

DELTA MU DELTA HONOR SOCIETY

Financial Statements – Modified Cash Basis

June 30, 2020 and 2019

DELTA MU DELTA HONOR SOCIETY

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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 (a Pennsylvania not-for-profit corporation) (the "Organization"), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of June 30, 2020, and the related statement of support, revenue and expenses – 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 B; this includes determining that the modified cash basis of accounting is acceptable basis for the presentation of the financial statements in these circumstance. 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Delta Mu Delta Honor Society as of June 30, 2020, and its support, revenue and expenses for the year then ended in accordance with the modified basis of accounting described in Note B.

Report on Summarized Comparative Data

We have previously audited the Delta Mu Delta Society 2019 financial statements which were prepared on the modified cash basis of accounting, and we expressed a modified audit opinion on those audited financial statements in our report dated October 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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. The Organization has also made the decision not to present Statements of Functional Expenses. Our opinion is not modified with respect to these matters.

Barnes, Givens & Barnes, Ltd.

Mount Prospect, Illinois
November 13, 2020

DELTA MU DELTA HONOR SOCIETY
Statement of Assets, Liabilities and Net Assets - Modified Cash Basis
June 30, 2020
(With Comparative Totals for 2019)

	General Fund	Scholarship Fund	June 30,	
			2020	2019
<u>ASSETS</u>				
Cash and cash equivalents	\$ 130,502	\$ -	\$ 130,502	\$ 226,894
Investments	642,483	946,649	1,589,132	1,556,650
Security deposit	2,250	-	2,250	2,250
Total Assets	\$ 775,235	\$ 946,649	\$ 1,721,884	\$ 1,785,794
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities				
Other liabilities	\$ 8,477	\$ -	\$ 8,477	\$ 10,544
Net Assets				
Net assets without donor restrictions-				
Undesignated	696,411	-	696,411	788,631
Board designated	56,847	502,782	559,629	552,757
Net assets with donor restrictions	13,500	443,867	457,367	433,862
Total Net Assets	766,758	946,649	1,713,407	1,775,250
Total Liabilities and Net Assets	\$ 775,235	\$ 946,649	\$ 1,721,884	\$ 1,785,794

See Accompanying Notes to Financial Statements and
Independent Auditors' Report

DELTA MU DELTA HONOR SOCIETY

Statements of Support, Revenue and Expenses - Modified Cash Basis
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	June 30,	
			2020	2019
Revenue				
Membership dues	\$ 332,702	\$ -	\$ 332,702	\$ 523,204
Fees	6,500	-	6,500	2,500
Contributions	-	29,505	29,505	17,333
Investment income	26,457	-	26,457	64,793
Chapter services	105,390	-	105,390	160,938
Royalties, merchandise sales and other	26,264	-	26,264	7,786
Net assets released from restriction	6,000	(6,000)	-	-
Total Revenue	503,313	23,505	526,818	776,554
Expenses				
Chapter	74,650	-	74,650	37,131
Scholarships	83,000	-	83,000	61,000
General operating	355,960	-	355,960	345,508
Travel and meeting	70,324	-	70,324	65,518
Printing and publishing	4,727	-	4,727	17,509
Total Expenses	588,661	-	588,661	526,666
Increase (Decrease) in Net Assets	(85,348)	23,505	(61,843)	249,888
Net Assets, Beginning of Year	1,341,388	433,862	1,775,250	1,525,362
Net Assets, End of Year	<u>\$ 1,256,040</u>	<u>\$ 457,367</u>	<u>\$ 1,713,407</u>	<u>\$ 1,775,250</u>

See Accompanying Notes to Financial Statements and
Independent Auditors' Report

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

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 and accounts payable.

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.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

Note B – Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

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, 2019, from which the summarized information was derived.

Functional Allocation of Expenses

In the statement of revenues and expenses – 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 - 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 files Form 990, Return of Organization Exempt from Income Tax with the Federal government. Management has determined that the Organization has no income tax liability as of June 30, 2020. The Organization has evaluated its tax positions and determined it has no uncertain tax positions at June 30, 2020. The Organization's 2017-2019 tax years are open for examination by the IRS. Should the Organization's tax-exempt status be challenged in the future, all years since inception could be subject to review by the IRS.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

Note D – 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:

- Level 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.
- Level 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.

- Level 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, 2020.

Mutual Funds – 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, 2020 and 2019

Note D – Fair Value of Investments (continued)

Corporate Bonds – 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, 2020 and 2019.

As of June 30, 2020, 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				
Money market	\$ 112,125	\$ -	\$ -	\$ 112,125
Mutual funds	326,681	-	-	326,681
Exchange-traded product	203,677	-	-	203,677
Total general fund	<u>\$ 642,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 642,483</u>
Scholarship Fund				
Money market	\$ 146,048	\$ -	\$ -	\$ 146,048
Mutual funds	571,132	-	-	571,132
Exchange-traded product	132,817	-	-	132,817
Corporate bonds	-	96,652	-	96,652
Total scholarship fund	<u>\$ 849,997</u>	<u>\$ 96,652</u>	<u>\$ -</u>	<u>\$ 946,649</u>
Total	<u>\$ 1,492,480</u>	<u>\$ 96,652</u>	<u>\$ -</u>	<u>\$ 1,589,132</u>

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

Note D – Fair Value of Investments (continued)

As of June 30, 2019, 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				
Money market	\$ 145,000	\$ -	\$ -	\$ 145,000
Mutual funds	308,669	-	-	308,669
Exchange-traded product	194,250	-	-	194,250
Total general fund	<u>\$ 647,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 647,919</u>
Scholarship Fund				
Money market	\$ 157,198	\$ -	\$ -	\$ 157,198
Mutual funds	562,161	-	-	562,161
Exchange-traded product	122,831	-	-	122,831
Corporate bonds	-	66,541	-	66,541
Total scholarship fund	<u>\$ 842,190</u>	<u>\$ 66,541</u>	<u>\$ -</u>	<u>\$ 908,731</u>
Total	<u>\$ 1,490,109</u>	<u>\$ 66,541</u>	<u>\$ -</u>	<u>\$ 1,556,650</u>

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

	<u>As of June 30, 2020</u>		<u>As of June 30, 2019</u>	
	<u>Market Value</u>	<u>Original Cost</u>	<u>Market Value</u>	<u>Original Cost</u>
General Fund				
Money market	\$ 112,125	\$ 112,125	\$ 145,000	\$ 145,000
Mutual funds	326,681	305,182	308,669	295,565
Exchange-traded product	203,677	181,206	194,250	163,545
Total general fund	<u>\$ 642,483</u>	<u>\$ 598,513</u>	<u>\$ 647,919</u>	<u>\$ 604,110</u>
Scholarship Fund				
Money market	\$ 146,048	\$ 146,048	\$ 157,198	\$ 157,198
Mutual funds	571,132	551,190	562,161	534,489
Exchange-traded product	132,817	103,171	122,831	94,789
Corporate bonds	96,652	100,011	66,541	70,021
Total scholarship fund	<u>\$ 946,649</u>	<u>\$ 900,420</u>	<u>\$ 908,731</u>	<u>\$ 856,497</u>
Total	<u>\$ 1,589,132</u>	<u>\$ 1,498,933</u>	<u>\$ 1,556,650</u>	<u>\$ 1,460,607</u>

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

Note D – Fair Value of Investments (continued)

At June 30, 2020 and 2019, the following schedule summarizes the investment activity for all investments for the year:

<u>Investment Income (Loss)</u>	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 42,914	\$ 41,544
Net unrealized and realized gain (loss)	(5,853)	32,810
Advisory fees	<u>(10,604)</u>	<u>(9,561)</u>
 Total Investment Income	 <u>\$ 26,457</u>	 <u>\$ 64,793</u>

Note E – Leases

The Organization leases its office space and certain equipment. Rent expense was \$27,000 and \$27,000 for the years ended June 30, 2020 and 2019, respectively.

The estimated future minimum rental and lease obligation for the succeeding years under non-cancelable operating leases in effect as of June 30, 2020 are as follows:

<u>Year Ended June 30,</u>	
2021	\$ 30,738
2022	31,458
2023	32,178
2024	3,378
2025	<u>3,378</u>
	 <u>\$ 101,130</u>

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

Note F – Marketing Agreements

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 and 2) \$7,500 per calendar year as reimbursement for costs incurred by the Organization in promotion of the program.

Note G—Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts available include donor restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts with donor-imposed purpose and time restrictions.

	<u>2020</u>	<u>2019</u>
Financial assets, at year-end:		
Cash and cash equivalents	\$ 130,502	\$ 226,894
Investments	1,589,132	1,556,650
Less contractual or donor-imposed restrictions:		
Donor restrictions for specific purposes	(10,000)	(16,000)
Donor restricted endowment	(447,367)	(417,862)
Board designated for specific purposes	<u>(559,629)</u>	<u>(552,757)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 702,638</u>	<u>\$ 796,925</u>

Note H – Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At June 30, 2020 and 2019, the Organization had \$-0- and \$8,340 in excess of FDIC insured limit, respectively.

DELTA MU DELTA HONOR SOCIETY

Notes to the Financial Statements

June 30, 2020 and 2019

Note I – 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 J – Subsequent Events

The Organization's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in disruption to the Organization's donors and revenue streams (including attendance of future events), and a decline in value of the Organization's marketable securities.

On July 7, 2020, the Organization was granted a loan from The First National Bank of Ottawa in the aggregate amount of \$48,100, pursuant to the Paycheck Protection Program.

Other than the matters noted above, the Organization has determined that no material events or transactions occurred subsequent to June 30, 2020 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.