

OMICRON DELTA KAPPA SOCIETY, INC.

LEXINGTON, KENTUCKY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2010 and 2009

OMICRON DELTA KAPPA SOCIETY, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Omicron Delta Kappa Society, Inc.
Lexington, Kentucky

We have audited the accompanying statements of financial position of Omicron Delta Kappa Society, Inc. (the Society) as of June 30, 2010, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2009, were audited by Potter & Company, LLP, who merged with Blue & Co., LLC as of January 1, 2010, and whose report dated October 22, 2009, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Omicron Delta Kappa Society, Inc. as of June 30, 2010, and the changes in its net assets, cash flows and functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

November 3, 2010

OMICRON DELTA KAPPA SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
A S S E T S		
Cash and cash equivalents	\$ 210,548	\$ 272,991
Accounts receivable	27,137	6,349
Inventories	9,991	7,288
Prepaid expenses	9,254	9,529
Equipment, net	<u>24,883</u>	<u>23,812</u>
Total assets	<u>\$ 281,813</u>	<u>\$ 319,969</u>
 L I A B I L I T I E S A N D N E T A S S E T S		
Liabilities:		
Accounts payable	\$ 46,752	\$ 4,214
Accrued expenses	11,705	7,367
Deferred revenue	15,000	15,000
Unearned fees	<u>4,873</u>	<u>1,826</u>
Total liabilities	78,330	28,407
Unrestricted net assets	<u>203,483</u>	<u>291,562</u>
Total liabilities and net assets	<u>\$ 281,813</u>	<u>\$ 319,969</u>

OMICRON DELTA KAPPA SOCIETY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues and support:		
Membership fee income	\$ 551,323	\$ 537,536
Affiliation income	17,308	18,618
Convention/regional conference revenue	700	15
Extension fees	4,740	3,912
Subscription income	527	532
Royalties	21,401	20,322
Merchandise sales, net of costs of \$27,409 and \$32,203	52,550	48,062
Investment income	2,124	2,829
Management fees	166,989	108,750
Contributions in-kind	<u>35,089</u>	<u>24,310</u>
Total revenues and support	<u>852,751</u>	<u>764,886</u>
Expenses:		
Program services:		
Certificates and emblems	42,247	40,763
Conferences and meetings	224,386	93,212
Visitations and member support	140,205	127,249
The Circle	102,847	94,550
Management and general	<u>431,145</u>	<u>393,868</u>
Total expenses	<u>940,830</u>	<u>749,642</u>
Change in net assets	(88,079)	15,244
Unrestricted net assets, beginning of year	<u>291,562</u>	<u>276,318</u>
Unrestricted net assets, end of year	<u>\$ 203,483</u>	<u>\$ 291,562</u>

OMICRON DELTA KAPPA SOCIETY, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (88,079)	\$ 15,244
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	6,870	6,609
Changes in operating assets and liabilities:		
Accounts receivable	(20,788)	1,811
Inventories	(2,703)	7,975
Prepaid expenses	275	336
Accounts payable	42,538	(5,520)
Accrued expenses	4,338	(2,463)
Unearned fees	3,047	(1,089)
Cash flows from operating activities	<u>(54,502)</u>	<u>22,903</u>
Cash flows from investing activities:		
Sales of investments	0	25,000
Purchases of property and equipment	<u>(7,941)</u>	<u>(11,727)</u>
Cash flows from investing activities	<u>(7,941)</u>	<u>13,273</u>
Change in cash and cash equivalents	(62,443)	36,176
Cash and cash equivalents, beginning of year	<u>272,991</u>	<u>236,815</u>
Cash and cash equivalents, end of year	<u>\$ 210,548</u>	<u>\$ 272,991</u>

OMICRON DELTA KAPPA SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2010

	Program Services				Management and general	Total
	Certificates and emblems	Conferences and meetings	Visitations and member support	The Circle		
Salaries and wages	\$	\$ 41,424	\$ 94,146	\$ 30,127	\$ 210,886	\$ 376,583
Payroll taxes		3,340	7,590	2,429	17,002	30,361
Employee benefits		6,329	14,384	4,603	32,221	57,537
Total personnel	0	51,093	116,120	37,159	260,109	464,481
Computer service					19,440	19,440
Contributions					12,000	12,000
Cost of merchandise	27,409					27,409
Depreciation					6,870	6,870
Dues and subscriptions					783	783
Equipment maintenance					5,627	5,627
Engraving	10,980					10,980
Insurance					8,182	8,182
Membership supplies	31,267					31,267
Occupancy expense					10,866	10,866
Office supplies and expense					24,317	24,317
Other expenses			6,161		10,057	16,218
Postage				26,088	11,122	37,210
Printing		1,057		39,600	5,228	45,885
Professional fees					33,089	33,089
Promotional items					7,273	7,273
Publications					771	771
Strategic Plan Project					7,000	7,000
Telephone					8,411	8,411
Travel, lodging and meals		172,236	17,924			190,160
Total expenses	69,656	224,386	140,205	102,847	431,145	968,239
Expenses included with revenues on the statement of activities	(27,409)					(27,409)
Expenses included in the expense section of the statement of activities	\$ 42,247	\$ 224,386	\$ 140,205	\$ 102,847	\$ 431,145	\$ 940,830

See accompanying notes.

OMICRON DELTA KAPPA SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

	Program Services				Management and general	Total
	Certificates and emblems	Conferences and meetings	Visitations and member support	The Circle		
Salaries and wages	\$	\$ 35,437	\$ 80,539	\$ 25,773	\$ 180,408	\$ 322,157
Payroll taxes		3,053	6,939	2,221	15,544	27,757
Employee benefits		6,222	14,140	4,525	31,675	56,562
Total personnel	0	44,712	101,618	32,519	227,627	406,476
Computer service					18,751	18,751
Contributions					12,000	12,000
Cost of merchandise	32,203					32,203
Depreciation					6,609	6,609
Dues and subscriptions					1,710	1,710
Engraving	10,349					10,349
In-kind expense					18,251	18,251
Insurance					7,804	7,804
Membership supplies	30,414					30,414
Occupancy expense					10,600	10,600
Office supplies and expense					25,037	25,037
Other expenses					14,665	14,665
Postage				22,840	13,861	36,701
Printing				39,191	4,266	43,457
Professional fees					20,310	20,310
Promotional items					5,623	5,623
Publications					1,200	1,200
Telephone					5,554	5,554
Travel, lodging and meals		48,500	25,631			74,131
Total expenses	72,966	93,212	127,249	94,550	393,868	781,845
Expenses included with revenues on the statement of activities	(32,203)					(32,203)
Expenses included in the expense section of the statement of activities	\$ 40,763	\$ 93,212	\$ 127,249	\$ 94,550	\$ 393,868	\$ 749,642

See accompanying notes.

OMICRON DELTA KAPPA SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Omicron Delta Kappa Society, Inc. (the Society) is presented to assist in understanding the Society's financial statements. The financial statements and notes are representations of the Society's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Nature of Activities

The Society is an academic organization located in Lexington, Kentucky, which recognizes those who have attained a high standard of leadership and scholastic achievement and inspire others to proactively pursue similar goals. Most of the Society's revenue is derived from membership dues and charter fees received from various chapters (the Circles) around the country.

Basis of Accounting

The financial statements of the Society have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Basis of Presentation

The financial statements of the Foundation have been prepared following the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standard No. 117, *Financial Statements of Not-For-Profit Organizations* (Accounting Standards Codification 958). Under SFAS No. 117, the Society is required to report information regarding its financial position and activities under three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All of the Society's net assets are unrestricted in nature.

Allocation of Expenses

Directly identifiable expenses are charged to the functional area to which they relate.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Society considers all certificates of deposits purchased with an original maturity of three months or less to be cash equivalents

OMICRON DELTA KAPPA SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

Accounts Receivable

Accounts receivable consist of Circle dues and fees owed for memberships and chartering privileges and other miscellaneous charges. Management believes there is no risk of loss associated with these receivables and accordingly, no provision for bad debts has been provided for in the accompanying financial statements.

Inventories

Inventories consist of jewelry, honor cords, honor stoles, and other items sold to Circle members. Inventories are stated at the lower of average cost or market value determined by the first-in, first-out method.

Equipment

Equipment is stated at cost. The capitalization threshold is \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Depreciation expense for the years ended June 30, 2010 and 2009 was \$6,870 and \$6,609, respectively.

Unearned Fees

Unearned fees represent excess fees collected by the Society on behalf of numerous Circles. Currently, the Society provides the option of refunding these fees, or allowing the balance to carry over into the next year, until such time as the fees are earned. As of June 30, 2010 and 2009, unearned fees amounted to \$4,873 and \$1,826, respectively.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates.

OMICRON DELTA KAPPA SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

2. RELATED PARTY

The Omicron Delta Kappa Foundation, Inc. (the Foundation) is a not-for-profit organization whose major function is to raise money for scholarships and support, as needed for the operations of the Society. Scholarships provided by the Foundation go to students who exemplify the scholastic and leadership qualities representative of the Foundation's purpose. Most of the Foundation's revenue is derived from member donations and investment income. The Board of Trustees for the Foundation is approved by the Society. Additionally, the Society maintains an ongoing economic interest in the net assets of the Foundation.

Generally accepted accounting principles require that the financial statements of the Society and Foundation be consolidated. The accompanying separately issued financial statements of the Society do not include the assets, liabilities and net assets of the Foundation and are not to be considered the financial statements of the primary reporting entity. Consolidated financial statements including the assets, liabilities and net assets of both the Society and the Foundation have been issued as the financial statements of the primary reporting entity. During the years ended June 30, 2010 and 2009 the Society paid for expenses on behalf of the Foundation in the amount of \$180,739 and \$127,001, respectively. At June 30, 2010 and 2009 the Foundation owed approximately \$3,300 and \$0, respectively, to the Society. At June 30, 2010 and 2009 the Society owed approximately \$8,100 and \$300, respectively, to the Foundation. In addition, the Society transferred \$12,000 to the Foundation in fiscal years 2010 and 2009 as a contribution for the Building Fund.

During the year ended June 30, 2006 the Society entered into an agreement for royalty revenues with a credit card company. The term of the agreement is April 1, 2006 through March 31, 2011. The agreement stipulates that the Society will receive no less than \$200,000 over five years to be paid in \$40,000 installments each year. Fifty percent of the revenue from this agreement is recognized in the financial statements of the Foundation.

3. OFFICE EQUIPMENT

At June 30, 2010 and 2009, office equipment amounted to \$60,399 and \$57,554, respectively. At June 30, 2010 and 2009, accumulated depreciation amounted to \$35,516 and \$33,742, respectively.

OMICRON DELTA KAPPA SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 and 2009

4. IN-KIND CONTRIBUTIONS

For the years ended June 30, 2010 and 2009, the Society received donated legal services by professional counsel and donated accounting services. These services pertained to corporate matters of the Society. Had the Society not received these services as a contribution, they would have incurred expenses of \$26,089 and \$15,310, respectively. Pursuant to Statement of Financial Accounting Standard No. 116, these amounts are reflected in the accompanying statements of activities. In addition, the Society received in-kind contributions of office rent of \$9,000 in 2010 and 2009, respectively. See discussion at Note 7.

5. INCOME TAX STATUS

The Society is a not-for-profit corporation, other than a private foundation, organized under Section 501(c)(3) of the Internal Revenue Code and is thus exempt from federal and state income taxes. Accordingly, no income tax expense is reported in the accompanying financial statements.

6. RETIREMENT PLAN

In fiscal year 2007, the Society initiated a defined contribution retirement plan. Eligible employees may contribute up to the maximum amount allowed by the Internal Revenue Code. If an employee contributes five percent of compensation, the Society will contribute ten percent of the employee's compensation. Plan expense totaled \$29,902 and \$29,025 for the years ended June 30, 2010 and 2009, respectively.

7. LEASE

The Society shares office space and related expenses with the Foundation. The Society signed a five-year lease for office space at Transylvania University (the University) that began on August 1, 2006. The lease may be canceled with prior written notice per the terms of the agreement. In return for the privilege of functioning as the national headquarters for one of the most prestigious college honor societies in the country, the University provides office space at a reduced rate and absorbs the cost of related utilities at no charge. Office space (including related utility expense) totaled \$10,600 and \$10,866, respectively, for the years ended June 30, 2010 and 2009.

In July 2010, the Foundation and Society headquarters moved to Virginia. The lease described above was discontinued at that time.

OMICRON DELTA KAPPA SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2010 and 2009

8. COMMITMENTS

The Society has entered into a contract with a hotel to obtain discounted rates for its 2010 national convention. The contract provides for penalties if the Society cancels or does not meet a minimum threshold for reservations.

As discussed at Note 7, the Society moved its headquarters in July 2010. In connection with the move, the Society entered into a loan agreement for approximately \$400,000 to purchase property in Virginia; and entered into a \$50,000 loan for relocation expenses.

9. MANAGEMENT FEES

During the year ended June 30, 2008 the Foundation entered into an informal agreement with the Society for management services performed by the Society on behalf of the Foundation. The Foundation reimburses the Society for payroll and other expenses. For the years ended June 30, 2010 and 2009 the Foundation paid \$180,739 and \$108,750, respectively, to the Society for management fees. The Society donated \$0 and \$18,251, respectively to the Foundation in 2010 and 2009 in the form of expenses paid on the Foundation's behalf. June 30, 2010 and 2009, no amounts were owed to the Society for management fees.

10. CONCENTRATIONS

The Society maintains its cash balances at financial institutions in Lexington, Kentucky. The Federal Deposit Insurance Corporation insures up to \$250,000 at each institution. During the year, the balances at these financial institutions may exceed the FDIC insured amount.

11. SUBSEQUENT EVENTS

The Society has evaluated subsequent events through November 3, 2010, the date which the financial statements were available to be issued.