>	<u>(42,245)</u>	<u>1,388,766</u>
	<u>\$ 5,663,725</u>	<u>\$ 23,569</u>	<u>\$ 5,687,294</u>

Investment income for the Permanent Fund investments was as follows:

	<u>Years Ended May 31,</u>	
	<u>2017</u>	<u>2016</u>
Interest and Dividend Income	\$ 110,518	\$ 119,273
Net Realized and Unrealized Gain (Loss)	<u>542,094</u>	<u>(233,200)</u>
Total Investment Income (Loss)	652,612	(113,927)
Less Investment Related Expenses	<u>5,000</u>	<u>28,725</u>
Net Investment Income (Loss)	<u>\$ 647,612</u>	<u>\$ (142,652)</u>