

DELTA MU DELTA HONOR SOCIETY

Financial Statements – Modified Cash Basis

June 30, 2017 and 2016

DELTA MU DELTA HONOR SOCIETY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Statement of Financial Position ó Modified Cash Basis	3
Statement of Activities ó Modified Cash Basis	4
Notes to Financial Statements	5-13

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Delta Mu Delta Honor Society

We have audited the accompanying financial statements of Delta Mu Delta Honor Society (an Illinois not-for-profit corporation) (the "Organization"), which comprise of the statement of financial position ó modified cash basis as of June 30, 2017, and the related statement of activities ó modified cash basis, and the related notes to the financial statements. The financial statements of the Delta Mu Delta Honor Society as of June 30, 2016 were audited by other auditors whose report, dated November 21, 2016, expressed an modified opinion on these 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.

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.

**BARNES
GIVENS
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Mu Delta Honor Society as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in Note B.

Report on Summarized Comparative Data

Other auditors audited the Delta Mu Delta Society 2016 financial statements which were prepared on the modified cash basis of accounting, and they expressed a modified audit opinion on those audited financial statements in their report dated November 21, 2016. As noted in Note C, management has restated the beginning net asset balances. Other than that, in our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent in all material respects, with the audited financial statement from which it has been derived.

Basis of Accounting

We draw attention to Note B 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 this matter.

Barnes, Givens & Barnes, Ltd.

Mount Prospect, Illinois
May 8, 2018

DELTA MU DELTA HONOR SOCIETY
 Statements of Assets and Net Assets - Modified Cash Basis
 June 30, 2017
 (With Comparative Totals for 2016)

	General Fund	Scholarship Fund	June 30,	
			2017	2016
<u>ASSETS</u>				
Cash and cash equivalents	\$ 318,023	\$ 125,426	\$ 443,449	\$ 718,417
Certificates of deposit	-	-	-	177,854
Investments	429,430	709,618	1,139,048	456,445
Security deposit	2,124	-	2,124	2,124
Total Assets	<u>\$ 749,577</u>	<u>\$ 835,044</u>	<u>\$ 1,584,621</u>	<u>\$ 1,354,840</u>
<u>NET ASSETS</u>				
Unrestricted net assets-				
Undesignated	\$ 677,757	\$ -	\$ 677,757	\$ 634,671
Board designated	56,820	433,230	490,050	318,890
Temporarily restricted	15,000	8,000	23,000	11,500
Permanently restricted	-	393,814	393,814	389,779
Total Net Assets	<u>\$ 749,577</u>	<u>\$ 835,044</u>	<u>\$ 1,584,621</u>	<u>\$ 1,354,840</u>

See Accompanying Notes and Independent Auditors' Report

DELTA MU DELTA HONOR SOCIETY
Statements of Revenue and Expenses - Modified Cash Basis
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30,	
				2017	2016
Revenue					
Membership dues	\$ 445,237	\$ -	\$ -	\$ 445,237	\$ 514,750
Fees	6,500	-	-	6,500	5,500
Contributions	100,000	17,000	4,035	121,035	15,309
Investment income	66,392	-	-	66,392	14,279
Chapter services	142,759	-	-	142,759	156,632
Royalties, merchandise sales and other	97,344	-	-	97,344	49,378
Net assets released from restriction	5,500	(5,500)	-	-	-
Total Revenue	<u>863,732</u>	<u>11,500</u>	<u>4,035</u>	<u>879,267</u>	<u>755,848</u>
Expenses					
Chapter	65,719	-	-	65,719	142,742
Scholarships	62,382	-	-	62,382	59,000
General operating	425,773	-	-	425,773	458,367
Travel and meeting	84,895	-	-	84,895	96,094
Printing and publishing	10,717	-	-	10,717	13,507
Total Expenses	<u>649,486</u>	<u>-</u>	<u>-</u>	<u>649,486</u>	<u>769,710</u>
Increase (Decrease) in Net Assets	214,246	11,500	4,035	229,781	(13,862)
Net Assets, Beginning of Year	<u>953,561</u>	<u>11,500</u>	<u>389,779</u>	<u>1,354,840</u>	<u>1,368,702</u>
Net Assets, End of Year	<u>\$ 1,167,807</u>	<u>\$ 23,000</u>	<u>\$ 393,814</u>	<u>\$ 1,584,621</u>	<u>\$ 1,354,840</u>

See Accompanying Notes and Independent Auditors' Report

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note A – Organization and Nature of Activities

Delta Mu Delta Honor Society (the "Organization") is a not-for-profit organization whose purposes are to promote higher scholarship in education for business and to recognize and reward scholastic attainment in business subjects. After 1992, all new chapters entering the Organization must have their business program accredited by the Accreditation Council for Business Schools and Programs. The Organization's primary source of revenue is from member dues and chapter services. Delta Mu Delta Honor Society also receives support from contributions and from the sale of various related organizational merchandise.

Note B – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Organization have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Modifications to the cash basis of accounting include recording investments at fair value.

Basis of Presentation

Information regarding the financial position and activities of the Organization are reported in three classes of net assets as applicable: unrestricted, temporarily restricted, and permanently restricted. These classes of net assets are based on the existence or absence of externally (donor) imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted Net Assets**— Unrestricted net assets are not subject to donor-imposed stipulations. They include all activities of the Organization as it currently does not receive any restricted resources. Board designated amounts are part of unrestricted net assets.
- **Temporarily Restricted Net Assets**— Temporarily restricted net assets are subject to donor-imposed stipulations that can be removed through the passage of time (time restrictions) or actions of the Organization (purpose restrictions).
- **Permanently Restricted Net Assets**— Permanently restricted net assets are subject to the restrictions imposed by donors who require that the principal of these classes of net assets be invested in perpetuity and only the investment income can be expended.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note B – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and activities and the related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents are considered to be highly liquid depository accounts with a maturity of less than one year. Deposits held in all non-interest bearing transactional bank accounts and interest-bearing accounts are aggregated by entity and are fully insured up to \$250,000.

Fair Value of Financial Instruments

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the assets or owes the liability). A fair value measurement assumes that the transaction to sell an asset or to transfer a liability occurs either in the principal market (or in its absence, the most advantageous market) for the asset or liability.

For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information may not be available. When a price for an identical asset or liability is not observable, the Organization measures fair value using other valuation techniques which maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, the Organization's intent to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

Revenue Recognition

The Organization records revenue when cash is received for contributions and membership dues, even though the membership period is a life time membership.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note B – Summary of Significant Accounting Policies (continued)

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

Functional Allocation of Expenses

In the statement of revenues and expenses ó modified cash basis, all expenses are allocated to the appropriate programs and supporting services on the basis of actual expense. Certain expenses that are joint among all programs are allocated evenly across all of the programs.

Note C – Restatement

During the year ended June 30, 2017, the Organization performed additional analysis and identified that the beginning net asset balances were misstated. Accordingly, the Organization has restated its financial statements for the year ended June 30, 2016. The effect of the correction was to increase Unrestricted ó Undesignated Net Assets by \$299,392, decrease Unrestricted ó Board Designated Net Assets by \$294,392, increase Temporarily Restricted Net Assets by \$10,500 and decrease Permanently Restricted Net Assets by \$15,500. The cumulative effect does not change total beginning net assets at July 1, 2017.

Note D - Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization recognizes the amount of taxes payable or refundable annually. Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax-basis carrying amounts.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note D - Income Taxes (continued)

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the enactment date occurs. A valuation allowance is provided for deferred tax assets if it is more likely than not that temporary differences will not be realized.

Effective January 1, 2009, the Organization adopted FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. It also provides guidance for de-recognition, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle had no effect on the Organization's financial statements. The FASB has determined that a non-profit organization asserting that it is tax exempt is an uncertain tax position challengeable by the IRS.

In assessing the recognition of deferred tax assets, management considers whether it is more likely than not that some portion of or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the period in which deferred tax assets are deductible, management believes it is more likely than not that the Organization would realize the benefits of deductible temporary differences, net of existing valuation allowances.

The Organization recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in the accompanying statement of activities.

The Organization did not experience a significant increase or decrease in the total amounts of unrecognized tax benefits during the fiscal year ended June 30, 2017. Income tax returns filed by the Organization are subject to examination by tax authorities until November 15, 2020.

Management believes that the Organization has appropriate support for all positions taken on its tax returns and that the annual tax provision includes amounts sufficient to pay any assessments of tax, interest, and penalties. Nonetheless, any amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued for each year.

The Organization files Form 990, Return of Organization Exempt from Income Tax with the Federal government.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note D - Income Taxes (continued)

Management has determined that the Organization has no income tax liability as of June 30, 2017.

Note E – Fair Value of Investments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell an asset or paid to transfer a liability regardless of whether an observable liquid market price exist (exit price). 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:

- ÉLevel 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- ÉLevel 2 Inputs to the valuation methodology include:
 - o Quoted prices for similar assets or liabilities in active markets;
 - o Quoted prices for identical or similar assets or liabilities in inactive markets;
 - o Inputs other than quoted prices which are observable for the asset or liability;
 - o 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 for full term of the asset or liability.

- ÉLevel 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Each asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input which is significant to the fair value measurement. Valuation techniques utilized should maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Mutual Funds ó Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-ended mutual funds which are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note E – Fair Value of Investments (continued)

Corporate Bonds ó Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yield currently available on comparable securities of issues with similar credit ratings.

The methods described above could produce fair value calculations which may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes that the valuation methods used are appropriate and consistent with those utilized by other market participants, the implementation of different methodologies or assumptions to determine the fair value of the Organization's investment portfolio might result in different fair value measurements at report date.

The Organization invests in various types of investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of the portfolio will occur in the near term (1 year) and such changes could materially affect the Organization's investments and the amounts reported in the accompanying statement of financial position.

The following table set forth, by level within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017 and 2016.

As of June 30, 2017, the Organization's investments were classified as follows based on fair value:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General Fund				
Mutual funds	\$ 282,157	\$ -	\$ -	\$ 282,157
Exchange-traded product	147,273	-	-	147,273
Total general fund	<u>\$ 429,430</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429,430</u>
Scholarship Fund				
Mutual funds	\$ 502,241	\$ -	\$ -	\$ 502,241
Exchange-traded product	96,349	-	-	96,349
Corporate bonds	-	111,028	-	111,028
Total scholarship fund	<u>\$ 598,590</u>	<u>\$ 111,028</u>	<u>\$ -</u>	<u>\$ 709,618</u>
Total	<u>\$ 1,028,020</u>	<u>\$ 111,028</u>	<u>\$ -</u>	<u>\$ 1,139,048</u>

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note E – Fair Value of Investments (continued)

As of June 30, 2016, the Organization's investments were classified as follows based on fair value:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General Fund				
Mutual funds	\$ 72,656	\$ -	\$ -	\$ 72,656
Exchange-traded product	18,629	-	-	18,629
Corporate bonds	-	4,850	-	4,850
Total general fund	<u>\$ 91,285</u>	<u>\$ 4,850</u>	<u>\$ -</u>	<u>\$ 96,135</u>
Scholarship Fund				
Mutual funds	\$ 218,861	\$ -	\$ -	\$ 218,861
Exchange-traded product	34,838	-	-	34,838
Corporate bonds	-	106,611	-	106,611
Total scholarship fund	<u>\$ 253,699</u>	<u>\$ 106,611</u>	<u>\$ -</u>	<u>\$ 360,310</u>
Total	<u>\$ 344,984</u>	<u>\$ 111,461</u>	<u>\$ -</u>	<u>\$ 456,445</u>

The Organization holds the following investments which are stated at fair market value:

	<u>As of June 30, 2017</u>		<u>As of June 30, 2016</u>	
	<u>Market Value</u>	<u>Original Cost</u>	<u>Market Value</u>	<u>Original Cost</u>
General Fund				
Mutual funds	\$ 282,157	\$ 279,807	\$ 72,656	\$ 78,543
Exchange-traded product	147,273	132,024	18,629	19,400
Corporate bonds	-	-	4,850	5,000
Total general fund	<u>\$ 429,430</u>	<u>\$ 411,831</u>	<u>\$ 96,135</u>	<u>\$ 102,943</u>
Scholarship Fund				
Mutual funds	\$ 502,241	\$ 489,749	\$ 218,861	\$ 229,255
Exchange-traded product	96,349	84,740	34,838	34,275
Corporate bonds	111,028	115,072	106,611	110,066
Total scholarship fund	<u>\$ 709,618</u>	<u>\$ 689,561</u>	<u>\$ 360,310</u>	<u>\$ 373,596</u>
Total	<u>\$ 1,139,048</u>	<u>\$ 1,101,392</u>	<u>\$ 456,445</u>	<u>\$ 476,539</u>

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note E – Fair Value of Investments (continued)

At June 30, 2017 and 2016, the following schedule summarizes the investment return for all investments for the year:

<u>Investment Income (Loss)</u>	<u>2017</u>	<u>2016</u>
General Fund		
Interest and Dividends	\$ 4,627	\$ 3,716
Unrealized Gain (Loss)	33,345	(4,756)
Realized Gain (Loss)	<u>(7,159)</u>	<u>-</u>
Total General	<u>30,813</u>	<u>(1,040)</u>
Scholarship Fund		
Interest and Dividends	\$ 15,021	\$ 17,579
Unrealized Gain (Loss)	24,413	(2,260)
Realized Gain (Loss)	<u>(3,855)</u>	<u>-</u>
Total Scholarship	<u>35,579</u>	<u>15,319</u>
Total	<u>\$ 66,392</u>	<u>\$ 14,279</u>

Note F – Leases

The Organization leases its office space and certain equipment. Rent expense was \$30,766 and \$25,979 for the years ended June 30, 2017 and 2016, respectively.

The Organization also sublets a portion of its office space. Sublet rental income was \$5,448 and \$1,674 for the years ended June 30, 2017 and 2016, respectively.

The estimated future minimum rental and lease obligation for the succeeding years under non-cancelable operating leases in effect as of June 30, 2017 are as follows:

<u>Year Ended June 30,</u>	
2018	\$ 34,539
2019	3,637
2020	<u>1,587</u>
	<u>\$ 39,763</u>

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2017 and 2016

Note G – Marketing Agreements

The Organization entered into an agreement with a magazine publisher whereby the Organization's members receive a one-year discounted subscription to a business magazine. The subscription fees are paid by the Organization from membership dues collected. In exchange for the subscriptions, the publisher will reimburse certain marketing expenses of the Organization equal to the subscription fees the publisher collects from the Organization. Subscriptions paid and included in general operating expenses were \$42,210 in 2017 and \$100,965 in 2016. Marketing expenses reimbursed and included in royalties, merchandise sales and other revenue were \$87,783 in 2017 and \$42,162 in 2016. The Organization expects to receive full reimbursement for subscriptions paid as additional reimbursable marketing expenses are incurred. This program has been discontinued in March 2017.

The Organization has entered into an agreement with an insurance company whereby the Organization's members are offered coverage at discounted rates. The agreement requires the insurance company to pay the Organization 1) a fee for each qualified insurance inquiry received from the Organization's members, 2) \$5,000 per calendar year as reimbursement for costs incurred by the Organization in promotion of the program and 3) \$2,000 per calendar year for a general scholarship fund to be disbursed at the Organization's discretion.

Note H – Donated Services

No amounts have been reflected in the financial statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's program and support service.

Note I – Subsequent Events

The Organization has determined that no material events or transactions occurred subsequent to June 30, 2017 and through the date of the independent auditors' report, the date the financial statements were available for issuance, that would require adjustments to and/or additional disclosure to the financial statements.