

**PHI UPSILON OMICRON, INC.**

**FINANCIAL STATEMENTS**

July 31, 2017

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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, 2017, 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, 2017, 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.

## **Report on Supplementary Information**

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 12, 2017

PHI UPSILON OMICRON, INC

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

July 31, 2017

**Assets**

Current assets	
Cash and cash equivalents	\$ <u>13,605</u>
Total current assets	13,605
Investments	
Certificates of deposit	25,406
Other investments	<u>664,939</u>
Total investments	690,345
Property and equipment	
Office equipment and fixtures	16,127
Less: accumulated depreciation	<u>(14,082)</u>
Net property and equipment	<u>2,045</u>
<b>Total assets</b>	<b><u>\$ 705,995</u></b>

**Liabilities and net assets**

Current liabilities	
Payroll liabilities	\$ <u>80</u>
Total current liabilities	80
Net assets	
Unrestricted operating fund	(52,680)
Conclave fund	129,428
Professional development fund	51,731
Candle fund	203,118
Board restricted	
Lifetime alumni fund	<u>374,318</u>
Total unrestricted net assets	<u>705,915</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 705,995</u></b>

**PHI UPSILON OMICRON, INC**

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**

Year Ended July 31, 2017

**Receipts**

Initiation fees	\$ 53,333
PHIU Foundation management fee	25,000
Honor cords and stoles	15,300
Conclave registration fees	10,644
Alumni fees	7,343
Chapter supplies	1,829
Contributions	1,278
Interest and dividend income	9,725
Net realized capital gains	<u>39,287</u>

**Total receipts** **163,739**

**Disbursements**

Program activities	134,294
Supporting activities	
Management and general	27,867
Fundraising	<u>5,213</u>

**Total disbursements** **167,374**

**Change in unrestricted net assets** **(3,635)**

Unrestricted net assets, beginning of year 709,550

**Unrestricted net assets, end of year** **\$ 705,915**

**PHI UPSILON OMICRON, INC**

**STATEMENT OF FUNCTIONAL DISBURSEMENTS – MODIFIED CASH BASIS**

Year Ended July 31, 2017

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 50,697	\$ 14,314	\$ 4,175	\$ 69,186
Council and conclave meetings	22,314	2,479	-0-	24,793
Publication expense	13,110	-0-	-0-	13,110
Contract labor	9,023	-0-	-0-	9,023
Honor cords and stoles	8,304	-0-	-0-	8,304
Initiation pins and awards	7,391	-0-	-0-	7,391
Office rent	4,380	1,261	359	6,000
Payroll taxes	4,217	1,213	347	5,777
Annual mailing expense	5,733	-0-	-0-	5,733
Membership and dues	3,810	1,444	-0-	5,254
Professional fees	198	3,663	17	3,878
Office supplies and expense	1,362	392	112	1,866
Postage	1,240	356	102	1,698
Telephone and internet	917	264	75	1,256
Website expense	1,026	92	26	1,144
Bank and merchant service fees	-0-	950	-0-	950
Office transition expense	-0-	725	-0-	725
Jewelry	572	-0-	-0-	572
Trademark	<u>-0-</u>	<u>275</u>	<u>-0-</u>	<u>275</u>
 Total disbursements before depreciation	 <u>134,294</u>	 <u>27,428</u>	 <u>5,213</u>	 <u>166,935</u>
 Depreciation	 <u>-0-</u>	 <u>439</u>	 <u>-0-</u>	 <u>439</u>
 <b>Total</b>	 <b><u>\$ 134,294</u></b>	 <b><u>\$ 27,867</u></b>	 <b><u>\$ 5,213</u></b>	 <b><u>\$ 167,374</u></b>

**PHI UPSILON OMICRON, INC**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended July 31, 2017

**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 basis of accounting other than generally accepted accounting principles. Under the method, with the exception of capitalized cost of property and equipment, related depreciation, and payroll liabilities, 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 presentation follows 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, 2017, the Organization held no temporarily or permanently restricted net assets.



**PHI UPSILON OMICRON, INC**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended July 31, 2017

**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 in a checking account and a business deposit account. The Organization considers all highly liquid investments with an initial 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, 2017, no services were received that met the criteria for recognition as donated services.

**Functional Disbursements**

The cost of providing program and supporting activities has been presented on a functional basis in the statement of functional disbursements – modified cash basis, and is 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, 2017

**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. For the year ended July 31, 2017, there were no uncertain tax positions requiring accrual.

The Organization's 2014 through 2017 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, 2017) and December 12, 2017, which was the date the financial statements were made available.

**Note 2 – Fair Value Measurement**

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, 2017

**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 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, 2017.

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, 2017.

No adjustment for other-than-temporary impairments were made during the year ended July 31, 2017.

**PHI UPSILON OMICRON, INC**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended July 31, 2017

**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, 2017, is summarized as follows:

	Carrying Value (Cost)	Market Value	Unrealized Gains/(Losses)
Certificates of deposit	\$ 25,406	\$ 25,406	\$ -0-
Money market and depository	14,263	14,263	-0-
Equity mutual funds	226,994	295,304	68,310
Bonds and bond funds	293,682	290,795	(2,887)
Mixed assets	<u>130,000</u>	<u>136,712</u>	<u>6,712</u>
Total	<u>\$ 690,345</u>	<u>\$ 762,480</u>	<u>\$ 72,135</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, 2017, investments return and its classification in the statement of receipts and disbursements – modified cash basis is summarized as follows:

Interest and dividends		\$ 15,088
Capital gain distributions		24,761
Proceeds from sale	138,160	
Less: Cost of investments	<u>(123,634)</u>	
Net realized gains		14,526
Less: advisory fees		<u>(5,363)</u>
Total		<u>\$ 49,012</u>

**Note 4 – 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:

Class of property	Useful life in years
Furniture, fixtures and equipment	5-7

**PHI UPSILON OMICRON, INC**

**NOTES TO FINANCIAL STATEMENTS**

Year Ended July 31, 2017

**Note 5 – 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**

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 \$6,000 for the year ended July 31, 2017. The remaining lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 6,000
2019	6,000
2020	<u>1,500</u>
Total	<u>\$ 13,500</u>

**Note 7– Related Party Transactions**

During fiscal year ended July 31, 2017, the Organization transferred \$8,567 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, 2017, 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, 2017

	Operating Fund	Conclave Fund	Professional Development Fund	Candle Fund	Lifetime Alumni Fund	Total
<b>Receipts</b>						
Initiation fees	\$ 33,255	\$ 10,189	\$ 879	\$ 9,010	\$ -0-	\$ 53,333
Allocated investment income	(4,226)	8,795	3,610	14,041	26,791	49,011
PHIU Foundation management fee	25,000	-0-	-0-	-0-	-0-	25,000
Honor cords and stoles	15,300	-0-	-0-	-0-	-0-	15,300
Conclave registration fees	-0-	10,644	-0-	-0-	-0-	10,644
Alumni fees	3,639	564	205	1,244	1,692	7,344
Chapter supplies	1,829	-0-	-0-	-0-	-0-	1,829
Contributions	1,278	-0-	-0-	-0-	-0-	1,278
<b>Total receipts</b>	<b>76,075</b>	<b>30,192</b>	<b>4,694</b>	<b>24,295</b>	<b>28,483</b>	<b>163,739</b>
<b>Disbursements</b>						
Salaries and wages	69,186	-0-	-0-	-0-	-0-	69,186
Council and conclave meetings	-0-	24,793	-0-	-0-	-0-	24,793
Publication expense	-0-	-0-	-0-	13,110	-0-	13,110
Contract labor	-0-	-0-	-0-	9,023	-0-	9,023
Honor cords and stoles	8,304	-0-	-0-	-0-	-0-	8,304
Initiation pins and awards	7,391	-0-	-0-	-0-	-0-	7,391
Office rent	6,000	-0-	-0-	-0-	-0-	6,000
Payroll taxes	5,777	-0-	-0-	-0-	-0-	5,777
Annual mailing expense	5,733	-0-	-0-	-0-	-0-	5,733
Membership and dues	-0-	-0-	5,254	-0-	-0-	5,254
Professional fees	3,878	-0-	-0-	-0-	-0-	3,878
Office supplies and expense	1,866	-0-	-0-	-0-	-0-	1,866
Postage	1,698	-0-	-0-	-0-	-0-	1,698
Telephone and internet	1,256	-0-	-0-	-0-	-0-	1,256
Website expense	-0-	-0-	-0-	1,144	-0-	1,144
Bank and merchant service fees	950	-0-	-0-	-0-	-0-	950
Office transition expense	725	-0-	-0-	-0-	-0-	725
Jewelry	-0-	572	-0-	-0-	-0-	572
Depreciation	439	-0-	-0-	-0-	-0-	439
Trademark	-0-	-0-	-0-	275	-0-	275
<b>Total disbursements</b>	<b>113,203</b>	<b>25,365</b>	<b>5,254</b>	<b>23,552</b>	<b>-0-</b>	<b>167,374</b>
<b>Change in fund balance</b>	<b>(37,128)</b>	<b>4,827</b>	<b>(560)</b>	<b>743</b>	<b>28,483</b>	<b>(3,635)</b>
Fund balance, beginning of year	(42,343)	124,601	52,291	202,375	372,626	709,550
Transfers between funds	26,791	-0-	-0-	-0-	(26,791)	-0-
<b>Fund balance, end of the year</b>	<b>\$ (52,680)</b>	<b>\$ 129,428</b>	<b>\$ 51,731</b>	<b>\$ 203,118</b>	<b>\$ 374,318</b>	<b>\$ 705,915</b>