

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

**FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

BERMAN HOPKINS  
WRIGHT & LAHAM  
CPAS AND ASSOCIATES, LLP

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## INDEPENDENT AUDITOR'S 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 activities 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, 2015 and 2014, 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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. 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 respective financial position of the Foundation's business-type activities as of December 31, 2015 and 2014, 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 Supplemental 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 audit 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016, 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, and 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 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 28, 2016  
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, 2015 and 2014**

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, 2015, 2014, and 2013. The financial statements 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.

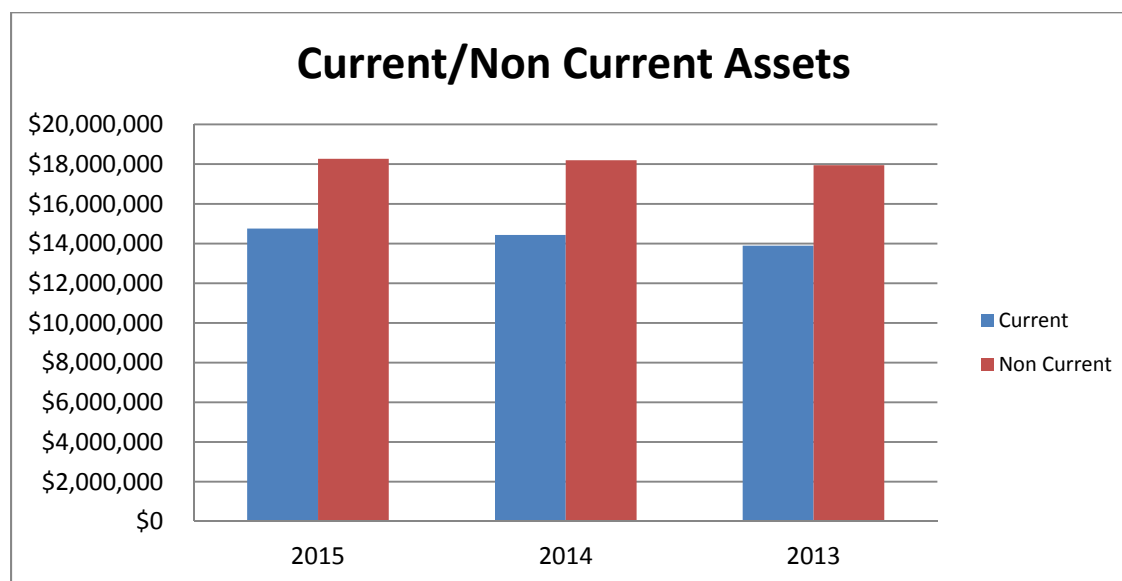
**Financial Highlights 2015**

**Summarized Statements of Net Position (in thousands)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets	\$ 14,751	\$ 14,430	\$ 13,899
Non-Current Assets	18,271	18,199	17,934
<b>Total Assets</b>	<u>\$ 33,022</u>	<u>\$ 32,629</u>	<u>\$ 31,833</u>
Current Liabilities	\$ 302	\$ 284	\$ 163
<b>Total Liabilities</b>	<u>302</u>	<u>284</u>	<u>163</u>
Net Investment in Capital Assets	-	-	11
Restricted			
Permanently Restricted	18,271	18,199	17,923
Temporarily Restricted	12,510	12,234	12,354
Unrestricted	1,939	1,912	1,382
<b>Total Net Position</b>	<u>32,720</u>	<u>32,345</u>	<u>31,670</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 33,022</u>	<u>\$ 32,629</u>	<u>\$ 31,833</u>

## Foundation Assets

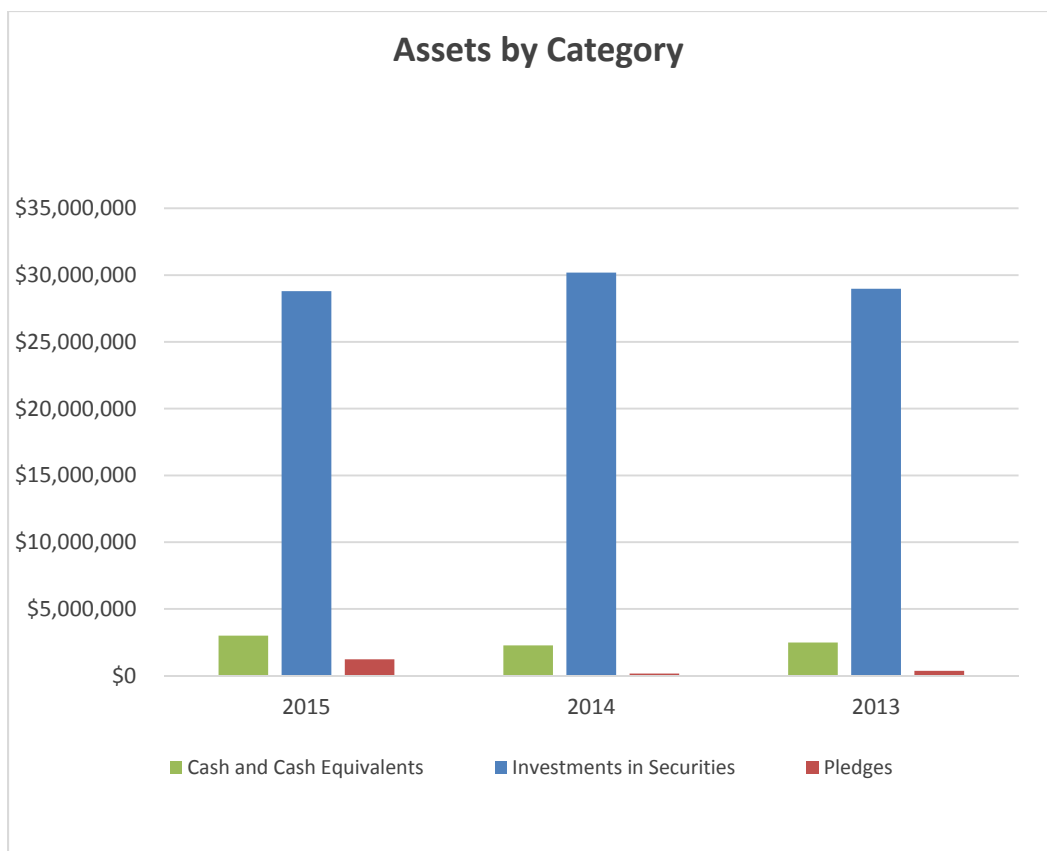
The total assets of the Foundation as of December 31, 2015, were \$33 million. This reflected an increase of \$0.4 million from the previous year of \$32.6 million; and in 2014, an increase of \$1.8 million from 2013 of \$31.8 million. The chart below compares the assets between current and non-current assets for the years 2015, 2014, and 2013.



## Assets by Category

The chart on page 5 summarizes assets as of December 31, 2015, 2014, and 2013 by category. The major changes in assets from the previous year (2014) are the decrease of investments by \$1.4 million and the increase of pledges by \$1.05 million. Furthermore, the major changes in assets from 2013 are an increase in investments of \$1.2 million largely due to high investment returns of \$1.7 million (5.15%) for the year 2014.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Cash and Cash Equivalents	\$ 2,998,355	\$ 2,269,591	\$ 2,485,115
Investments in Securities	28,795,638	30,189,584	28,976,061
Pledges	1,228,269	169,787	372,361
<b>Total Assets</b>	<b>\$ 33,022,262</b>	<b>\$ 32,628,962</b>	<b>\$ 31,833,537</b>



## Liabilities

As of December 31, 2015, the liabilities amounted to \$.30 million, included in this amount is \$.20 million in 6 annuity contracts. The corresponding annuity liability as of December 31, 2014 and 2013 was \$.23 million and \$.11 million which held 6 and 5 annuities for the represented years, respectively.

## Net Position

The Foundation's components of the net position for the fiscal years ended December 31, 2015, 2014 and 2013 are shown in the following table.

### Analysis of Components of Net Position

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net Investment in Capital Assets	\$ -	\$ -	\$ 11,000
Permanently Restricted	18,270,602	18,198,492	17,922,990
Temporarily Restricted	12,510,358	12,234,329	12,354,102
Unrestricted	1,939,176	1,912,363	1,382,230
<b>Total Net Position</b>	<b>\$ 32,720,136</b>	<b>\$ 32,345,184</b>	<b>\$ 31,670,322</b>

The primary reason for the increase of \$0.4 million in total net position from 2014 to 2015 is the high performance of the Foundation Investments as previously stated under the paragraph for Assets by Category.

## Operating Results

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Operating Revenues &amp; Expenses</b>			
Total Operating Revenue	\$ 3,270	\$ 1,997	\$ 2,316
Total Operating Expenses	(3,410)	(3,287)	(3,131)
<b>Loss from Operations</b>	(140)	(1,290)	(815)
<b>Non Operating Revenue</b>	515	1,965	4,731
Increase in Net Position	375	675	3,916
Beginning Net Position	32,345	31,670	27,754
<b>Net Position</b>	<u>\$ 32,720</u>	<u>\$ 32,345</u>	<u>\$ 31,670</u>

## Revenues

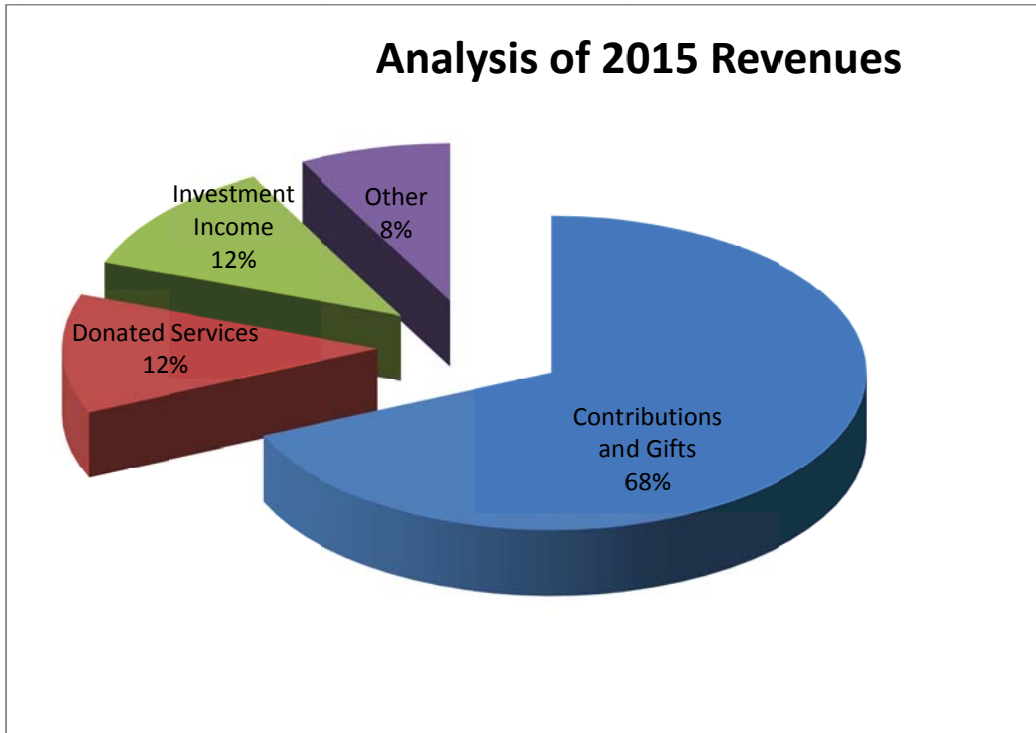
The following table and graphic compares the revenues earned by the Foundation in 2015, 2014, and 2013, by category. The total revenue for 2015 of \$3.7 million represents a decrease of \$0.2 million from the 2014 revenue of \$3.9 million. The reason for this difference was a reduction in Investment Revenues of \$1.4 million and an increase in gift revenues of \$1.2 million. The total revenue for 2014 of \$3.9 million represents a decrease of \$3.1 million from the 2013 revenue of \$7.0 million. The reason for this difference was a reduction in Investment Revenues of \$2.6 million and a decrease in gift revenues of \$0.5 million. The Foundation received state provisions under the First Generation in College Matching Grant for the years ended December 31, 2015, 2014, and 2013 in the amount of \$63,960, \$70,031 and \$77,794, respectively.

### Revenues for the Years Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contributions and Gifts	\$ 2,587,177	\$ 1,415,664	\$ 1,908,294
Donated Services	461,467	536,189	529,920
Investment Income	442,977	1,693,323	4,324,762
Other	293,677	316,815	284,649
<b>Total Revenue</b>	<u>\$ 3,785,298</u>	<u>\$ 3,961,991</u>	<u>\$ 7,047,625</u>



The graphic below analyzes the distribution of 2015 revenues by category.



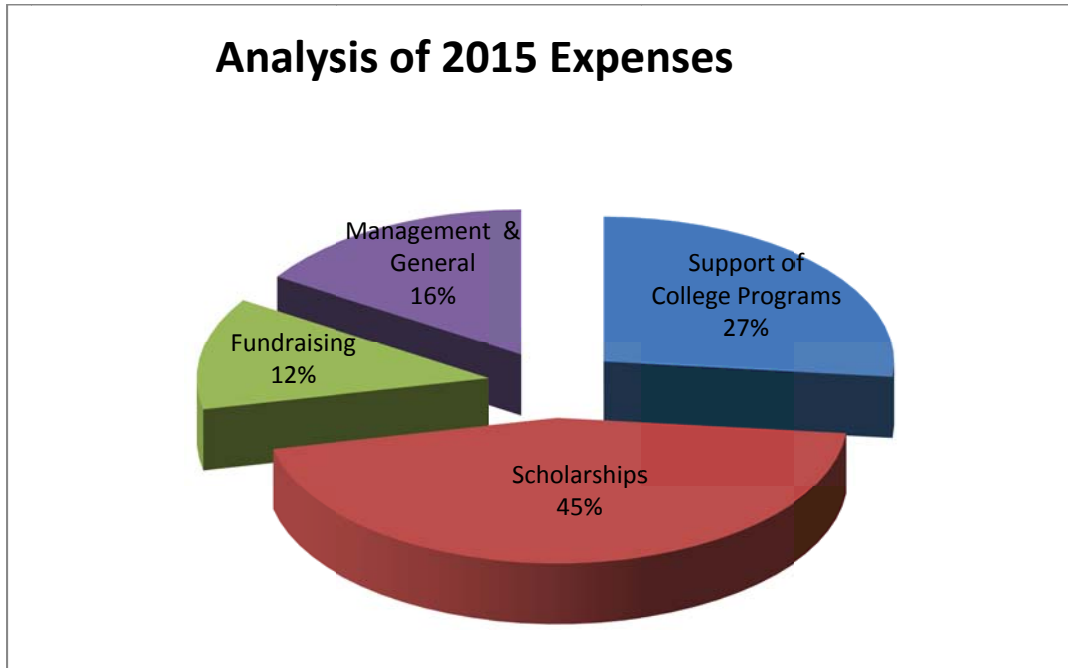
### Expenses

Total expenses for 2015 of \$3.4 million represented a slight increase of \$0.1 million in comparison to 2014 at \$3.3 million. Total expenses for 2014 of \$3.3 million represent a slight increase of \$0.2 million in comparison to 2013 at \$3.1 million. In comparison to the previous years, Scholarships, Fundraising, and Management & General for 2014 increased by \$0.2 million causing most of the 2015 increase in expense.

### Expenses for the Years Ended December 31,

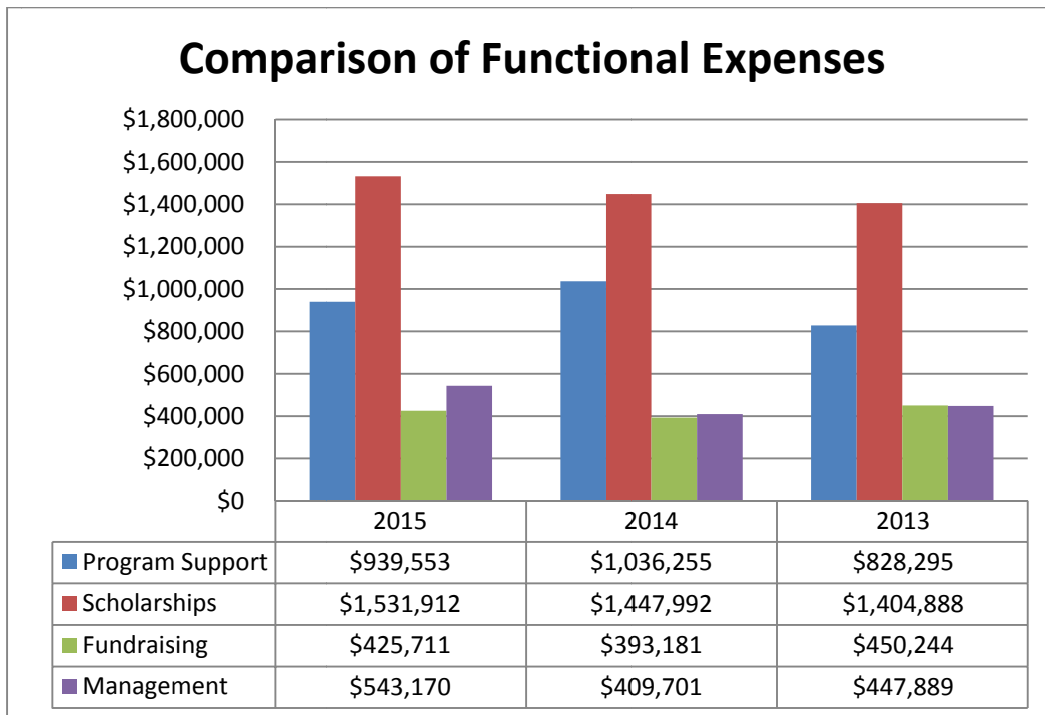
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Support of College Programs	\$ 909,553	\$ 1,036,255	\$ 828,295
Scholarships	1,531,912	1,447,992	1,404,888
Fundraising	425,711	393,181	450,244
Management & General	543,170	409,701	447,889
<b>Total</b>	<b>\$ 3,410,346</b>	<b>\$ 3,287,129</b>	<b>\$ 3,131,316</b>

The graphic below analyzes the distribution of 2015 expenses by category.



### Comparative Trend Analysis of Foundation Functional Expenses

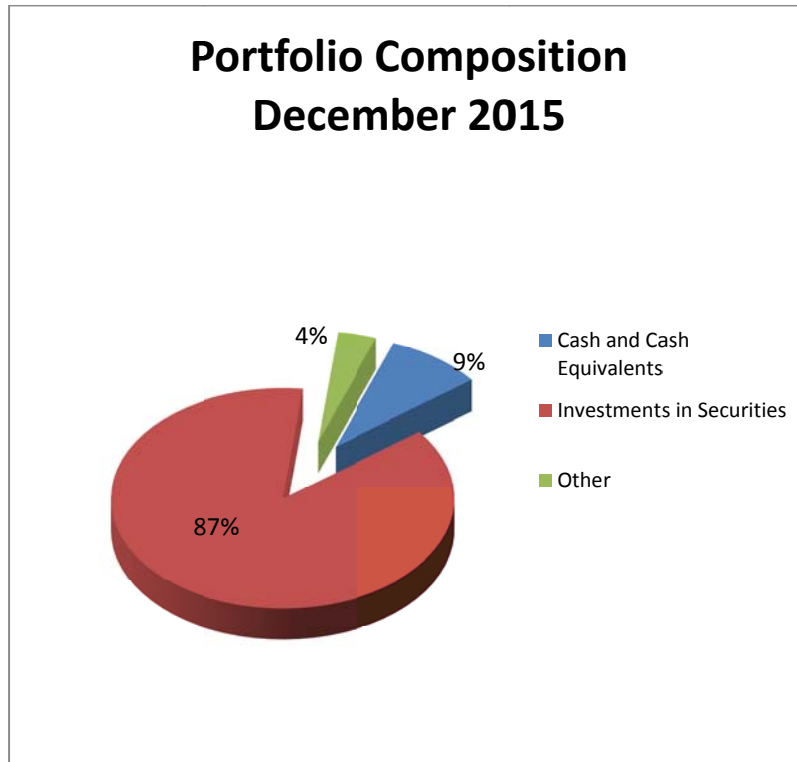
The graphic below compares the Foundation's Functional Expenses - Program Support, Scholarships, Fundraising, and Management Overhead for the periods 2013 through 2015.



## Investments Performance

The return on investments as of December 31, 2015 based on the past 12 months actual performance was 0.96% (5.15% for the 12 months ending December 31, 2014).

The total value of the portfolio including cash as of December 31, 2015 was \$31.1 million (\$31.9 million last year). The graphic below presents the composition of the portfolio as of December 31, 2015.



## Outlook for 2016

Improved home sale volume and prices, reduced unemployment and lower gasoline prices resulted in an increase in real disposable income. This boosted consumer confidence and helped sustain the economic growth. Stock market performance, an excellent indicator of the propensity to give, was nearly flat with less than a 1% gain. In a flat or modest gaining market, expect gifts to follow that model.

Locally, there are several commercial and residential projects underway throughout the county. Alton to the North is situated directly across from the building United Technologies is constructing to showcase their products. Florida has seen a rebound in those migrating to the State seeking employment, recreational, social and residential opportunities. The increased population increases tax revenues for the State and provides increased opportunities for identifying individual donors.

## **Outlook for 2016 (continued)**

Two of the three major sources of donations; individuals and corporations are likely to commit to contributions due to increased consumer confidence and sales increases.

Foundations, the largest source of funding to the college foundation, admit that decreased endowment earnings, and more conservative distribution models will circumscribe donations. Nonetheless, the Foundation has maintained and successfully stewarded this group of donors.

While charities still face a somewhat guarded environment for charitable giving; there is certain optimism that was missing until recent times. The appointment of a new President of the College is fueling interest and providing additional opportunities to communicate and meet potential donors and to re-engage existing donors.

Meanwhile, the Foundation completed the fourth 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 college support.

The STEAM luncheon continues to draw 700+ attendees and we presented Danica Patrick, the only female NASCAR race driver, in February at the Kravis Center for the Performing Arts. This is the first time a woman was presented and this added element was very well received. Plans are to present an additional high-profile person in a special event, in 2016 to assist in acquiring new donors. It serves two major functions – to identify new potential donors and develop awareness of the college's need for support.

The 5-year Strategic Plan includes goals to increase board participation and secure new board members representing underserved areas of the county geographically and commercially. To date, two 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 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.

The Foundation continues to expand its relationships with cornerstone agencies. Uninterrupted support through major grants from The Howard Hill, Stewart, Quantum, Lattner, Elmore and Palm Healthcare Foundations provide 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,**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,998,355	\$ 2,269,591
Grants receivable	9,450	300
Pledges receivable, net	1,162,824	124,820
Investments	10,525,036	11,991,092
Other assets	55,995	44,667
Total current assets	14,751,660	14,430,470
<b>Noncurrent assets</b>		
Investments	18,270,602	18,198,492
<b>Total assets</b>	<b>\$ 33,022,262</b>	<b>\$ 32,628,962</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 78,096	\$ 48,463
Annuities payable	203,830	235,315
Unearned revenues	20,200	-
Total current liabilities	302,126	283,778
<b>NET POSITION</b>		
Restricted for permanent endowments	18,270,602	18,198,492
Restricted for student assistance and College programs	12,510,358	12,234,329
Unrestricted	1,939,176	1,912,363
Total net position	32,720,136	32,345,184
<b>Total liabilities and net position</b>	<b>\$ 33,022,262</b>	<b>\$ 32,628,962</b>

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,**

	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>		
Contributions and gifts	\$ 2,515,067	\$ 1,143,663
Grants and matching funds	63,960	70,031
Donated services	461,467	536,189
Special events income	229,613	246,395
Other revenues	104	389
Total operating revenues	3,270,211	1,996,667
<b>Operating Expenses</b>		
Support of College programs	909,553	1,036,255
Scholarships	1,531,912	1,447,992
Management and general	543,170	409,701
Fundraising	425,711	393,181
Total operating expenses	3,410,346	3,287,129
<b>Loss from operations</b>	(140,135)	(1,290,462)
<b>Nonoperating revenues (expenses)</b>		
Contributions to endowments	72,110	272,001
Net realized and unrealized gains (losses) on investments	(288,682)	1,009,152
Interest and dividend income	731,659	684,171
Total nonoperating revenues	515,087	1,965,324
<b>Increase in net position</b>	374,952	674,862
<b>Net position, beginning of year</b>	32,345,184	31,670,322
<b>Net position, end of year</b>	\$ 32,720,136	\$ 32,345,184

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,

	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Contributions received	\$ 1,456,628	\$ 1,501,371
Other revenue received	679,854	755,556
State grants received	63,960	70,031
Payments to the College for scholarships	(909,553)	(1,036,255)
Payments to support College programs	(1,531,912)	(1,470,744)
Payments to suppliers	(513,535)	(394,104)
Payments for fundraising	(425,711)	(393,181)
Net cash used in operating activities	(1,180,269)	(967,326)
 <b>Cash flows from noncapital financing activities</b>		
Restricted contributions received	72,110	272,001
 <b>Cash flows from investing activities</b>		
Investment income received	731,659	684,171
Proceeds from sales and maturities of investments	1,511,932	994,978
Purchase of investments	(406,668)	(1,199,348)
Net cash provided by investing activities	1,836,923	479,801
 <b>Net (increase) decrease in cash and cash equivalents</b>	728,764	(215,524)
<b>Cash and cash equivalents, beginning of year</b>	2,269,591	2,485,115
<b>Cash and cash equivalents, end of year</b>	\$ 2,998,355	\$ 2,269,591
 <b>Reconciliation of net operating loss to net cash flows used in operating activities</b>		
Operating loss	\$ (140,135)	\$ (1,290,462)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Decrease (increase) in operating assets		
Receivables	(9,150)	10,200
Unconditional pledges receivable	(1,038,004)	219,791
Other assets	(11,328)	(27,417)
Increase (decrease) in operating liabilities		
Accounts payable	29,633	15,597
Annuities payable	(31,485)	127,717
Deferred revenues	20,200	-
Due to Palm Beach State College	-	(22,752)
Net cash used in operating activities	\$ (1,180,269)	\$ (967,326)

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)**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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's 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.



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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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 2015 and 2014.
- 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. Net position** - In accordance with GASB Statement No. 34, as amended, total net equity is classified into three components of net position:

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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

**10. 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.

**11. 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, 2015 and 2014, personnel costs were \$461,467 and \$536,189, respectively.

**12. 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.

**13. Advertising costs** - Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2015 and 2014 was \$19,968 and \$20,036, respectively.

**14. 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 2012.

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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

**14. 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.

**15. 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 was 2.0% at December 31, 2015 and 2014.

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

	2015	2014
Unconditional promises receivable (pledges)		
before unamortized discount	\$ 1,216,237	\$ 130,612
Less: unamortized discount	(53,413)	(5,792)
	\$ 1,162,824	\$ 124,820
Pledges are due to be collected as follows:		
Less than one year	\$ 411,237	\$ 124,820
More than one year	751,587	-
	\$ 1,162,824	\$ 124,820

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**NOTE C - DEPOSITS AND INVESTMENTS**

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

	Credit Quality	Average Maturity	2015	2014
Cash and cash equivalents	Not rated	N/A	\$ 2,998,355	\$ 2,269,591
Corporate bonds	B+-AA+	5-10 years	2,653,120	2,781,258
U.S. Government notes	N/A	4-10 years	2,806,786	2,677,193
Mutual funds	N/A	N/A	7,880,003	7,819,042
Equity securities	N/A	N/A	11,056,121	12,466,916
Alternative investments	N/A	N/A	4,399,608	4,445,175
			<u>\$31,793,993</u>	<u>\$32,459,175</u>

As presented on the Statement of Net Position:

	2015	2014
Cash and cash equivalents	\$ 2,998,355	\$ 2,269,591
Current investments	10,525,036	11,991,092
Noncurrent investments	18,270,602	18,198,492
	<u>\$ 31,793,993</u>	<u>\$ 32,459,175</u>

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, 2015, the Foundation's total bank balance was \$714,997 and the Foundation has cash with MLTC in the amount of \$2,301,327. As of December 31, 2015, all cash accounts are either covered by FDIC or insured.

**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, 2015, the Foundation has investments in corporate bonds and is therefore subject to interest rate risk.

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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, 2015, 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, 2015, 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:

	2015	2014
Office furniture and equipment	\$ 31,770	\$ 31,770
Accumulated depreciation	(31,770)	(31,770)
Total net capital assets	<u>\$ -</u>	<u>\$ -</u>

**NOTE E - GIFT ANNUITY**

The Foundation is party to six charitable gift annuity agreements as of December 31, 2015. 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 1.8% to 2.2%.

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**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, 2015 and 2014, the investment fund balance was \$480,011 for 6 annuities and \$511,496 for 5 annuities, respectively, which is presented with the other Foundation investments. As of December 31, 2015 and 2014, the annuity payable is \$203,830 and \$235,315, 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 2015 and 2014. 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:

	2015	2014
Total endowment balance	\$ 25,566,533	\$ 26,436,646
Less: amounts restricted for student assistance and college programs	7,295,931	8,238,154
Restricted for permanent endowments	\$ 18,270,602	\$ 18,198,492

All assets of the Foundation are considered restricted. For 2015, the amount restricted for student assistance and college programs totals \$12,510,358, which is made up of the temporarily restricted endowments of \$7,295,931 and the temporarily restricted amounts related to non-endowment contributions of \$5,214,427. For 2014, the amount restricted for student assistance and college programs totals \$12,234,329, which is made up of the temporarily restricted endowments of \$8,238,154 and the temporarily restricted amounts related to non-endowment contributions of \$3,996,175.

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**NOTE G - STATE GRANTS**

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, 2015 and 2014, the Foundation's First Generation in College Matching Grant funds is \$63,960 and \$70,031, 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 2015. 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 28, 2016, the date which the financial statements became available for issue and has determined that no material events occurred that would require disclosure.



**INDEPENDENT AUDITOR'S 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 activities of Palm Beach State College Foundation, Inc. (the "Foundation"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated April 28, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Foundation's financial statements are free from 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 28, 2016  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*