

# Delta Mu Delta Honor Society

## Independent Auditor's Report and Financial Statements - Modified Cash Basis

June 30, 2016 and 2015

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**Delta Mu Delta Honor Society**  
**June 30, 2016 and 2015**

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## Independent Auditor's Report

Board of Directors  
Delta Mu Delta Honor Society  
Brookfield, Illinois

We have audited the accompanying financial statements of Delta Mu Delta Honor Society (an Illinois corporation), which comprise the statement of assets and net assets - modified cash basis as of June 30, 2016, and the related statement of revenue and expenses and changes in net assets - 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 as described in Note 2; 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 and net assets of Delta Mu Delta Honor Society as of June 30, 2016, and its revenue and expenses and changes in net assets for the year then ended, in accordance with the basis of accounting as described in Note 2.

## **Report on Summarized Comparative Information**

We have previously audited the Delta Mu Delta Honor Society 2015 financial statements which were prepared on the modified cash basis of accounting, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

## **Basis of Accounting**

We draw attention to Note 2 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.

*BKD, LLP*

Oakbrook Terrace, Illinois  
November 21, 2016

**Delta Mu Delta Honor Society**  
**Statements of Assets and Net Assets - Modified Cash Basis**  
**June 30, 2016**  
**(With Comparative Totals for 2015)**

	General Fund	Scholarship Fund	June 30,	
			2016	2015
<b>Assets</b>				
Cash and cash equivalents	\$ 520,300	\$ 198,117	\$ 718,417	\$ 603,089
Certificates of deposit	22,112	155,742	177,854	269,528
Investments	96,135	360,310	456,445	493,961
Security deposit	2,124	-	2,124	2,124
Total assets	<u>\$ 640,671</u>	<u>\$ 714,169</u>	<u>\$ 1,354,840</u>	<u>\$ 1,368,702</u>
<b>Net Assets</b>				
<b>Unrestricted</b>				
Undesignated	\$ 335,279	\$ -	\$ 335,279	\$ 451,973
Board designated	305,392	307,890	613,282	524,759
<b>Temporarily Restricted</b>	-	1,000	1,000	2,000
<b>Permanently Restricted</b>	-	405,279	405,279	389,970
Total net assets	<u>\$ 640,671</u>	<u>\$ 714,169</u>	<u>\$ 1,354,840</u>	<u>\$ 1,368,702</u>

**Delta Mu Delta Honor Society**  
**Statements of Revenues and Expenses and Changes in**  
**Net Assets - Modified Cash Basis**  
**Year Ended June 30, 2016**  
**(With Comparative Totals for 2015)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30,	
				2016	2015
<b>Revenue</b>					
Membership dues	\$ 514,750	\$ -	\$ -	\$ 514,750	\$ 443,129
Fees	5,500	-	-	5,500	9,503
Contributions	-	-	15,309	15,309	17,483
Investment income	14,279	-	-	14,279	7,928
Chapter services	156,632	-	-	156,632	156,519
Royalties, merchandise sales and other	49,378	-	-	49,378	77,974
Net assets released from restriction	1,000	(1,000)	-	-	-
Total revenue	<u>741,539</u>	<u>(1,000)</u>	<u>15,309</u>	<u>755,848</u>	<u>712,536</u>
<b>Expenses</b>					
Chapter	142,742	-	-	142,742	185,903
Scholarships	59,000	-	-	59,000	58,250
General operating	458,367	-	-	458,367	357,179
Travel and meeting	96,094	-	-	96,094	64,210
Printing and publishing	13,507	-	-	13,507	8,182
Total expenses	<u>769,710</u>	<u>-</u>	<u>-</u>	<u>769,710</u>	<u>673,724</u>
<b>Increase (Decrease) in</b>					
<b>Net Assets</b>	(28,171)	(1,000)	15,309	(13,862)	38,812
<b>Net Assets, Beginning of Year</b>	<u>976,732</u>	<u>2,000</u>	<u>389,970</u>	<u>1,368,702</u>	<u>1,329,890</u>
<b>Net Assets, End of Year</b>	<u>\$ 948,561</u>	<u>\$ 1,000</u>	<u>\$ 405,279</u>	<u>\$ 1,354,840</u>	<u>\$ 1,368,702</u>

# **Delta Mu Delta Honor Society**

## **Notes to Financial Statements**

**June 30, 2016 and 2015**

### **Note 1: General**

Delta Mu Delta Honor Society (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 sources of revenue are 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 2: Summary of Significant Accounting Principles**

#### ***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***

The Organization reports information regarding its net assets and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of each net asset class follows:

##### ***Unrestricted***

Net assets that are not subject to donor-imposed restrictions.

##### ***Temporarily Restricted***

Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time.

##### ***Permanently Restricted***

Net assets subject to donor-imposed restrictions which require that they be maintained permanently (*i.e.*, in perpetuity) by the Organization. Generally, the donors of those assets permit the Organization to use all or part of the income earned on related investments for specific purposes.

# **Delta Mu Delta Honor Society**

## **Notes to Financial Statements**

**June 30, 2016 and 2015**

### ***Cash and Cash Equivalents***

The Organization considers all highly liquid investments with an initial maturity of three months or less and money market accounts to be cash equivalents.

### ***Restricted and Unrestricted Revenue***

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

### ***Income Tax Status***

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. The Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before the tax year ended June 30, 2013.

### ***Investments***

Effective July 1, 2014, investments are recorded at fair value as described in Note 7. Investments received as contributions are recorded at fair market value at the date of the contribution.

### ***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, 2015, from which the summarized information was derived.

### **Note 3: Restricted Net Assets**

Permanently restricted net assets are to be held indefinitely. The income from the assets can only be used for scholarships. Temporarily restricted net assets are to be used for expiring scholarships.



# Delta Mu Delta Honor Society

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 4: Commitments

The Organization leases its office space and certain equipment. Rent expense was \$25,979 and \$28,513 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments as of June 30, 2016, are summarized as follows:

Year	Amount
2017	\$ 29,955
2018	30,704
	\$ 60,659

### Note 5: Investments

The cost and fair value of investments held by the Organization as of June 30, 2016 and 2015, consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
General fund				
Corporate bonds	\$ 5,000	\$ 4,850	\$ 5,000	\$ 4,850
Mutual funds	78,543	72,656	78,163	76,496
Exchange-traded products	19,400	18,629	19,400	19,154
Total general fund	102,943	96,135	102,563	100,500
Scholarship fund				
Corporate bonds	110,066	106,611	132,006	128,040
Municipal bonds	-	-	10,004	9,698
Mutual funds	229,255	218,861	228,118	221,658
Exchange-traded products	34,275	34,838	34,275	34,065
Total scholarship fund	373,596	360,310	404,403	393,461
	\$ 476,539	\$ 456,445	\$ 506,966	\$ 493,961

**Delta Mu Delta Honor Society**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

Investment income (loss) consisted of the following for the years ended June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
General fund		
Interest and dividends	\$ 3,716	\$ 1,308
Unrealized loss on investments	(4,756)	(2,058)
	(1,040)	(750)
Scholarship fund		
Interest and dividends	17,579	18,534
Unrealized loss on investments	(2,260)	(9,856)
	15,319	8,678
	\$ 14,279	\$ 7,928

**Note 6: 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 \$100,965 in 2016 and \$45,855 in 2015. Marketing expenses reimbursed and included in royalties, merchandise sales and other revenue were \$42,162 in 2016 and \$61,000 in 2015. The Organization expects to receive full reimbursement for subscriptions paid as additional reimbursable marketing expenses are incurred.

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.

# Delta Mu Delta Honor Society

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 7: Fair Value Measurement

Accounting standards provide a uniform framework for the definition, measurement and disclosure of fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such accounting guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted market prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted market prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.
- Level 3** Significant unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Investment securities are recorded at fair value on a recurring basis. The asset'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. There were no changes to valuation methodologies in 2015 or 2016.

Recurring Level 1 securities include mutual funds, and exchange-traded products, which are valued based on quoted prices on nationally recognized security exchanges. Recurring Level 2 securities include corporate and municipal bonds.

# Delta Mu Delta Honor Society

## Notes to Financial Statements

June 30, 2016 and 2015

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015, are as follows:

	Fair Value Measurement at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Asset/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Mutual funds				
Large cap	\$ 66,564	\$ 66,564	\$ -	\$ -
Mid cap	13,572	13,572	-	-
World bond	15,775	15,775	-	-
Short-term bond	73,107	73,107	-	-
Large blend	122,499	122,499	-	-
Exchange-traded products	53,467	53,467	-	-
Fixed income securities				
Corporate bonds	111,461	-	111,461	-
	\$ 456,445	\$ 344,984	\$ 111,461	\$ -
June 30, 2015				
Mutual funds				
Large cap	\$ 64,620	\$ 64,620	\$ -	\$ -
Large/mid cap	9,486	9,486	-	-
Mid cap	16,014	16,014	-	-
Mutual alternative	19,642	19,642	-	-
World bond	16,580	16,580	-	-
Short-term bond	72,361	72,361	-	-
Large blend	99,451	99,451	-	-
Exchange-traded products	53,219	53,219	-	-
Fixed income securities				
Corporate bonds	132,890	-	132,890	-
Municipal bonds	9,698	-	9,698	-
	\$ 493,961	\$ 351,373	\$ 142,588	\$ -

### Note 8: Subsequent Events

The Organization has evaluated subsequent events through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.