

PHI UPSILON OMICRON, INC.

FINANCIAL STATEMENTS

July 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the National Council
Phi Upsilon Omicron, Inc.

We have audited the accompanying financial statements of Phi Upsilon Omicron, Inc. (a not-for-profit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of July 31, 2015, the related statements of receipts and disbursements – modified cash basis and functional disbursements – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

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

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

We believe 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 assets, liabilities, and net assets of Phi Upsilon Omicron, Inc. as of July 31, 2015, and its receipts and disbursements and changes in net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of fund activity – modified cash basis on page 13 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 audit 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 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.

Hensley & Throneberry, CPAs

December 11, 2015

PHI UPSILON OMICRON, INC

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS

July 31, 2015

Assets

Current assets	
Cash and cash equivalents	\$ 18,758
Total current assets	<u>18,758</u>
Investments	
Certificates of deposit	25,183
Other investments	<u>659,187</u>
Total investments	684,370
Property and equipment	
Office equipment and fixtures	14,916
Less: accumulated depreciation	<u>(12,938)</u>
Net property and equipment	<u>1,978</u>
Total assets	<u>\$ 705,106</u>

Liabilities and net assets

Current liabilities	
Payroll liabilities	\$ 72
Total current liabilities	<u>72</u>
Net assets	
Unrestricted operating fund	(39,647)
Conclave fund	113,335
Professional development fund	53,315
Candle fund	207,480
Board restricted	
Lifetime alumni fund	<u>370,551</u>
Total unrestricted net assets	<u>705,034</u>
Total liabilities and net assets	<u>\$ 705,106</u>

PHI UPSILON OMICRON, INC

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Year Ended July 31, 2015

Receipts	
Initiation fees	\$ 61,375
PHIU Foundation management fee	25,000
Honor cords and stoles	14,732
Alumni fees	9,090
Chapter supplies	2,170
Conclave registration fees	1,894
Interest and dividend income	13,687
Net realized capital gains	<u>7,449</u>
Total receipts	135,397
Disbursements	
Program activities	144,642
Supporting activities	
Management and general	32,229
Fundraising	<u>4,508</u>
Total disbursements	<u>181,379</u>
Change in unrestricted net assets	(45,982)
Unrestricted net assets, beginning of year	<u>751,016</u>
Unrestricted net assets, end of year	<u>\$ 705,034</u>

PHI UPSILON OMICRON, INC

STATEMENT OF FUNCTIONAL DISBURSEMENTS – MODIFIED CASH BASIS
Year Ended July 31, 2015

Disbursement	Program Expenses	Management and General	Fundraising	Total
Salaries and wages	\$ 50,306	\$ 12,514	\$ 3,530	\$ 66,350
Council and conclave meetings	32,279	3,586	-0-	35,865
Publication expense	14,846	-0-	-0-	14,846
Contract labor	11,400	-0-	-0-	11,400
Initiation pins and awards	7,371	-0-	-0-	7,371
Honor cords and stoles	6,704	-0-	-0-	6,704
Annual mailing expense	6,301	-0-	-0-	6,301
Office transition expense	-0-	5,941	-0-	5,941
Payroll taxes	4,070	1,170	335	5,575
Office rent	4,040	1,163	332	5,535
Membership dues	2,965	1,225	-0-	4,190
Professional fees	-0-	3,209	-0-	3,209
Office supplies and expense	1,337	401	109	1,847
Postage	1,342	386	110	1,838
Telephone and internet	975	281	80	1,336
Conferences and travel expense	-0-	1,000	-0-	1,000
Bank and merchant service fees	-0-	850	-0-	850
Jewelry	573	-0-	-0-	573
Website development and expense	<u>133</u>	<u>40</u>	<u>12</u>	<u>185</u>
Total disbursements before depreciation	<u>144,642</u>	<u>31,766</u>	<u>4,508</u>	<u>180,916</u>
Depreciation	<u>-0-</u>	<u>463</u>	<u>-0-</u>	<u>463</u>
Total	<u>\$ 144,642</u>	<u>\$ 32,229</u>	<u>\$ 4,508</u>	<u>\$ 181,379</u>

PHI UPSILON OMICRON, INC

NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2015

Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Activities

Phi Upsilon Omicron, Inc. (the “Organization”) is an honor society in the integrated field of family and consumer sciences. The Organization was formed to recognize and encourage academic excellence, develop qualities of professional and personal leadership, provide opportunities for service to the profession, and encourage lifelong learning and professional and personal commitment to advance family and consumer services and related areas.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis method of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the method, with the exception of capitalized cost of office equipment and fixtures and related depreciation, revenues are recognized when received rather than earned, and expenses are recognized when cash is disbursed rather than when the obligation is incurred. These statements do not present transactions that would be included in the financial statements of the Organization if presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

Basis of Financial Statement Presentation

The Organization’s financial statement presents its financial statements following the recommendations of the Financial Accounting Standards Board (FASB) Codification Section 958.205 *Not-for-Profit Entities Presentation of Financial Statements* (ASC 958.205). Under ASC 958.205, the Organization is required to report information regarding its financial position and activates according to three classes of net assets based on the existence or absence of donor restrictions. The Organization’s net assets and changes therein are classified and reported as follows:

Unrestricted net assets: represent resources whose use is not limited or restricted by donors.

Board restricted net assets: represent net assets not limited or restricted by donors, but restricted by the Board for the purpose of assuring long-term stability and sustainability, while allowing for planning and implementation of longer term initiatives.

Temporarily restricted net assets: represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled or otherwise removed by the Organization’s actions.

Permanently restricted net assets: represent resources whose use is limited by donor-imposed stipulations that neither expire nor can be fulfilled or otherwise removed by the Organization’s actions.

For the year ended July 31, 2015, the Organization held no temporarily or permanently restricted net assets.

PHI UPSILON OMICRON, INC

NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Financial Statement Presentation (continued)

Additionally, the Organization has adopted FASB Codification Section 958.605 *Not-for-Profit Entities Revenue Recognition* (ASC 958.605). In accordance with ASC 958.605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the same reporting period in which the support is received. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of receipts and disbursements – modified cash basis as net assets released from restrictions.

Contributions

Contributions of long-lived assets are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how those long-lived assets are to be used, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

Cash consists of cash on a checking account and a business deposit account. The Organization considers all highly liquid investments with a remaining maturity date of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents held by investment managers in investment accounts are considered investment accounts and are presented accordingly in the statement of assets, liabilities, and net assets – modified cash basis.

Donated Services

In accordance with ASC 905.605, donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. For the year ending July 31, 2015 no services were received that met the criteria for recognition as donated services.

Functional Disbursements

The cost of providing program and supporting activities have been presented on a functional basis in the statement of functional disbursements – modified cash basis, and are summarized in the statement of receipts and disbursements – modified cash basis. Disbursements are charged to program or supporting activities as incurred, or are allocated using a statistical basis.

PHI UPSILON OMICRON, INC

NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Income Taxes

For Federal tax purposes the Organization is an exempt organization under Section 501 (c)(3) of the Internal Revenue Code, and was determined not to be a private foundation by the Internal Revenue Services; however, the Organization remains subject to tax on any business income unrelated to its tax-exempt purpose.

The Organization follows FASB Codification Section 740 *Accounting for Uncertainty in Income Taxes (ASC 740)*. This guidance provides a recognition threshold and measurement process for uncertain tax positions, including any estimated penalties and interest associated with those uncertain tax positions, including any estimated penalties and interest associated with those uncertain tax positions. For year ended July 31, 2015, there were no uncertain tax positions requiring accrual.

The Organization's 2012 through 2015 tax years remain open and subject to examination.

Use of Estimates

The preparation of financial statements in accordance with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated events occurring between the end of its most recent fiscal year (July 31, 2015) and December 11, 2015, which was the date the financial statements were made available.

Note 2 – Fair Value Measurement

Fair Value

FASB Codification Section 825 (ASC 825) *Financial Instruments* permits an entity to elect fair value as the initial and subsequent measurement attribute for certain financial statement assets and liabilities. Entities electing to fair value option would be required to recognize changes in fair value earnings. The adjustment to reflect the difference between fair value and the carrying amount is accounted for as cumulative effect adjustment to net assets as of the date of the adoption. The adoption of this pronouncement did not have an effect on the Organization's financial statements. The Organization did not elect the fair value methodology permitted under ASC 825 for any financial instrument or other item that is not currently required to be measured at fair value.

PHI UPSILON OMICRON, INC

NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2015

Note 2 – Fair Value Measurement (continued)

FASB Codification Section 820 (ASC 820) *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under ASC 820, various inputs are used in determining the fair value of assets and liabilities. These inputs are summarized in a hierarchy that segregate fair value measurement in the three levels (levels 1, 2, and 3), determined by the nature of input as follow:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted market price in an active market provides the most reliable evidence of fair value.
- Level 2 – Other significant observable inputs, including quoted prices of similar securities in active markets, quoted prices for identical securities in markets that are not active, and other market-corroborated inputs.
- Level 3 – Significant unobservable inputs, including the Organization’s own assumptions in determining the fair value of investments, based on the best information available in the circumstances.

The Organization carries its investments at historical cost. All investments are evaluated, using Level 1 or Level 2 inputs, as appropriate, for impairment and adjusted for any other-than-temporary impairments. The Organization does not hold any investments that are evaluated using Level 3 inputs.

The Organization holds equity and bond mutual funds. The individual funds are professionally managed and evaluated for the near-term and long-term prospects of the individual issuers. Based on that evaluation and the Organization’s ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization does not consider those investments to be other-than-temporarily impaired at July 31, 2015.

The contractual terms of the individual bonds held by the Organization do not permit the issuers to recovery of their amortized cost basis, which may be maturity: the Organization does not consider those investments to be other-than-temporarily impaired at July 31, 2015.

No adjustment for other-than-temporary impairments were made during the year ended July 31, 2015.

PHI UPSILON OMICRON, INC

NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2015

Note 2 – Fair Value Measurement (continued)

Carrying value, market value, and net unrealized gains and losses on investments for the year ended and as of July 31, 2015, is summarized as follows:

	<u>Carrying Value (Cost)</u>	<u>Market Value</u>	<u>Unrealized Gains/(Losses)</u>
Certificates of deposit	\$ 25,183	\$ 25,183	\$ -0-
Money market and depository	71,670	71,670	-0-
Equity mutual funds	278,000	359,434	81,434
Bonds and bond funds	<u>309,517</u>	<u>292,727</u>	<u>(16,790)</u>
Total	<u>\$ 684,370</u>	<u>\$ 749,014</u>	<u>\$ 64,644</u>

Note 3 - Investments

Investments are recorded and carried at cost. Realized gains and losses are recorded as the difference between historical cost and fair value when an investment is sold. Unrealized gains and losses, the change in fair value of investments, are not considered for these financial statements. For the year ended July 31, 2015, investments return and its classification in the statement of receipts and disbursements – modified cash basis is summarized as follows:

Interest and dividends	\$ 13,687
Net realized gains	<u>7,449</u>
Total	<u>\$ 21,136</u>

Note 4 – Property and Equipment

Property and Equipment

Purchases of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at the date of receipt. The Organization capitalizes individual items of property and equipment based on an analysis of cost and expected useful life.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Class of property</u>	<u>Useful life in years</u>
Furniture, fixtures and equipment	5-7

PHI UPSILON OMICRON, INC

NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2015

Note 5 – Concentration of Risk

Concentration of Risk

The Organization maintains its cash accounts in various financial institutions located in and outside of Kentucky. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization cash balances at various times throughout the year may be in excess of amounts insured; however, the Organization monitors its cash balances thereby mitigating its exposure to concentrations of credit risk. Certain Organization assets are invested in mutual funds and bond issues, which are affected by market conditions.

The Organization receives a significant amount of support from the initiation fees, alumni fees, and investment income. A loss or substantial reduction in this funding may have a significant impact on the Organization.

Note 6 – Lease

Rent

The Organization operated under a month-to-month rental agreement from July 2014 through October 2014 for an administrative office in West Virginia. Rent expense for this office space was \$1,035 for the year ended July 31, 2015.

The Organization rents real estate for an administrative office in Kentucky under a lease for the period from November 1, 2014, through October 30, 2019, at the rate of \$500 per month. Rents paid under this lease are \$4,500 for the year ended July 31, 2015. The remaining lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 6,000
2017	6,000
2018	6,000
2019	6,000
2020	<u>1,500</u>
Total	<u>\$ 25,500</u>

Note 7– Related Party Transactions

Related Party Transactions

During fiscal year ended July 31, 2015, the Organization transferred \$8,995 from its annual mailer receipts to the Phi Upsilon Omicron Educational Foundation, Inc. (the “Foundation”) for support. The Organization shares certain management personnel and office facilities with the Foundation. During fiscal year ended July 31, 2015, the Foundation paid the Organization \$25,000 in management fees for these services.

SUPPLEMENTARY INFORMATION

PHI UPSILON OMICRON, INC

SCHEDULE OF FUND ACTIVITY – MODIFIED CASH BASIS

Year Ended July 31, 2015

	Operating Fund	Conclave Fund	Professional Development Fund	Candle Fund	Lifetime Alumni Fund	Total
Receipts						
Initiation fees	\$ 35,462	\$ 12,949	\$ 1,125	\$ 11,839	\$ -0-	\$ 61,375
PHIU Foundation management fee	25,000	-0-	-0-	-0-	-0-	25,000
Allocated investment income	(995)	3,533	1,580	6,128	10,890	21,136
Honor cords and stoles	14,732	-0-	-0-	-0-	-0-	14,732
Alumni fees	4,988	772	281	1,307	1,742	9,090
Chapter supplies	2,170	-0-	-0-	-0-	-0-	2,170
Conclave registration fees	-0-	1,894	-0-	-0-	-0-	1,894
Total receipts	81,357	19,148	2,986	19,274	12,632	135,397
Disbursements						
Salaries and wages	66,350	-0-	-0-	-0-	-0-	66,350
Council and conclave meetings	-0-	35,865	-0-	-0-	-0-	35,865
Publication expense	-0-	-0-	-0-	14,846	-0-	14,846
Contract labor	-0-	-0-	-0-	11,400	-0-	11,400
Initiation pins and awards	7,371	-0-	-0-	-0-	-0-	7,371
Honor cords and stoles	6,704	-0-	-0-	-0-	-0-	6,704
Annual mailing expense	6,301	-0-	-0-	-0-	-0-	6,301
Office transition expense	5,941	-0-	-0-	-0-	-0-	5,941
Payroll taxes	5,575	-0-	-0-	-0-	-0-	5,575
Office rent	5,535	-0-	-0-	-0-	-0-	5,535
Membership dues	-0-	-0-	4,190	-0-	-0-	4,190
Professional fees	3,209	-0-	-0-	-0-	-0-	3,209
Office supplies and expense	1,789	-0-	-0-	58	-0-	1,847
Postage	1,838	-0-	-0-	-0-	-0-	1,838
Telephone and internet	1,336	-0-	-0-	-0-	-0-	1,336
Conferences and travel expense	-0-	-0-	1,000	-0-	-0-	1,000
Bank and merchant service fees	850	-0-	-0-	-0-	-0-	850
Jewelry	573	-0-	-0-	-0-	-0-	573
Depreciation	463	-0-	-0-	-0-	-0-	463
Website development and expense	-0-	-0-	-0-	185	-0-	185
Total disbursements	113,835	35,865	5,190	26,489	-0-	181,379
Change in fund balance	(32,478)	(16,717)	(2,204)	(7,215)	12,632	(45,982)
Fund balance, beginning of year	(18,059)	130,052	55,519	214,695	368,809	751,016
Transfers between funds	10,890	-0-	-0-	-0-	(10,890)	-0-
Fund balance, end of the year	\$ (39,647)	\$ 113,335	\$ 53,315	\$ 207,480	\$ 370,551	\$ 705,034