

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

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 18, 2017, 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 18, 2017
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, 2016 and 2015

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, 2016, 2015, and 2014. 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 Financial Accounting Standards Board ("FASB"). The Financial Statements are presented in a Governmental Accounting Standards Board ("GASB") format for reporting as a component unit in the College's Financial Statements. The financial statements presented in this report consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows.

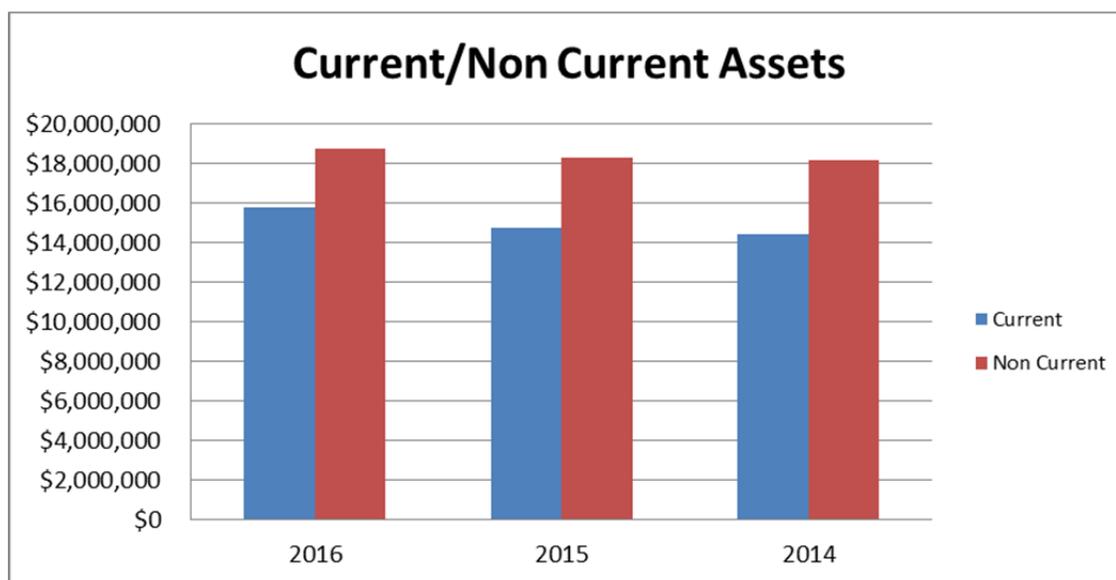
Financial Highlights 2016

Summarized Statements of Net Position (in thousands)

| | 2016 | 2015 | 2014 |
|---------------------------|------------------|------------------|------------------|
| Current Assets | \$ 15,794 | \$ 14,751 | \$ 14,430 |
| Non-Current Assets | 18,737 | 18,271 | 18,199 |
| Total Assets | 34,531 | 33,022 | 32,629 |
| Current Liabilities | 1,047 | 302 | 284 |
| Total Liabilities | 1,047 | 302 | 284 |
| Restricted | | | |
| Permanently Restricted | 18,737 | 18,271 | 18,199 |
| Temporarily Restricted | 12,545 | 12,510 | 12,234 |
| Unrestricted | 2,202 | 1,939 | 1,912 |
| Total Net Position | \$ 33,484 | \$ 32,720 | \$ 32,345 |

Foundation Assets

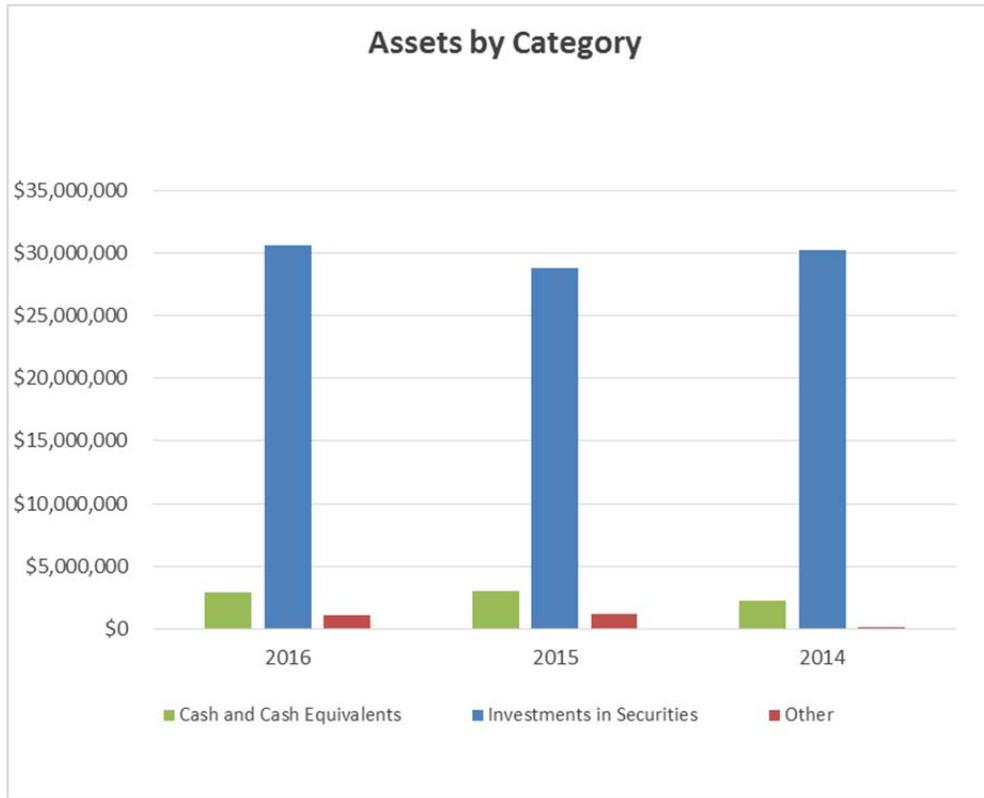
The total assets of the Foundation as of December 31, 2016, were \$34.5 million. This reflected an increase of \$1.5 million from the previous year of \$33 million; and in 2015, an increase of \$0.4 million from 2014 of \$32.6 million. The chart below compares the assets between current and non-current assets for the years 2016, 2015, and 2014.



Assets by Category

The chart on page 5 summarizes assets as of December 31, 2016, 2015, and 2014 by category. The major changes in assets from the previous year (2015) are the increase of investments by \$1.8 million and a slight decrease of pledges by \$0.2 million. Furthermore, the major changes in assets from 2014 are the decrease of investments by \$1.4 million and an increase of pledges by \$1.05 million.

| | 2016 | 2015 | 2014 |
|---------------------------|----------------------|----------------------|----------------------|
| Cash and Cash Equivalents | \$ 2,896,178 | \$ 2,998,355 | \$ 2,269,591 |
| Investments in Securities | 30,568,072 | 28,795,638 | 30,189,584 |
| Pledges | 1,067,327 | 1,228,269 | 169,787 |
| Total Assets | \$ 34,531,577 | \$ 33,022,262 | \$ 32,628,962 |



Liabilities

As of December 31, 2016, the liabilities amounted to \$1.04 million, included in this amount is \$0.89 million in 7 annuity contracts. The corresponding annuity liability as of December 31, 2015 and 2014 was \$0.30 million and \$0.23 million which held 6 annuities for the represented years, respectively.

Net Position

The Foundation's components of the net position for the fiscal years ended December 31, 2016, 2015 and 2014 are shown in the following table.

Analysis of Components of Net Position

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|------------------------|----------------------|----------------------|----------------------|
| Permanently Restricted | \$ 18,737,233 | \$ 18,270,602 | \$ 18,198,491 |
| Temporarily Restricted | 12,544,619 | 12,510,358 | 12,234,330 |
| Unrestricted | <u>2,202,448</u> | <u>1,939,176</u> | <u>1,912,363</u> |
| Total Net Assets | <u>\$ 33,484,300</u> | <u>\$ 32,720,136</u> | <u>\$ 32,345,184</u> |

The primary reason for the increase of \$0.77 million in total net assets from 2015 to 2016 is the increase 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>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|
| Operating Revenues & Expenses | | | |
| Total Operating Revenue | \$ 2,409 | \$ 3,270 | \$ 1,997 |
| Total Operating Expenses | <u>(3,743)</u> | <u>(3,410)</u> | <u>(3,287)</u> |
| Loss from Operations | <u>(1,334)</u> | <u>(140)</u> | <u>(1,290)</u> |
| Non Operating Revenues | <u>2,098</u> | <u>515</u> | <u>1,965</u> |
| Increase in Net Position | 764 | 375 | 675 |
| Beginning Net Position | <u>32,720</u> | <u>32,345</u> | <u>31,670</u> |
| Net Position | <u>\$ 33,484</u> | <u>\$ 32,720</u> | <u>\$ 32,345</u> |

Revenues

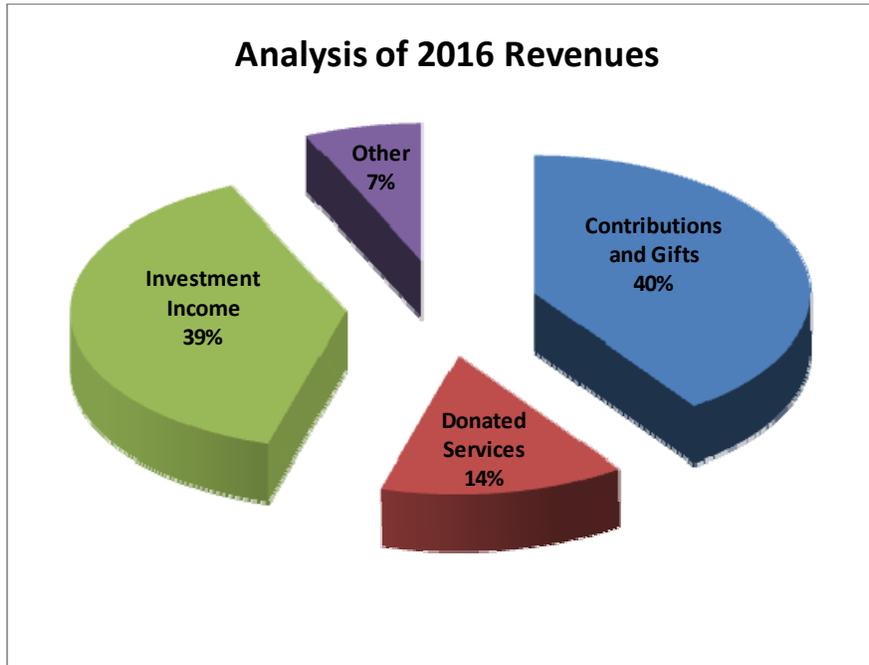
The following table and graphic compares the revenues earned by the Foundation in 2016, 2015, and 2014, by category. The total revenue for 2016 of \$4.5 million represents an increase of \$0.72 million from the 2015 revenue of \$3.78 million. The reason for this difference was an increase in Investment Revenues of \$1.5 million and a decrease in gift revenues of \$ 0.8 million. The total revenue for 2015 of \$3.78 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 Foundation received state provisions under the First Generation in College Matching Grant for the years ended December 31, 2016, 2015, and 2014 in the amount of \$76,163, \$63,960 and \$70,031, respectively.

Revenues for the Years Ended December 31,

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-----------------------|---------------------|---------------------|---------------------|
| Contributions & Gifts | \$ 1,810,911 | \$ 2,587,177 | \$ 1,415,664 |
| Donated Services | 646,320 | 461,467 | 536,189 |
| Investment Income | 1,742,247 | 442,977 | 1,693,323 |
| Fundraising | <u>307,689</u> | <u>293,677</u> | <u>316,815</u> |
| Total Revenue | <u>\$ 4,507,167</u> | <u>\$ 3,785,298</u> | <u>\$ 3,961,991</u> |

During the year ended 2016, the Foundation received a charitable gift annuity agreement in the amount of \$1,000,000, of which only \$306,000 is reflected above in Contributions and Gifts.

The graphic below analyzes the distribution of 2016 revenues by category.



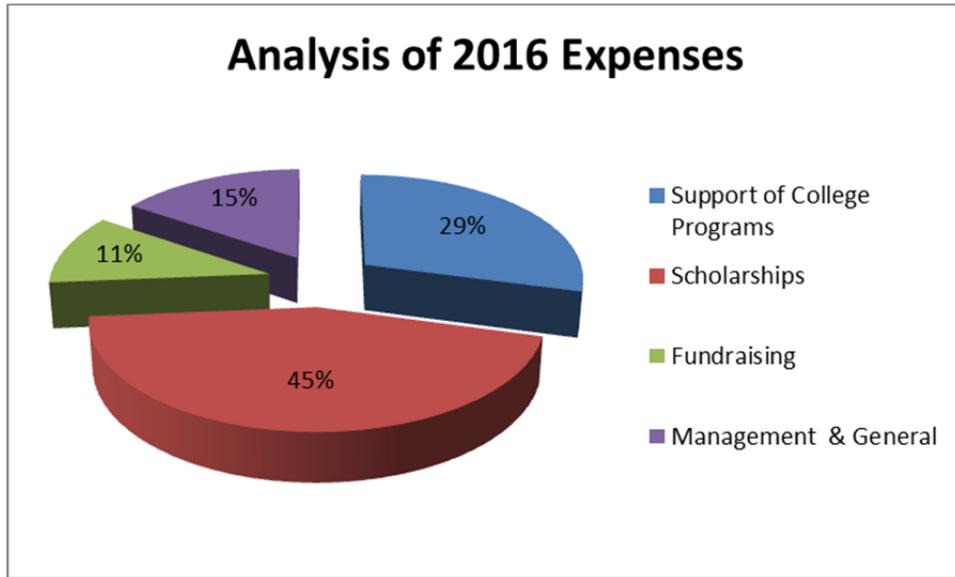
Expenses

Total expenses for 2016 of \$3.7 million represented an increase of \$0.3 million in comparison to 2015 at \$3.4 million. Total expenses for 2015 of \$3.4 million represent a slight increase of \$0.1 million in comparison to 2014 at \$3.3 million. In comparison to the previous years, Support of College Programs, Scholarships, and Management & General for 2016 increased by \$0.3 million causing most of the 2016 increase in expense.

Expenses for the Years Ended December 31,

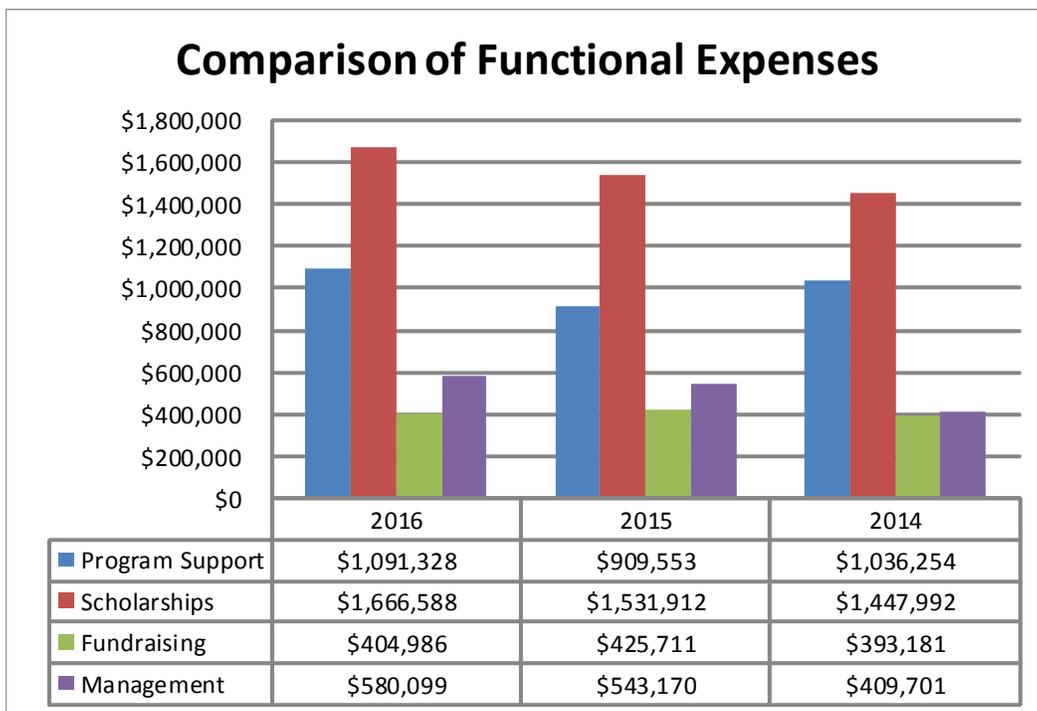
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| Support of College Programs | \$ 1,091,328 | \$ 909,553 | \$ 1,036,254 |
| Scholarships | 1,666,588 | 1,531,912 | 1,447,992 |
| Fundraising | 404,986 | 425,711 | 393,181 |
| Management & General | 580,099 | 543,170 | 409,701 |
| Total | <u>\$ 3,743,001</u> | <u>\$ 3,410,346</u> | <u>\$ 3,287,128</u> |

The graphic below analyzes the distribution of 2016 expenses by category.



Comparative Trend Analysis of Foundation Functional Expenses

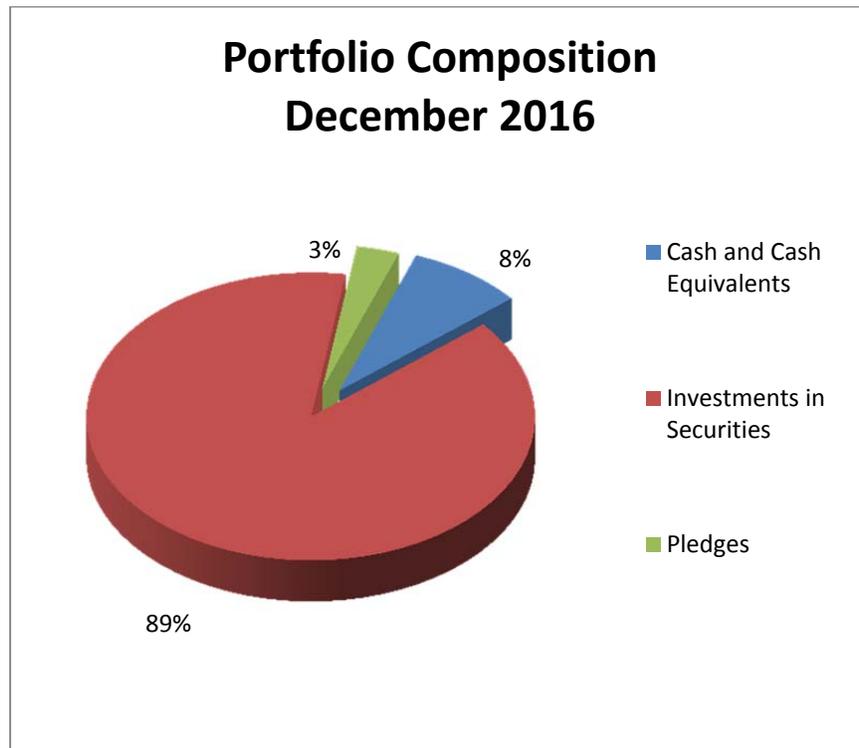
The graphic below compares the Foundation's Functional Expenses - Program Support, Scholarships, Fundraising, and Management Overhead for the periods 2014 through 2016.



Investments Performance

The return on investments as of December 31, 2016 based on the past 12 months actual performance was 5.46% (0.96% for the 12 months ending December 31, 2015).

The total value of the portfolio including cash as of December 31, 2016 was \$32.8 million (\$31.1 million last year). The graphic below presents the composition of the portfolio as of December 31, 2016.



Outlook for 2017

The University of Indiana's Center for Philanthropy is considered the premier national institute for education, research and the study of Philanthropy. The institution annually prepares and presents the Philanthropic Giving Index (PGI) to reveal current trends and future expectations in American philanthropic giving. Their findings include the following observations.

Charities still face a guarded environment for charitable giving despite the increases in the stock market performance. Normally, there is a 1:1 correlation between market performance and gifting. Even with the 10% market increase since the Presidential election, donors remain concerned. There is much unpredictability in domestic policies, international relations and global unrest & terrorism. These weigh heavily on donors. Statistical data has consistently shown that giving is directly correlated to the health of the stock market, mirroring its crests and troughs.

Many granting and giving foundations reported the expectation of improved giving this year due to the increase in wealth recovery. This is bolstered by the stock market's performance during the first quarter of 2017. Nonetheless, individuals, foundations and corporations continue to exercise caution when making commitments.

The Palm Beach County Realtor's Association reported an increase in the number of home sales during 2016 and early 2017. The average cost of a home increased by 10% across the county, so more sales at higher values. Inventory is limited which helps to push the values up in concert with the low mortgage rates.

Unemployment statistics dipped slightly both locally and statewide last month indicating an uptick in business sector activities and an anticipated belief in an improving economic cycle. Specifically, construction companies, which languished during the economic downturn, are now rebounding.

The Foundation has established comprehensive programs which address each of the basic tenets of fundraising: special events, major gifts, annual giving and planned giving. It is following the Strategic Plan to insure opportunities are maximized. President Parker is actively involved in the fundraising efforts, with increased results.

The Foundation continues to build relationships with high net worth individuals, private foundations, and corporations. While the average gift amount was modest, nearly 23% of last year's donors were new or first-time donors, indicating a true success in donor acquisition efforts and abundant opportunities to upgrade or increase the average gift size. As the Foundation remains committed to instituting donor acquisition, recognition, and stewardship programs, great benefits are realized. This year's plans include an increased emphasis on individual donors.

Meanwhile, awareness for the College's needs continues to build through participation in our numerous events including the annual golf tournament and the STEAM luncheon. To date the STEAM Initiative has raised \$2.9 million for scholarships and program support since its inception in 2013. A combined 67 million marketing impressions have sent the message of the need for philanthropic support and re-positioned the college in the community.

The College opened the new Loxahatchee Groves campus with enrollment surpassing projections. The community is impressed with the first building and supports the activities of the campus' further development.

Uninterrupted support through major grants from Virginia and Douglas Stewart Foundation, Skelly Trust, along with the Quantum and Lattner Foundations provides dependable financial support for both programs and scholarships. The Foundation continues to expand the relationships with these cornerstone agencies.

In conjunction with a consultant, the Foundation is beginning preliminary planning and preparation for a comprehensive campaign to support various college initiatives on the five campuses. This campaign should result in increased donations.

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

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

STATEMENTS OF NET POSITION

December 31,

| | 2016 | 2015 |
|--|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,896,178 | \$ 2,998,355 |
| Grants receivable | 12,830 | 9,450 |
| Pledges receivable, net | 982,851 | 1,162,824 |
| Investments | 11,830,839 | 10,525,036 |
| Prepaid items | 71,646 | 55,995 |
| Total current assets | 15,794,344 | 14,751,660 |
| Noncurrent assets | | |
| Investments | 18,737,233 | 18,270,602 |
| Total assets | 34,531,577 | 33,022,262 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 99,964 | 78,096 |
| Annuities payable | 893,078 | 203,830 |
| Unearned revenues | 54,235 | 20,200 |
| Total current liabilities | 1,047,277 | 302,126 |
| NET POSITION | | |
| Restricted for permanent endowments | 18,737,233 | 18,270,602 |
| Restricted for student assistance and College programs | 12,544,619 | 12,510,358 |
| Unrestricted | 2,202,448 | 1,939,176 |
| Total net position | \$ 33,484,300 | \$ 32,720,136 |

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,

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Contributions and gifts | \$ 1,455,087 | \$ 2,515,067 |
| Grants and matching funds | 76,163 | 63,960 |
| Donated services | 646,320 | 461,467 |
| Special events income | 228,904 | 229,613 |
| Other revenues | 2,620 | 102 |
| Total operating revenues | 2,409,094 | 3,270,209 |
| Operating Expenses | | |
| Support of College programs | 1,091,328 | 909,553 |
| Scholarships | 1,666,588 | 1,531,912 |
| Management and general | 580,099 | 543,170 |
| Fundraising | 404,986 | 425,711 |
| Total operating expenses | 3,743,001 | 3,410,346 |
| Loss from operations | (1,333,907) | (140,137) |
| Nonoperating revenues (expenses) | | |
| Contributions to endowments | 355,824 | 72,110 |
| Net realized and unrealized gains (losses) on investments | 1,071,814 | (288,682) |
| Interest and dividend income | 670,433 | 731,659 |
| Total nonoperating revenues | 2,098,071 | 515,087 |
| Increase in net position | 764,164 | 374,950 |
| Net position, beginning of year | 32,720,136 | 32,345,186 |
| Net position, end of year | \$ 33,484,300 | \$ 32,720,136 |

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,

| | 2016 | 2015 |
|--|---------------------|-----------------------|
| Cash flows from operating activities | | |
| Contributions received | \$ 2,354,962 | \$ 1,456,628 |
| Other revenue received | 862,194 | 679,854 |
| State grants received | 76,163 | 63,960 |
| Payments to the College for scholarships | (1,091,328) | (909,553) |
| Payments to support College programs | (1,666,588) | (1,531,912) |
| Payments to suppliers | (549,081) | (513,535) |
| Payments for fundraising | (404,986) | (425,711) |
| Net cash used in operating activities | (418,664) | (1,180,269) |
| Cash flows from noncapital financing activities | | |
| Restricted contributions received | 355,824 | 72,110 |
| Cash flows from investing activities | | |
| Investment income received | 670,433 | 731,659 |
| Proceeds from sales and maturities of investments | (293,952) | 1,511,932 |
| Purchase of investments | (415,818) | (406,668) |
| Net cash (used in) provided by investing activities | (39,337) | 1,836,923 |
| Net (increase) decrease in cash and cash equivalents | (102,177) | 728,764 |
| Cash and cash equivalents, beginning of year | 2,998,355 | 2,269,591 |
| Cash and cash equivalents, end of year | <u>\$ 2,896,178</u> | <u>\$ 2,998,355</u> |
| Reconciliation of net operating loss to net cash flows used in operating activities | | |
| Operating loss | \$ (1,333,907) | \$ (140,137) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | |
| Decrease (increase) in operating assets | | |
| Receivables | (3,380) | (9,150) |
| Unconditional pledges receivable | 179,973 | (1,038,004) |
| Other assets | (15,651) | (11,328) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 31,018 | 29,635 |
| Annuities payable | 689,248 | (31,485) |
| Unearned revenues | 34,035 | 20,200 |
| Net cash used in operating activities | <u>\$ (418,664)</u> | <u>\$ (1,180,269)</u> |

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, 2016 and 2015

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 is 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** - The Foundation is a direct support organization for, and a component unit of, the College and therefore is reported on the College's Financial Statement. The Foundation's presentation of financial results conforms 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:
 - Statements of Net Position
 - Statements of Revenues, Expenses and Changes in Net Position
 - Statements of Cash Flows
 - Notes to Financial Statements

3. **Basis of accounting** - The Foundation follows the FASB Pronouncements for revenue recognition; however as a direct support organization of the College, financial information conforms to GASB standards for presentation purposes. The 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, 2016 and 2015

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 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 statements 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, the restricted component of net position 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, 2016 and 2015

**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 at the measurement date. 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.

The Foundation's investments at December 31, 2016, are reported at fair value, as follows:

| | Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1) |
|---|---|
| | |
| Debt Securities | |
| U.S. guaranteed obligations | \$ 2,085,563 |
| Domestic bonds and notes | 3,137,301 |
| Total Debt Securities | 5,222,864 |
| Equity Securities | |
| Domestic stocks | 11,490,021 |
| International stocks | 2,958,370 |
| Total Equity Securities | 14,448,391 |
| Investments not measured at Net Assets Value (NAV) | |
| Mutual funds | 8,572,689 |
| Real estate investments | 2,324,129 |
| Total Investments not measured at NAV | 10,896,818 |
| Total Investments measured at Fair Value | \$ 30,568,073 |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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 2016 and 2015.

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:

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, 2016 and 2015, personnel costs were \$519,505 and \$461,467, respectively.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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, 2016 and 2015 was \$11,708 and \$19,968, 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 2013.

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.

Palm Beach State College Foundation, Inc.
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NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 1.8% and 2.0% at December 31, 2016 and 2015 respectively.

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

| | 2016 | 2015 |
|---|--------------|--------------|
| Unconditional promises receivable (pledges) | | |
| before unamortized discount | \$ 1,044,000 | \$ 1,216,237 |
| Less unamortized discount | (61,149) | (53,413) |
| | \$ 982,851 | \$ 1,162,824 |
| Pledges are due to be collected as follows: | | |
| Less than one year | \$ 334,000 | \$ 411,237 |
| More than one year | 648,851 | 751,587 |
| | \$ 982,851 | \$ 1,162,824 |

NOTE C - DEPOSITS AND INVESTMENTS

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

| | Credit Quality | Average Maturity | 2016 | 2015 |
|---------------------------|-------------------|---------------------|---------------|---------------|
| Cash and cash equivalents | Not rated | N/A | \$ 2,896,178 | \$ 2,998,355 |
| Corporate bonds | B+-AA+ | 5-10 years | 1,897,493 | 2,653,120 |
| U.S. Government notes | N/A | 4-10 years | 3,691,678 | 2,806,786 |
| Mutual funds | N/A | N/A | 8,572,689 | 7,880,003 |
| Equity securities | N/A | N/A | 12,053,348 | 11,056,121 |
| Alternative investments | N/A | N/A | 4,352,864 | 4,399,608 |
| | | | \$ 33,464,250 | \$ 31,793,993 |

As presented on the Statement of Net Position:

| | 2016 | 2015 |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 2,896,178 | \$ 2,998,355 |
| Current investments | 11,830,839 | 10,525,036 |
| Noncurrent investments | 18,737,233 | 18,270,602 |
| | \$ 33,464,250 | \$ 31,793,993 |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE C - DEPOSITS AND INVESTMENTS (continued)

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, 2016, the Foundation's total bank balance was \$765,347 and the Foundation has cash with MLTC in the amount of \$2,265,526. As of December 31, 2016, 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, 2016, the Foundation has investments in corporate bonds and is therefore subject to interest rate risk.

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, 2016, 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, 2016, 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:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-----------------|-----------------|
| Office furniture and equipment | \$ 31,770 | \$ 31,770 |
| Accumulated depreciation | <u>(31,770)</u> | <u>(31,770)</u> |
| Total net capital assets | <u>\$ -</u> | <u>\$ -</u> |

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE E - GIFT ANNUITIES

The Foundation is party to seven charitable gift annuity agreements as of December 31, 2016. 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 the Internal Revenue Service guidelines and actuarial tables. Discount rates on these obligations range from 1.6% to 2.2%.

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, 2016 and 2015, the investment fund balance was \$1,474,989 for 7 annuities and \$480,011 for 6 annuities, respectively, which is presented with the other Foundation investments. As of December 31, 2016 and 2015, the annuity payable is \$893,078 and \$203,830, 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 the 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 2016 and 2015. The Foundation's general spending was calculated within the policy guidelines.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE F - ENDOWMENTS (continued)

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

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Total endowment balance | \$ 25,926,946 | \$ 25,566,533 |
| Less amounts restricted for student assistance and college programs | <u>7,189,713</u> | <u>7,295,931</u> |
| Restricted for permanent endowments | <u>\$ 18,737,233</u> | <u>\$ 18,270,602</u> |

All assets of the Foundation are considered restricted. For 2016, the amount restricted for student assistance and college programs totals \$12,544,619, which is made up of the temporarily restricted endowments of \$7,189,713 and the temporarily restricted amounts related to non-endowment contributions of \$5,354,906. 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.

NOTE G - STATE GRANT

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, 2016 and 2015, the Foundation's First Generation in College Matching Grant funds is \$76,163 and \$63,960, 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 2016. 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 18, 2017, 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, 2016, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated April 18, 2017.

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 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 18, 2017
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP