Palm Beach State College Foundation, Inc.
(A Component Unit of Palm Beach State College)

FINANCIAL STATEMENTS

December 31, 2013 and 2012

BERMAN HOPKINS WRIGHT & LAHAM
CPAS AND ASSOCIATES, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palm Beach State College Foundation, Inc.
Lake Worth, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of Palm Beach State College Foundation, Inc. (the "Foundation"), a component unit of Palm Beach State College (the "College"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 respective financial position of the Foundation's business-type activity as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

April 30, 2014
Melbourne, FL

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Palm Beach State College Foundation, Inc.
(A Component Unit of Palm Beach State College)

Management's Discussion & Analysis

December 31, 2013 and 2012

This Management Discussion and Analysis of the Palm Beach State College Foundation Inc.'s (Foundation) financial statements, provides an overview of the Foundation's financial activities for the fiscal years ended December 31, 2013, 2012, and 2011. Foundation Management has prepared the financial statements which should be read in conjunction with the related note disclosures and this Management Discussion and Analysis. The Foundation is responsible for the completeness and fairness of this information.

The Foundation follows pronouncements issued by the Governmental Accounting Standards Board (GASB). The financial statements presented in this report consist of the Statements of Net Position; the Statements of Revenues, Expenses, and the Changes in Net Position; and the Statements of Cash Flows.

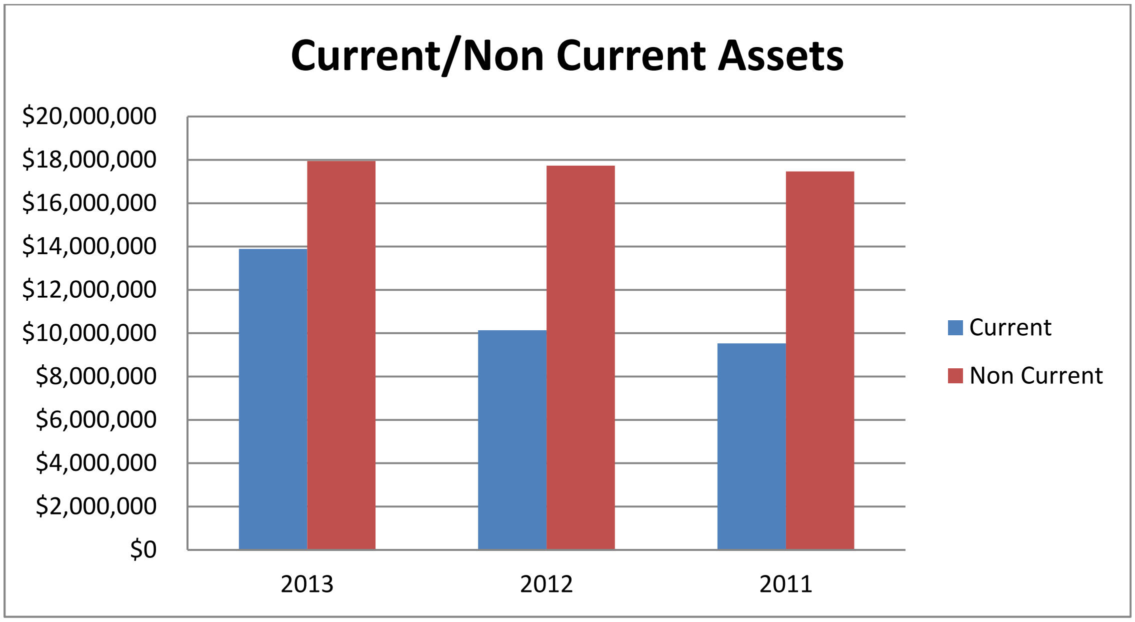
Financial Highlights 2013

Summarized Statement of Net Position (in thousands)

	2013	2012	2011
Current Assets	$ 13,899	$ 10,150	$ 9,531
Non-Current Assets	17,934	17,719	17,464
Total Assets	$ 31,833	$ 27,869	$ 26,995
Current Liabilities	$ 163	$ 115	$ 418
Total Liabilities	163	115	418
Net Investment in Capital Assets	11	11	11
Restricted	30,277	27,471	27,286
Unrestricted	1,382	272	(720)
Total Net Position	31,670	27,754	26,577
Total Liabilities and Net Position	$ 31,833	$ 27,869	$ 26,995

Foundation Assets

The total assets of the Foundation as of December 31, 2013, were $31.8 million. This reflected an increase of $3.9 million from the previous year of $27.9 million; and in 2012, an increase of $0.9 million from 2011 of $27.0 million. The chart below compares the assets between current and non-current assets for the years 2013, 2012, and 2011.

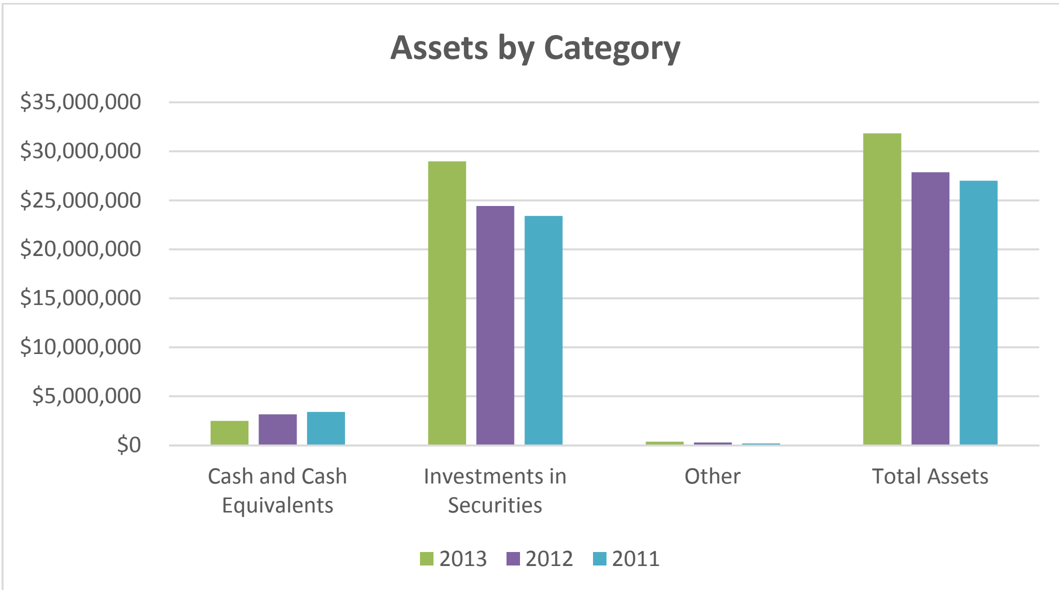


Assets by Category

The chart on page 3 summarizes the distribution of assets as of December 31, 2013, 2012 and 2011 by category. The major changes in assets from 2012 are an increase in investments of $4.6 million largely due to high investment returns of $4.2 million (15.87%) for 2013 year. Furthermore, the major changes in assets from 2011 are an increase in investments of $1.0 million largely due to increased gains in investments and an increase in the receivables (pledges) of $0.2 million. The art collection of $155,163 reported during 2011 was liquidated in full in 2012. The net proceeds of the sale amounted to approximately $41,000.

Assets by Category (continued)

	2013	2012	2011
Cash and Cash Equivalents	$ 2,485,115	$ 3,166,492	$ 3,400,744
Investments in Securities	28,976,061	24,415,350	23,410,628
Other	372,361	287,025	183,966
Total Assets	$ 31,833,537	$ 27,868,867	$ 26,995,338



Liabilities

As of December 31, 2013, the liabilities amounted to $0.16 million, included in this amount is a sum of $0.11 million for annuities payable. In addition, the Foundation had 5 annuity contracts. The corresponding annuity liability as of December 31, 2012 and 2011 was $0.6 million and $0.4 million, respectively, which held 3 annuities for both of the represented years.

Net Position

The Foundation's components of the net position for the fiscal years ended December 2013, 2012 and 2011 are shown in the following table.

Analysis of Components of Net Position

	2013	2012	2011
Net Investment in Capital Assets	$ 11,000	$ 11,000	$ 11,000
Permanently Restricted	17,922,990	17,516,238	17,274,631
Temporarily Restricted	12,354,101	9,954,569	10,011,080
Unrestricted	1,382,230	272,206	(719,656)
Total Net Position	$ 31,670,321	$ 27,754,013	$ 26,577,055

The primary reason for the increase of $3.9 million in total net position from 2012 to 2013 is the high performance of the Foundation Investments as previously stated under the paragraph for Assets by Category. Prominently, the 2012 change was due to the performance of investments that contributed approximately $0.8 million in revenues which turned around the unrestricted negative balance presented in 2011 to a positive balance of $0.2 million.

Operating Results

Summarized Results for the Years Ended December 31
(in thousands)

	2013	2012	2011
Operating Revenues & Expenses			
Total Operating Revenues	$ 2,316	$ 4,481	$ 6,551
Total Operating Expenses	(3,131)	(6,141)	(6,449)
Income (Loss) from Operations	(815)	(1,660)	102
Non-Operating Revenues (Expenses)	4,732	2,837	1,959
Beginning Net Position	27,754	26,577	24,516
Increase in Net Position	3,916	1,177	2,061
Net Position	$ 31,670	$ 27,754	$ 26,577

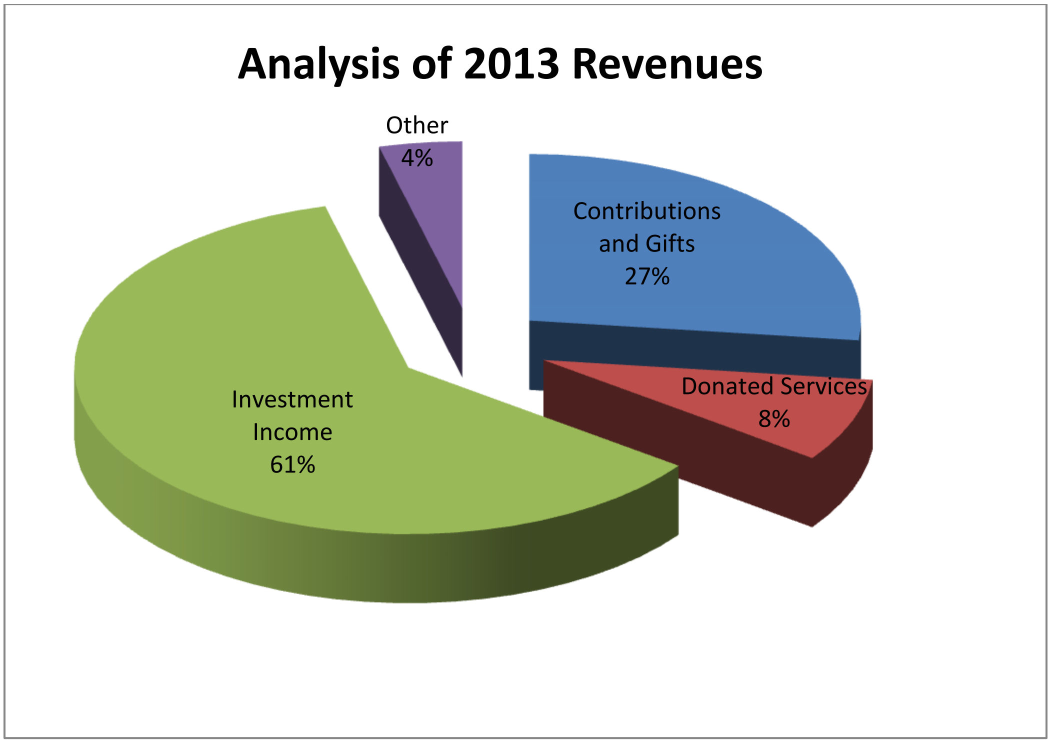
Revenues

The following table and graphic compares the revenues earned by the Foundation in 2013, 2012 and 2011 by category. The total revenue for 2013 of $7 million represents a decrease of $0.3 million from the 2012 revenue of $7.3 million. The reason for this difference was a reduction in gift revenues of $2.1 million partially offset by increased investment revenues of $1.6 million, and an increase in other income of $0.2 million. Reduction in gift revenues was mainly due to the termination of the Children's Services Council (CSC) contributions which consisted of $1.8 million in 2012 and $0 in 2013. For the past several consecutive years, the Foundation has not received any distributions from the state under the Phillip Benjamin Matching Grant Program and the matching funds that may potentially be due from the State of Florida as of December 31, 2013, remains at $24.5 million. However, the Foundation did receive state provisions under the First Generation in College Matching Grant for the year's end of December 31, 2013 and 2012 in the amount of $77,794 and $59,315, respectively. This grant is funded separate and independent from the provision of the Phillip Benjamin Matching Grant.

Revenues for the Years Ended December 31,

	2013	2012	2011
Contributions & Gifts	$ 1,908,294	$ 3,991,931	$ 7,826,067
Investment Income	4,324,761	2,710,113	(91,139)
Donated Services	529,920	536,158	509,738
Other	284,649	79,844	265,429
Total Revenue	$ 7,047,624	$ 7,318,046	$ 8,510,095

The graphic below analyzes the distribution of 2013 revenues by category.



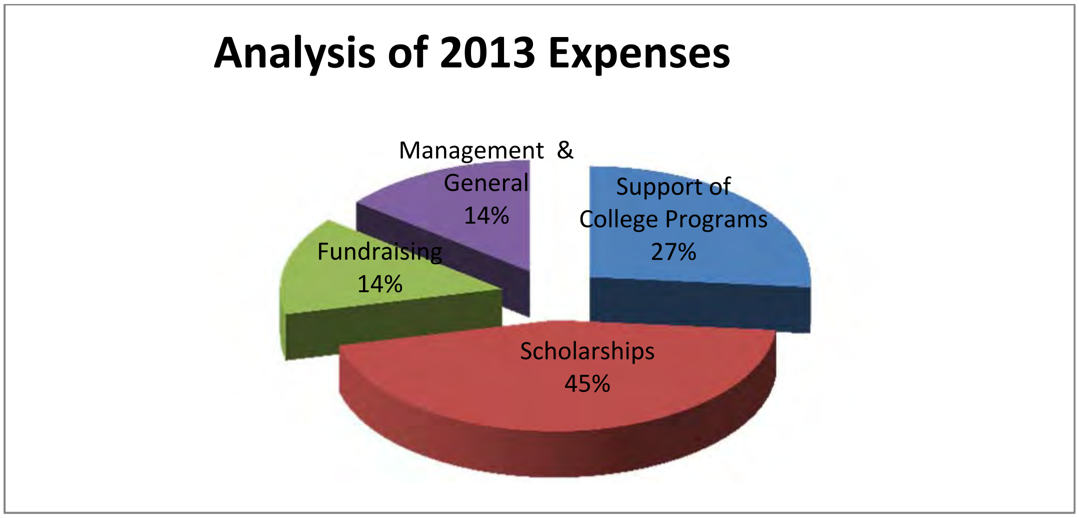
Expenses

Total expenses for 2013 of $3.1 million represented a significant reduction of 49% in comparison to the corresponding number for 2012 and 2011 at $6.1 and $6.4 million, respectively. In comparison to the previous years, Support of College Programs for 2013 decreased by $2.0 million, and scholarship expense also decreased by $1.0 million. These reductions in spending are also attributable to the ending of the Children's Services Council (CSC) grant.

Expenses for the Years Ended December 31,

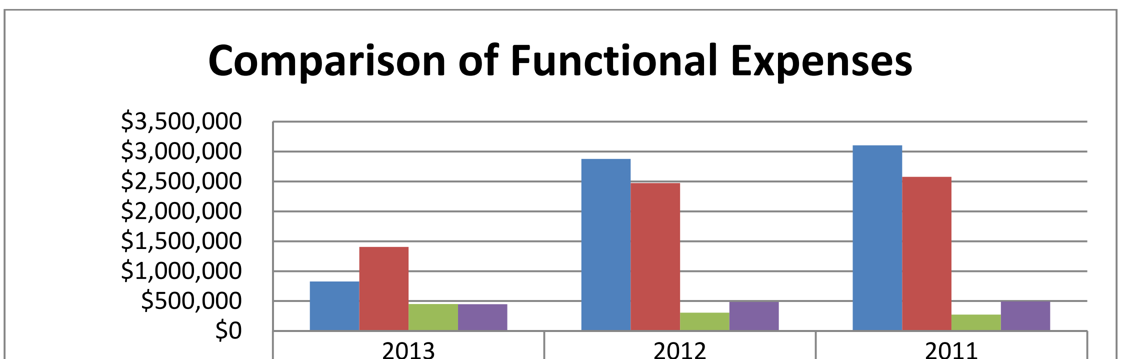
		2013		2012		2011
Support of College Programs	$	828,295	$	2,876,049	$	3,104,527
Scholarships		1,404,888		2,473,658		2,578,269
Fundraising		450,244		306,145		274,790
Management & General		447,889		485,236		491,740
Total Expenses	$	3,131,316	$	6,141,088	$	6,449,326

The graphic below analyzes the distribution of 2013 expenses by category.



Comparative Trend Analysis of Foundation Functional Expenses

The graphic below compares the Foundation's Functional Expenses - Program Support, Scholarships, Fund Raising, and Management Overhead for the periods 2011 through 2013.

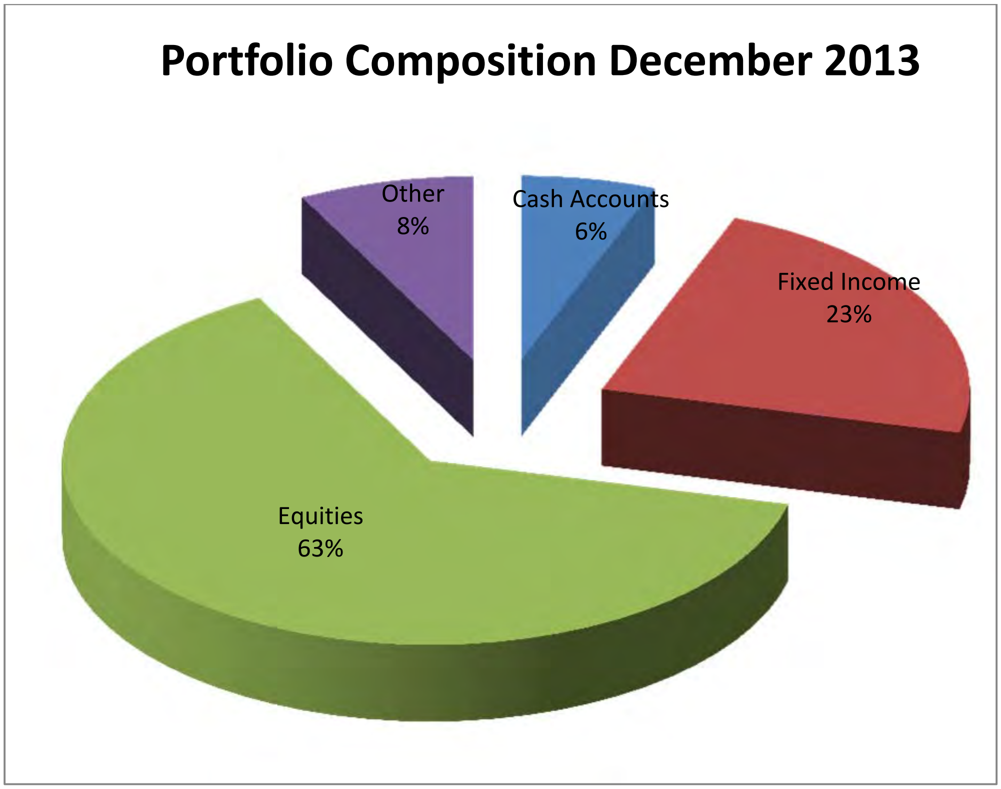


	2013	2012	2011
Program Support	$828,295	$2,876,049	$3,104,527
Scholarships	$1,404,888	$2,473,658	$2,578,269
Fundraising	$450,244	$306,145	$274,790
Management	$447,889	$485,236	$491,740

Investments Performance

The return on Investments based on the past 12 months actual performance at December 2013, 2012 and 2011 was 15.87%, 10.58% and -1.07%, respectively.

The total value of the portfolio including cash as of December 31, 2013, 2012 and 2011 was $30.8, $26.8 and $25.3 million, respectively. The graphic below presents the composition of the portfolio as of December 31, 2013.



Outlook for 2014

Increased home sale volume and prices, reduced unemployment and excellent stock market performance, all speak to the economic recovery underway. Yet gasoline prices have continued to increase creating concerns as the associated decrease in real disposable income is dramatic and immediate. Conversely, construction, a hard hit industry has rebounded particularly in Florida and locally increasing employment statistics. The tourist season was exceptional this year due primarily to harsh weather in the north eastern corridor. This assists businesses and government agencies in re-filling their coffers and creating contingency funds - not spending.

Florida Trend recently reported Florida's Consumer Confidence level has dipped, remaining considerably lower than the national gauge. The magazine cited a recent study conducted by the University of Florida. "The overall consumer sentiment index is running relatively flat given the lack of significant economic news," said Chris McCarty, director of Research for UF's Bureau of Economic and Business research.

Outlook for 2014 (Continued)

Statistical data validate there is a 1:1 correlation between the financial health of individuals, stock market performance and gifting. When people feel financially secure they will give and often increase the value of their gifts.

All three major sources of donations; individuals, foundations and corporations are more likely to commit than in recent years. Foundations, the largest source of funding to the college foundation, admit that despite increased endowment earnings, due to the experience of recent years they are using a more conservative distribution model. Nonetheless, the Foundation has maintained and successfully stewarded this group which resulted in increased giving.

Businesses and corporations are waiting to absorb the impact of national health care changes. In summary, the recovery is more flat or sideways than expansionary. Charities still face a somewhat guarded environment for charitable giving. However, there is certain optimism that was missing until recent times.

Meanwhile, the Foundation completed the second year of the 5-year STEAM (Science, Technology, Engineering, Arts and Math) Initiative to support the growth of our community's workforce in these key areas. The U.S. Department of Labor estimates STEM fields will add 2.5 million jobs by 2025, and there will be a shortage of 1.2 million trained and ready to fill these jobs. This national imperative to close the educational gap adds great strength to the case for support.

The STEAM Launch presented computer icon and Apple co-founder Steve Wozniak and was followed by famous actor, author and humorist, John Lithgow. The audience included philanthropists, interested individuals along with business and community leaders. Most importantly it garnered over 5 million media impressions (10 million for the WOZ) and re-positioned the College to the community through local media outlets.

Awareness of the College's philanthropic needs continues to build through the participation in our numerous events including the annual golf tournament and recent and STEAM presentations. During the summer, an ad-hoc, sub-committee was formed to review the Strategic Plan, which produced a working document that is being executed. It included goals to increase board participation and secure new board members representing underserved areas of the county geographically and commercially. To date, four new members have been elected and several others are completing the vetting and election process.

The Foundation has established comprehensive programs which address each of the basic tenets of fundraising: special events, major gifts, annual giving and planned giving. The 5-year Strategic Plan is currently being revised by a board sub-committee to incorporate fundraising activities to support the STEAM campaign. STEAM campaign goals include funding 1,000 new student scholarships, building 100 new business partnerships, developing 50 academic program enhancements and providing 50 new internship opportunities.

Outlook for 2014 (Continued)

The Foundation continues to build relationships with individuals, private foundations and corporations. Last year the Foundation was the beneficiary of several bequests, a product of increased efforts to develop this area of fundraising. As the Foundation remains committed to instituting donor acquisition, recognition and stewardship programs, great benefits are realized. New Charitable Gift Annuities were established at the Foundation by individuals last year, and this fund continues a slow growth.

The Foundation continues to expand its relationships with cornerstone agencies. Uninterrupted support through major grants from The Howard Hill, Stewart, Quantum, Lattner and Palm Healthcare Foundations provides dependable financial support for both programs and scholarships.

In summary, the economic outlook is optimistic. The Foundation remains focused on capitalizing on arising opportunities and pursuing the strategic plan as developed and ratified by the Board of Directors.

Palm Beach State College Foundation, Inc.
(A Component Unit of Palm Beach State College)

STATEMENTS OF NET POSITION

December 31,

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,485,115	$ 3,166,492
Grants receivable	10,500	-
Pledges receivable, net	344,611	83,960
Investments	11,053,071	6,899,112
Other assets	6,250	-
Total current assets	13,899,547	10,149,564
Noncurrent assets		
Pledges receivable, net	-	192,065
Investments	17,922,990	17,516,238
Capital assets, net	11,000	11,000
Total noncurrent assets	17,933,990	17,719,303
Total assets	31,833,537	27,868,867
LIABILITIES		
Current liabilities		
Accounts payable	32,866	28,716
Annuities payable	107,598	64,063
Due to Palm Beach State College	22,752	22,075
Total current liabilities	163,216	114,854
Total liabilities	163,216	114,854
NET POSITION		
Net investment in capital assets	11,000	11,000
Restricted for permanent endowments	17,922,990	17,516,238
Restricted for student assistance and College programs	12,354,101	9,954,569
Unrestricted	1,382,230	272,206
Total net position	31,670,321	27,754,013
Total liabilities and net position	$ 31,833,537	$ 27,868,867

The accompanying notes are an integral part of these financial statements.

Palm Beach State College Foundation, Inc.
(A Component Unit of Palm Beach State College)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31,

	2013	2012
Operating Revenues		
Contributions and gifts	$ 1,501,542	$ 3,750,324
Grants and matching funds	77,794	59,315
Donated services	529,920	536,158
Special events income	205,899	129,432
Other revenues	956	5,353
Total operating revenues	2,316,111	4,480,582
Operating Expenses		
Support of College programs	828,295	2,876,049
Scholarships	1,404,888	2,473,658
Management and general	447,889	485,236
Fundraising	450,244	306,145
Total operating expenses	3,131,316	6,141,088
Income (loss) from operations	(815,205)	(1,660,506)
Nonoperating revenues (expenses)		
Contributions to endowments	406,752	241,607
Net realized and unrealized gains (losses) on investments	3,707,815	2,055,411
Interest and dividend income	616,946	654,702
Loss on sale of other assets	-	(114,256)
Total nonoperating revenues (expenses)	4,731,513	2,837,464
Increase in net position	3,916,308	1,176,958
Net position, beginning of year	27,754,013	26,577,055
Net position, end of year	$ 31,670,321	$ 27,754,013

The accompanying notes are an integral part of these financial statements.

Palm Beach State College Foundation, Inc.
(A Component Unit of Palm Beach State College)

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2013	2012
Cash flows from operating activities		
Contributions received	$ 1,465,991	$ 3,520,747
Other revenue received	730,525	670,943
State grants received	77,794	59,315
Payments to the College for scholarships	(828,295)	(2,876,049)
Payments to support College programs	(1,404,211)	(2,814,187)
Payments to suppliers	(443,737)	(476,781)
Payments for fundraising	(450,244)	(306,145)
Net cash used in operating activities	(852,177)	(2,222,157)
Cash flows from noncapital financing activities		
Restricted contributions received	406,752	241,607
Net cash provided by noncapital financing activities	406,752	241,607
Cash flows from investing activities		
Investment income received	616,948	654,702
Proceeds from sales and maturities of investments	277,439	11,163,085
Purchase of investments	(1,130,339)	(10,112,396)
Proceeds from sale of other assets	-	40,907
Net cash provided by (used in) investing activities	(235,952)	1,746,298
Net decrease in cash and cash equivalents	(681,377)	(234,252)
Cash and cash equivalents, beginning of year	3,166,492	3,400,744
Cash and cash equivalents, end of year	$ 2,485,115	$ 3,166,492
Reconciliation of net operating loss to net cash flows used in operating activities		
Operating loss	$ (815,205)	$ (1,660,506)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Decrease (increase) in certain assets		
Present value adjustment	(3,486)	2,165
Provision for bad debt	-	136,174
Decrease (increase) in operating assets		
Receivables	(10,500)	-
Unconditional pledges receivable	(65,100)	(396,561)
Other assets	(6,250)	-
Increase (decrease) in operating liabilities		
Accounts payable	4,152	8,455
Annuities payable	43,535	28,645
Due to Palm Beach State College	677	(340,529)
Net cash used in operating activities	$ (852,177)	$ (2,222,157)

The accompanying notes are an integral part of these financial statements.

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. **Nature of activities -** Palm Beach State College Foundation, Inc. (the "Foundation") is a not-for-profit organization incorporated on April 27, 1973, under the laws of the State of Florida (the "State"). The purpose of the Foundation is to encourage, solicit, receive, and administer gifts and bequests for the advancement of Palm Beach State College (the "College") and its objectives. The Foundation offices are located in Lake Worth, Florida.

   The Foundation is a direct support organization pursuant to Florida Statute 1004.70, which mandates the statutory responsibilities and obligations of the Foundation as a direct support organization for the College. The Foundation is a separate Internal Revenue Code (IRC) Section 501(c)(3) tax exempt organization, which under Internal Revenue Service directives functions as an IRC Section 509 entity for tax purposes.

2. **Basis of presentation -** Since it is a direct support organization for, and a component unit of, the College, the Foundation's accounting policies conform to generally accepted accounting principles applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The public colleges of the State, including Palm Beach State College, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:
   - Management Discussion and Analysis
   - Basic Financial Statements:
     - Statement of Net Position
     - Statement of Revenues, Expenses, and Changes in Net Position
     - Statement of Cash Flows
     - Notes to Financial Statements

3. **Basis of accounting -** Basis of accounting refers to when revenues, expenses and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The Foundation's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. **Basis of accounting (continued) -** Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

   The Foundation's principal operating activities consist of supporting college programs and providing scholarships for students. Operating revenues and expenses generally include all fiscal transactions directly related to these activities plus administration.

   The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund specific programs, it is the Foundation's policy to apply the restricted resources to such programs first, followed by the use of the unrestricted resources. The statement of revenues, expenses, and changes in net position is presented by major sources. The statement of cash flows is presented using the direct and indirect method in accordance with GASB Statement No. 9, *Reporting Cash Flow for Proprietary and Nonexpendable Trust Funds.*

4. **Use of estimates -** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of related contingent items at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. **Cash and cash equivalents -** For purposes of the statement of cash flows, the Foundation considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts and stock brokerage firms which, at times, may exceed Federally insured limits. The Foundation has not experienced any losses in such accounts due to exceeding the Federally insured limits. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

6. **Contributions and promises to give** - Contributions of cash, other assets, and unconditional promises to give are recognized when received from the donor. Classification of these contributions as unrestricted or restricted is based upon any donor-imposed stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, restricted component of net position are reclassified to an unrestricted component of net position.

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7. **Investments** - Investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. The domestic entity and the short-term investment fund are valued based on the underlying assets in the funds. Equity securities and high-yield bonds are valued based on the last reported sales price. The remaining fixed-income bonds (those which are not high-yield) are valued either by comparing them to prices of similar investments or by computing the net present value of their cash flows discounted at a rate commensurate with the risk involved. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade-date basis. Unrealized gains and losses are included in the change in net position in the accompanying statements of revenues, expenses and changes in net position and are reported as either unrestricted or restricted depending upon the existence of donor imposed restrictions on the income from the investments.

   If there is a sufficient return on the investment generated from an endowed gift, that is, an amount greater than the original principal, investment income including unrealized gains may be used to fund the activities that the endowments were originally set up to benefit, in accordance with donor stipulations.

8. **Capital assets** - Capital assets are recorded at cost if purchased and at their estimated fair value if donated. Capital asset donations are reported as unrestricted support unless the donor has restricted the use of the asset for a specific purpose. Contributions of cash, other assets and unconditional promises to give that are restricted for the purpose of acquiring capital assets are reported as restricted support. When there are no explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the acquired long-lived assets are placed in service. These expirations of donor restrictions are reported as reclassifications to investment in capital assets, net of accumulated depreciation. The Foundation's policy is to capitalize assets with a value of $5,000 or more. All other expenditures below this threshold are expensed as incurred. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized. There was no capital asset activity for 2013 and 2012.

9. **Depreciation** - Depreciation is computed on the straight-line method. The Foundation uses seven years as the useful life in depreciating office furniture and equipment.

10. **Collections and other assets** - The art collection was reported as of December 2011 at an approximate value of $155,000 and was liquidated in December 2012 for $41,000, resulting in a loss of $114,000.

11. **Net position** - In accordance with GASB Statement No. 63, total net equity is classified into three components of net position:

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Net position (continued)

Net investment in capital assets - This category consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by any related debt and deferred inflows of resources that are attributable to the acquisition, construction and improvement of those assets.

Restricted component of net position - This category consists of assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets which are restricted in use by (1) external groups such as grantors, creditors or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation. See Note F for further detail.

Unrestricted component of net position - This category includes all of the remaining assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources that do not meet the definition of the other two categories.

12. Personnel costs - All employees of the Foundation are considered employees of the College. These personnel costs are reported as an in-kind contribution since the Foundation is not required to reimburse the College for these costs. Compensated absences and other related payroll costs will ultimately be paid by the College and therefore no expense or liability is reflected in the accompanying financial statements. For the years ended December 31, 2013 and 2012, personnel costs were $529,920 and $536,158, respectively.

13. Expense allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net position; accordingly, certain costs have been allocated among the programs and supporting services benefited.

14. Advertising costs - Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2013 and 2012 was $10,268 and $15,406 respectively.

15. Income tax status - The Foundation accounts for income taxes in accordance with Financial Accounting Standards Board Accounting Standards Codification 740 (FASB ASC 740), Income Taxes. FASB ASC 740 requires a two-step approach to evaluate tax positions and determine if they should be recognized in the financial statements. The two-step approach involves recognizing any tax positions that are “more likely than not” to occur and then measuring those positions to determine if they are recognizable in the financial statements. Management regularly reviews and analyzes all tax positions and has determined that no uncertain tax positions requiring recognition have occurred. The Foundation is no longer subject to U.S. federal income tax examinations for years before 2009.

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Income tax status (continued)

The Foundation is currently exempt from income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

16. Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE B - PLEDGES

Unconditional promises to give over periods greater than one year are reflected at the present value of estimated future cash flows. Management's estimate of the discount on pledges receivable is based on the IRS - Federal Rate for determining the present value of an annuity at December 31, 2013 and 2012 of 2.2% and 1.2%, respectively.

Unconditional pledges to give are expected to be realized in the following periods as of December 31:

	2013	2012
Unconditonal promises receivable (pledges) before unamortized discount	$ 344,611	$ 278,331
Less unamortized discount	-	(2,306)
	$ 344,611	$ 276,025
Pledges are to due to be collected as follows:		
Less than one year	$ 344,611	$ 83,960
One to five years	-	192,065
	$ 344,611	$ 276,025

NOTE C - DEPOSITS AND INVESTMENTS

The deposits and investments consisted of the following at December 31:

	Credit Quality	Average Maturity	2013	2012
Cash and cash equivalents	Not rated	N/A	$ 2,485,115	$ 3,166,492
Corporate bonds	B+-AA+	5-10 years	2,649,152	1,568,181
Mutual funds	N/A	4-10 years	4,754,582	2,959,101
U.S. Government notes	N/A	4-10 years	2,543,008	4,429,529
Equity securities	N/A	N/A	16,678,082	13,912,194
Alternative investments	N/A	N/A	2,351,237	1,546,345
			$31,461,176	$27,581,842

As presented on the Statement of Net Position:

	2013	2012
Cash and cash equivalents	$ 2,485,115	$ 3,166,492
Current investments	11,053,071	6,899,112
Noncurrent investments	17,922,990	17,516,238
	$ 31,461,176	$ 27,581,842

The Foundation's investments are held in various accounts in custody at Merrill Lynch Trust Company (MLTC), a division of Bank of America, N.A., a national bank under the supervision of the United States Treasury Department's Office of the Comptroller of Currency.

Custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, the Foundation’s deposits may not be returned. The Foundation’s deposits are insured by the Federal Depository Insurance Corporation (“FDIC”) up to $250,000. Additionally as a Direct Support Organizational unit of Palm Beach State College the Foundation’s funds are also protected as Public Funds under Chapter 280 Florida Statutes. As of December 31, 2013 the Foundation’s total bank balance was $537,007. In addition, the Foundation has cash with MLTC in the amount of $1,817,098, of which $895,484 is covered under the Security Investor Protection Corporation (“SIPC”).

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation’s policy for managing its exposure for changes in interest rates is through maintaining diversification of its investments and investment maturity dates to minimize the impact of downturns in the market. As of December 31, 2013 the Foundation has investments in corporate bonds and is therefore subject to interest rate risk.

NOTE C - DEPOSITS AND INVESTMENTS (continued)

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Foundation's policy for managing its exposure to credit risk is through maintaining its investments in securities rated "BBB" or higher. As of December 31, 2013, the credit quality of the Foundation's fixed income accounts was investment grade B or higher.

Concentration of credit risk - The Foundation diversifies its investments by security type. As of December 31, 2013, no single security represented more than 5% of the total portfolio value invested in any individual account managed by MLTC.

NOTE D - CAPITAL ASSETS

The capital assets of the Foundation consisted of the following at December 31:

	2013	2012
Land	$ 11,000	$ 11,000
Office furniture and equipment	31,770	31,770
	42,770	42,770
Accumulated depreciation	(31,770)	(31,770)
Total net capital assets	$ 11,000	$ 11,000

NOTE E - GIFT ANNUITY

The Foundation is party to five charitable gift annuity agreements as of December 31, 2013. Under the gift annuity agreements the donors contribute assets to the Foundation in exchange for its commitment to make distributions to the donor or other beneficiaries for a specified period of time or until the death of the beneficiary. Assets received are recorded at fair value on the date the agreement is executed, and a liability equal to the present value of the future distributions is also recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue in the period the gift is made. On an annual basis, the Foundation evaluates the liability and makes distributions to the designated beneficiaries based on the fixed amount in the annuity agreements. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. Discount rates on these obligations range from 1.2% to 1.6%.

NOTE E - GIFT ANNUITY (continued)

The Foundation has created a separate investment fund to give effect to the above agreements which in 2011 transferred $100,000 for 3 annuities from its own funds to be invested together with the donor's contribution, as required. As of December 31, 2013 and 2012, the investment fund balance was $240,459 for 5 annuities and $169,129 for 3 annuities, respectively, which is presented with the other Foundation investments. As of December 31, 2013 and 2012, the annuity payable is $107,598 and $64,063, respectively.

NOTE F - ENDOWMENTS

The Foundation's endowment consists of approximately 120 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and unrestricted funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, components of net position associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The foundation follows Florida Statute 1010.10, which provides policy of the administration related to the investment of endowments funds and the ability to spend the net appreciation.

The Foundation's investment policy outlines a spending rate of 5% for 2013 and 2012. The Foundation's general spending was calculated within the policy guidelines.

The total endowment balances of the Foundation consisted of the following at December 31:

	2013	2012
Total endowment balance	$ 26,119,330	$ 23,635,171
Less: amounts restricted for student assistance and college programs	8,196,340	6,118,933
Restricted for permanent endowments balance	$ 17,922,990	$ 17,516,238

All assets of the Foundation are considered restricted. For 2013, the amount restricted for student assistance and college programs totals $12,354,101, which is made up of the temporarily restricted endowments of $8,196,340 and the temporarily restricted amounts related to non-endowment contributions of $4,157,761. For 2012, the amount restricted for student assistance and college programs totals $9,954,569, which is made up of the temporarily restricted endowments of $6,118,933 and the temporarily restricted amounts related to non-endowment contributions of $3,835,636.

NOTE G - STATE GRANTS

The Foundation received state matching funds in the past under the Phillip Benjamin Matching Grant Program for Community Colleges. However the Foundation has been advised by the Florida College System Budget Office that effective July 1, 2011, state matching funds are temporarily suspended for donations received for this program on or after June 30, 2011. Existing eligible donations remain eligible for future matching funds. The program may be restarted after $200 million of the backlog for college and university matching programs has been matched. As of December 31, 2013 the potential backlog that may be funded was approximately $24,500,000.

Separately, the Foundation receives matching dollars from the state under the provisions of the First Generation in College Matching Grant. For the years ended December 31, 2013 and 2012, the Foundation's First Generation in College Matching Grant funds is $77,794 and $59,315, respectively.

NOTE H - RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and errors and omissions. The Foundation is insured through the College which provided coverage for these risks primarily through the Florida Community Colleges Risk Management Consortium. There have been no significant reductions in insurance coverage during 2013. Settled claims resulting from the risks described above have not exceeded the insurance coverage for each of the prior three years.

NOTE I - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through April 30, 2014, the date which the financial statements became available for issue and has determined that no material events occurred that would require disclosure.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Palm Beach State College Foundation, Inc.
Lake Worth, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activity of Palm Beach State College Foundation, Inc. (the "Foundation"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements and have issued our report thereon dated April 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 30, 2014
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP