

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

**FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

BERMAN HOPKINS  
WRIGHT & LAHAM  
CPAS AND ASSOCIATES, LLP

## TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14
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 <i>GOVERNMENT AUDITING STANDARDS</i>	23

## 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, 2018 and 2017, 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, 2018 and 2017, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 23, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's 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

May 3, 2019  
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, 2018, 2017 and 2016**

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, 2018, 2017, and 2016. 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"). These Financial Statements are presented in the Governmental Accounting Standards Board ("GASB") format for reporting as a component unit in the College's Financial Statements. The financial statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows.

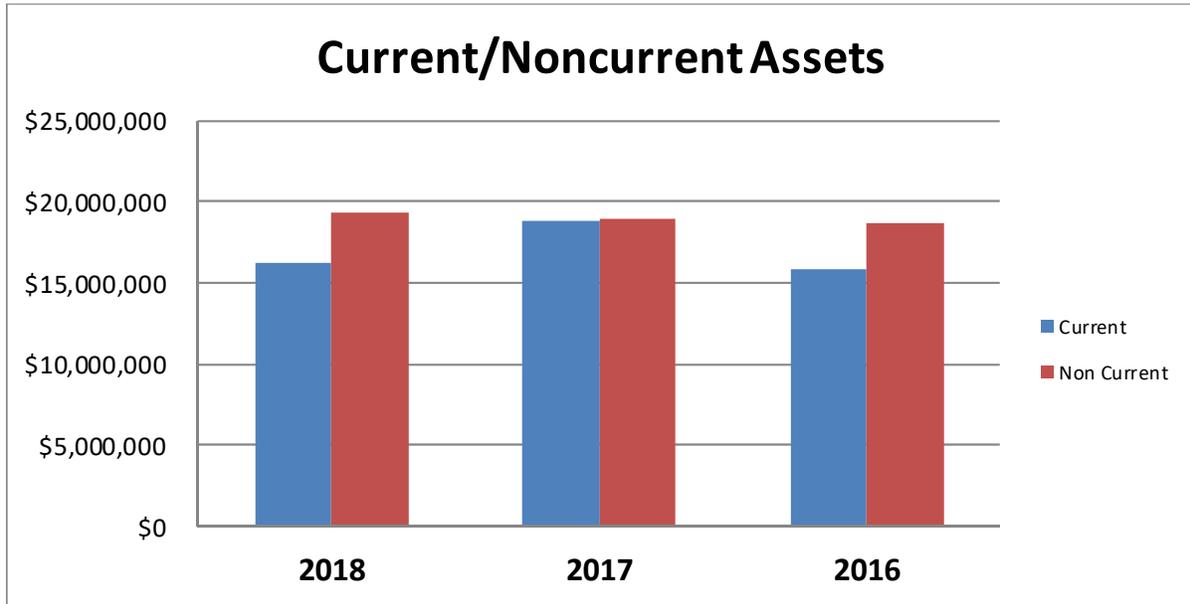
**Financial Highlights**

Summarized Statements of Net Position (in thousands)

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Current Assets	\$ 16,245	\$ 18,832	\$ 15,794
Noncurrent Assets	19,292	18,925	18,737
<b>Total Assets</b>	<b>35,537</b>	<b>37,757</b>	<b>34,531</b>
Current Liabilities	929	245	240
Noncurrent Liabilities	763	870	807
<b>Total Liabilities</b>	<b>1,692</b>	<b>1,115</b>	<b>1,047</b>
Donor restricted	31,174	33,507	31,282
Not donor restricted	2,671	3,135	2,202
<b>Total Net Position</b>	<b>33,845</b>	<b>36,642</b>	<b>33,484</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 35,537</b>	<b>\$ 37,757</b>	<b>\$ 34,531</b>

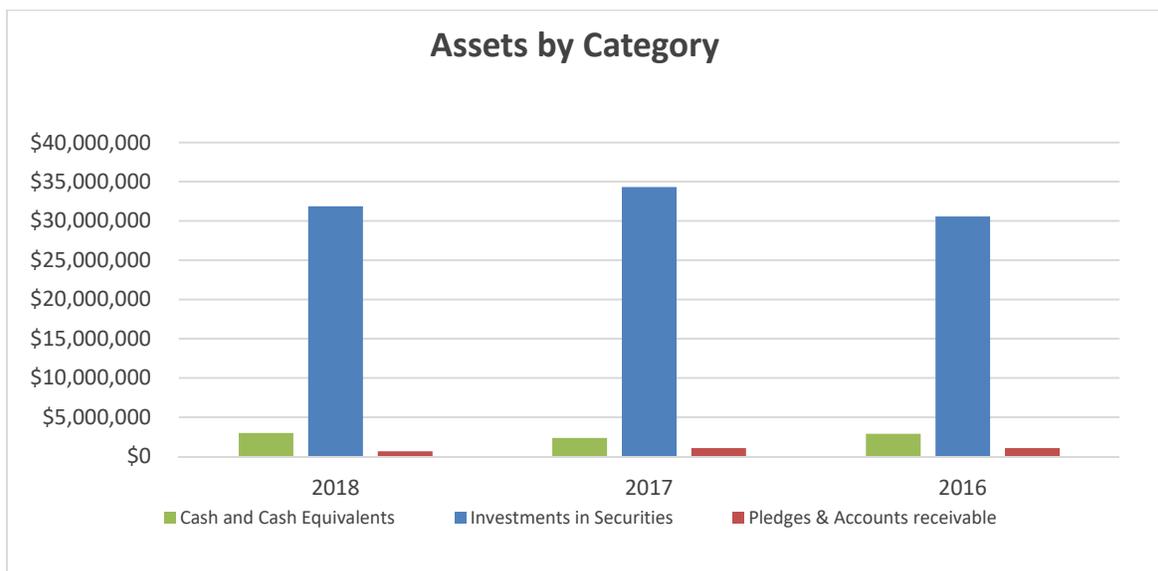
## Foundation Assets

The total assets of the Foundation as of December 31, 2018, were \$35.5 million. This reflected a decrease of \$2.2 million from the previous year of \$37.7 million; and in 2017, an increase of \$3.2 million from the 2016 total of \$34.5 million. The chart below compares the assets between current and non-current assets for the years 2018, 2017, and 2016



## Assets by Category

The chart below summarizes assets as of December 31, 2018, 2017, and 2016 by category. The major changes in assets from the previous year (2017) are the decrease of investments by \$2.4 million and a decrease in pledges & accounts receivable by \$0.4 million. The major changes in assets from 2016 to 2017 are the increase of investments by \$3.7 million.



## Liabilities

As of December 31, 2018, the liabilities amounted to \$1.7 million, included in this amount is \$0.86 million for 8 annuity contracts. The corresponding annuity liability as of December 31, 2017 and 2016 was \$0.96 million and \$0.89 million, for 7 annuities each year.

## Net Position

The Foundation's components of the net position for the fiscal years ended December 31, 2018, 2017 and 2016 are shown in the following table in thousands.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Permanently Restricted	\$ 19,292	\$ 18,925	\$ 18,737
Temporarily Restricted	11,882	14,583	12,545
Unrestricted	<u>2,671</u>	<u>3,135</u>	<u>2,202</u>
<b>Total Net Assets</b>	<b><u>\$ 33,845</u></b>	<b><u>\$ 36,643</u></b>	<b><u>\$ 33,484</u></b>

The primary reason for the decrease of \$2.8 million in total net assets from 2017 to 2018 is the decrease of the Foundation Investments (\$2.4 million) and decrease in Pledges and Receivables (\$0.4 million), as previously stated under the paragraph for Assets by Category.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Operating Revenues &amp; Expenses</b>			
Total Operating Revenue	\$ 2,639	\$ 2,521	\$ 2,409
Total Operating Expenses	<u>(4,494)</u>	<u>(4,064)</u>	<u>(3,743)</u>
<b>Loss from Operations</b>	<u>(1,855)</u>	<u>(1,543)</u>	<u>(1,334)</u>
<b>Nonoperating Revenues &amp; Expenses</b>			
Contributions to endowments	361	108	356
Net realized and unrealized gains (losses) on investments	(2,157)	3,909	1,072
Interest and dividend income	<u>854</u>	<u>684</u>	<u>670</u>
<b>Total Non Operating Revenues (Expenses)</b>	<u>(942)</u>	<u>4,701</u>	<u>2,098</u>
Change in Net Position	(2,797)	3,158	764
Net Position, beginning of year	<u>36,642</u>	<u>33,484</u>	<u>32,720</u>
<b>Net Position, end of year</b>	<b><u>\$ 33,845</u></b>	<b><u>\$ 36,642</u></b>	<b><u>\$ 33,484</u></b>

## Revenues

The following table and graphic compares the revenues earned by the Foundation in 2018, 2017, and 2016, by category. The total revenue for 2018 of \$1.7 million represents a decrease of \$5.5 million from the 2017 revenue of \$7.2 million. The primary reason for this difference was change in investment of \$5.9 million. The total revenue for 2017 of \$7.2 million represents an increase of \$2.7 million from the 2016 revenue of \$4.5 million. The reason for this difference was an increase in Investment Revenues of \$2.8 million and a combined decrease in other revenues of \$0.1 million. The Foundation received state provisions under the First Generation in College Matching Grant for the years ended December 31, 2018, 2017, and 2016 in the amount of \$128,467, \$131,528, and \$76,163 respectively.

### Revenues for the Years Ended December 31, (in thousands)

	2018	2017	2016
Contributions & Gifts	\$ 1,739	\$ 1,516	\$ 1,811
Donated Services	799	714	646
Fundraising	462	400	308
<b>Total Operating Revenue</b>	3,000	2,630	2,765
Investment Income (loss)	(1,303)	4,593	1,742
<b>Total Revenue</b>	<b>\$ 1,697</b>	<b>\$ 7,223</b>	<b>\$ 4,507</b>

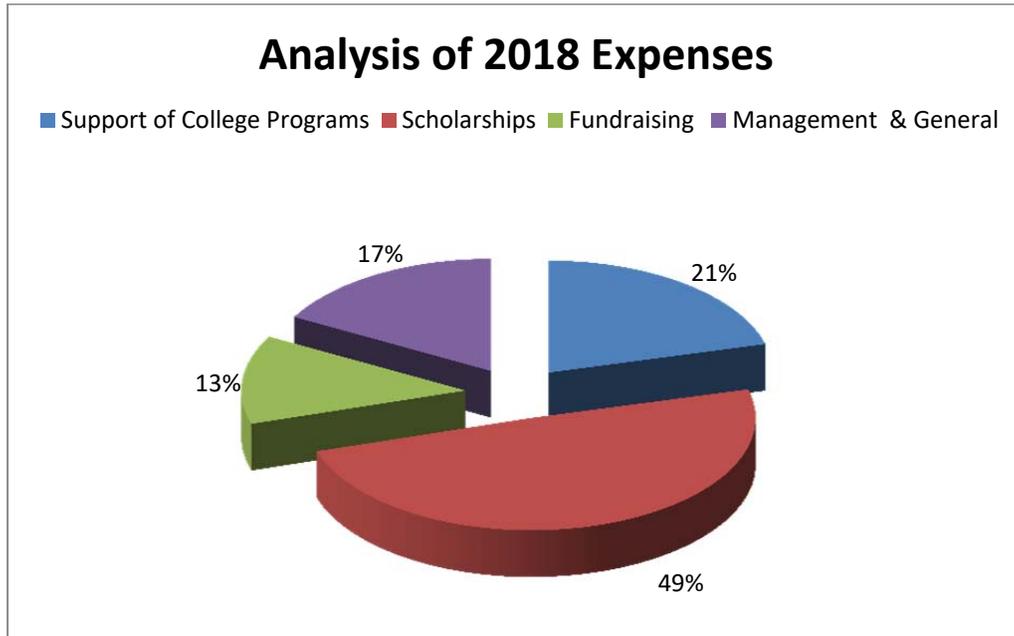
## Expenses

Total expenses for 2018 of \$4.5 million represented an increase of \$0.5 million in comparison to 2017 at \$4.0 million. The increase is mainly due to an increase in Scholarship disbursements of \$0.5 million in 2018.

### Expenses for the Years Ended December 31, (in thousands)

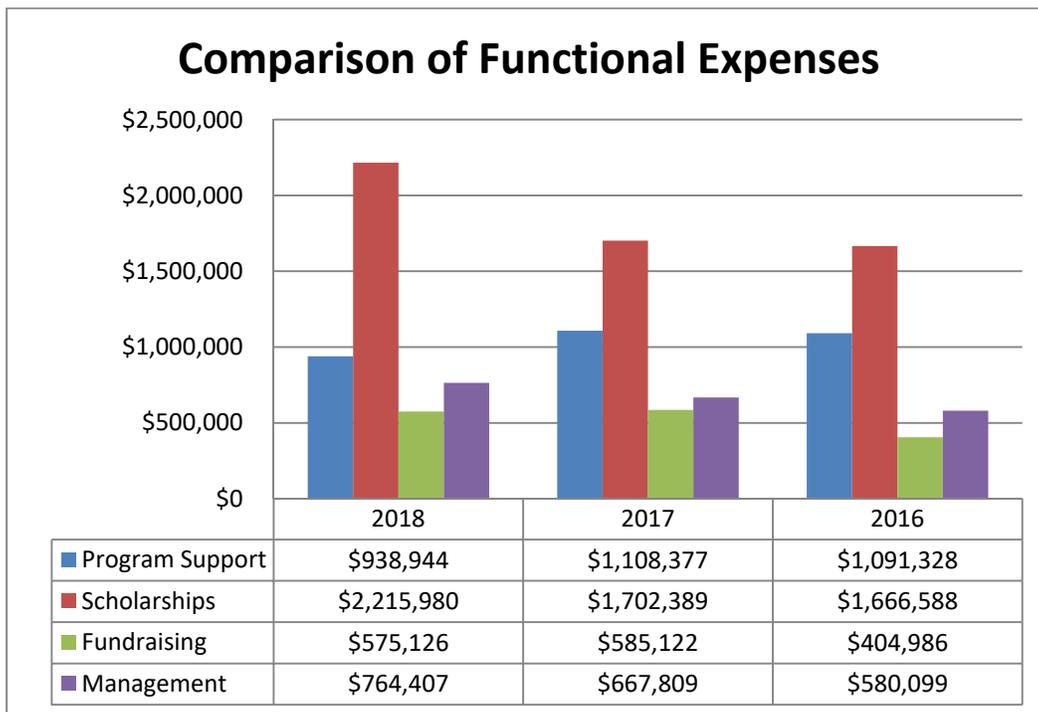
	2018	2017	2016
Support of College Programs	\$ 939	\$ 1,108	\$ 1,091
Scholarships	2,216	1,702	1,667
Fundraising	575	585	405
Management & General	764	668	580
<b>Total</b>	<b>\$ 4,494</b>	<b>\$ 4,063</b>	<b>\$ 3,743</b>

The graphic below analyzes the distribution of 2018 expenses by category.



### Comparative Trend Analysis of Foundation Functional Expenses

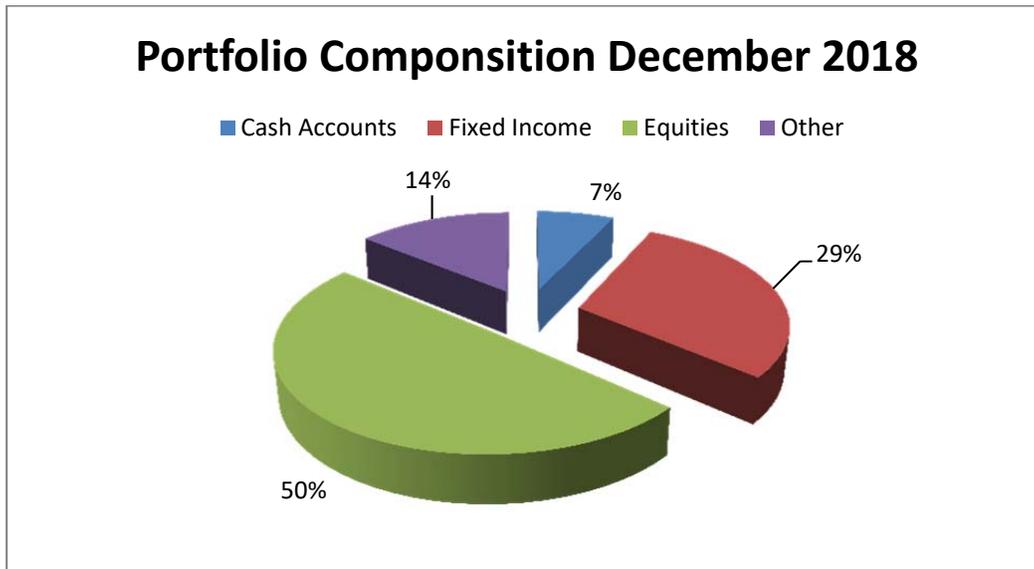
The graphic below compares the Foundation's Functional Expenses - Program Support, Scholarships, Fundraising, and Management Overhead for the periods 2016 through 2018.



## Investments Performance

The return on investments as of December 31, 2018 based on the past 12 months actual performance was -4.27% (15.14% for the 12 months ending December 31, 2017).

The total value of the portfolio including cash as of December 31, 2018 was \$34.9 million (\$36.7 million last year). The graphic below presents the composition of the portfolio as of December 31, 2018.



## Outlook 2019

The Palm Beach State College Foundation, Inc. is the 501 (c)(3) direct support organization for Palm Beach State College and is the cornerstone of the Office of Institutional Advancement, which includes Resource and Grant Development, Major Gift Fundraising, and College Relations, Marketing and Communications.

The mission of the Office of Institutional Advancement is to increase awareness of, engagement in and philanthropic giving to Palm Beach State College through a broad range of activities that serve as a framework for creating lasting relationships and building support from a variety of constituencies, alumni and community members. The Institutional Advancement team is committed to delivering responsive, professional and timely service to all its stakeholders while pursuing the College's vision and assisting in fulfilling its mission.

For 2019, the Foundation plans to provide increased support for the College as the College's needs are considerable. Despite the fact that the Florida College System serves approximately 800,000 students - over 50,000 of which are PBSC students, state support of the college system has declined significantly. The top legislative funding priority for the College for 2019 is \$27 million for our Dental and Medical Technology building on our Loxahatchee Groves campus. The current PBSC Dental Health Sciences Building houses the Dental Hygiene AS Program, the Dental Assisting PSAV Program and the Atlantic Coast Dental Research Clinic. Palm Beach State College (PBSC) has the only accredited Dental Hygiene and Assisting programs in Palm Beach County. The current facility at Lake Worth was built in 1962 and can no longer accommodate the necessary renovations to meet the technology demands within the profession. Additionally, the new facility has been expanded to include surgical technologist and physical therapy assistant programs. The total cost of the facility is \$42 million and the College has committed to matching \$10 million with community-raised funds.

To prepare for the negative effects of reduced state funding, in addition to creating the Office of Institutional Advancement, the College has finalized its 5-year strategic plan (*Panther Strong 2023*), from which the PBSC Foundation will develop its own 5-year strategic plan.

The Foundation will continue to host strategic annual events that attract donors and prospects, including the popular STEAM luncheon and golf tournament; however, there will be an emphasis on cultivating long-term relationships with those who have capacity to make major and transformational gifts in order to meet the College's needs for capital improvements, program support, and student scholarships.

According to *Philanthropy Outlook*<sup>1</sup>, **total giving** in 2019 is predicted to increase by 3.4% and is expected to be higher than the historical 10-year, 25-year, and 40-year annualized average rates of growth. Specific factors that will significantly and positively influence total giving in 2019 include:

- Projected-average growth in the S&P 500
- Growth in personal income, and
- Growth in the preceding years' GDP.

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<sup>1</sup> Data and analysis provided by *Philanthropy Outlook*

Year-over-year growth in the current year's S&P 500 with the exception of the last quarter of 2018 influences individual/household giving for the subsequent year, especially giving by those with median and higher levels of income. In general, growth in personal income for all types of households will positively impact total giving in 2019. In fact, growth in personal income will have the largest influence on total giving during these years.

Other factors that will positively influence total giving in 2019 include close-to-average growth in household and nonprofit net worth in the preceding years and above-average growth in the number of itemizers in the projected years.

The projection for giving by **individuals/households** in 2019 is above the flat rate of change for giving of this type during the prior 10-year period, but below the historical 25-year and 40-year annualized average rates of growth. A large body of work demonstrates, with few exceptions, the link between household income and wealth and philanthropic giving. In general, as income and wealth increase, so do the amounts that households give to charity. An increase in the number of households that itemize deductions on their taxes suggests that median U.S. household income and wealth are growing.

**Giving to education** is predicted to increase by 3.5% in 2019. The projection for giving to education in 2019 is higher than the historical 10-year and 40-year annualized average growth rate for giving of this type, but lower than the 25-year annualized average. Specific factors that will significantly and positively influence education giving in 2019 include:

- Growth in GDP,
- Growth in consumer expenditures on education services in the preceding years, and
- Growth in consumer expenditures on health in the preceding and projected years.

Major gifts to higher education are projected to continue in 2019, and will impact giving to this subsector. Since institutions of higher education encompass such a wide range of services and activities, donors can make gifts that reflect their unique interests and priorities. Major gifts to higher education institutions have established everything from new scholarships to libraries and health research centers.

For 2019, giving by foundations is predicted to increase by 7.0% and giving by corporations is predicted to increase by 3.2%. Research has shown that, as with giving to other subsectors, the presence of fundraising campaigns and opportunities to give has a positive correlation with philanthropic giving to education. It is likely that educational institutions will continue to benefit from philanthropic investment from individuals, foundations, and corporations in 2019.

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

**STATEMENTS OF NET POSITION**

December 31,

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,997,969	\$ 2,369,883
Contributions receivable	85,542	150,862
Pledges receivable, net	542,721	875,442
Investments	12,577,929	15,387,590
Prepaid items	41,265	48,285
Total current assets	16,245,426	18,832,062
<b>Noncurrent assets</b>		
Investments	19,292,197	18,925,318
<b>Total assets</b>	<b>35,537,623</b>	<b>37,757,380</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	803,722	126,494
Annuities payable	100,287	85,665
Unearned revenues	25,000	32,960
Total current liabilities	929,009	245,119
<b>Noncurrent liabilities</b>		
Annuities payable	763,286	869,707
<b>Total liabilities</b>	<b>1,692,295</b>	<b>1,114,826</b>
<b>NET POSITION</b>		
Restricted		
Permanent endowments	19,292,197	18,925,318
Student assistance and College programs	11,881,668	14,582,532
Unrestricted	2,671,463	3,134,704
<b>Total net position</b>	<b>\$ 33,845,328</b>	<b>\$ 36,642,554</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>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Contributions and gifts	\$ 1,377,762	\$ 1,407,982
Grants and matching funds	222,689	131,528
Donated services	799,397	713,663
Special events income	239,109	266,306
Other revenues	549	1,836
Total operating revenues	2,639,506	2,521,315
 <b>Operating Expenses</b>		
Support of college programs	938,944	1,108,377
Scholarships	2,215,980	1,702,389
Management and general	764,407	667,809
Fundraising	575,126	585,122
Total operating expenses	4,494,457	4,063,697
<b>Loss from operations</b>	(1,854,951)	(1,542,382)
 <b>Nonoperating revenues (expenses)</b>		
Contributions to endowments	361,100	107,920
Net realized and unrealized gains (losses) on investments	(2,157,016)	3,908,717
Interest and dividend income	853,641	683,999
Total nonoperating revenues (expenses)	(942,275)	4,700,636
<b>Change in net position</b>	(2,797,226)	3,158,254
<b>Net position, beginning of year</b>	36,642,554	33,484,300
<b>Net position, end of year</b>	\$ 33,845,328	\$ 36,642,554

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>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Contributions received	\$ 1,676,043	\$ 1,418,378
Other revenue received	1,046,075	1,005,166
State grants received	222,689	131,528
Payments to the college for scholarships	(938,944)	(1,108,377)
Payments to support college programs	(1,754,605)	(1,702,389)
Payments to suppliers	(548,553)	(641,279)
Payments for fundraising	(575,126)	(585,122)
Net cash used in operating activities	(872,421)	(1,482,095)
 <b>Cash flows from noncapital financing activities</b>		
Restricted contributions received	361,100	107,920
 <b>Cash flows from investing activities</b>		
Investment income received	853,641	683,999
Proceeds from sales and maturities of investments	692,434	570,549
Purchase of investments	(406,668)	(406,668)
Net cash (used in) provided by investing activities	1,139,407	847,880
 <b>Net increase (decrease) in cash and cash equivalents</b>	628,086	(526,295)
<b>Cash and cash equivalents, beginning of year</b>	2,369,883	2,896,178
<b>Cash and cash equivalents, end of year</b>	\$ 2,997,969	\$ 2,369,883
 <b>Reconciliation of net operating loss to net cash flows used in operating activities</b>		
Operating loss	\$ (1,854,951)	\$ (1,542,382)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Decrease (increase) in operating assets		
Receivables	65,320	(138,032)
Unconditional pledges receivable	332,722	107,409
Other assets	7,020	23,361
Increase (decrease) in operating liabilities		
Accounts payable	677,228	26,530
Annuities payable	(91,799)	62,294
Unearned revenues	(7,961)	(21,275)
Net cash used in operating activities	\$ (872,421)	\$ (1,482,095)

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, 2018 and 2017**

**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 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, in adherence with the GASB Codification Section Co5, *Colleges and Universities*. This Statement includes public colleges and universities in accordance with GASB Codification Section 2200.140, *Comprehensive Annual Financial Report: General Revenues*. GASB codification Co5, *Colleges and Universities* 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 Financial Accounting Standards Board (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, 2018 and 2017**

**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 Codification Section 2450, *Cash Flows Statements*.

- 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, 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, 2018 and 2017**

**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, 2018, are reported at fair value, as follows:

	<b>Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1)</b>
<b>Debt Securities</b>	
U.S. guaranteed obligations	\$ 4,268,443
Domestic bonds and notes	2,900,725
Total Debt Securities	7,169,168
<b>Equity Securities</b>	
Domestic stocks	9,855,358
International stocks	3,667,907
Total Equity Securities	13,523,265
<b>Investments not measured at Net Assets Value (NAV)</b>	
Mutual funds	10,348,384
Real estate investments	829,309
Money Market Funds	2,997,969
Total Investments not measured at NAV	14,175,662
<b>Total Investments measured at Fair Market Value</b>	<b>\$ 34,868,095</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**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 2018 and 2017.
- 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 Codification Section 1800.155, total net position is classified into three categories:
- 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, 2018 and 2017, personnel costs were \$799,397 and \$671,084 respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**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, 2018 and 2017 was \$9,930 and \$25,548, 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 2015.

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, which was 3.6% and 2.6% at December 31, 2018 and 2017, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE B - PLEDGES (continued)**

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

	<b>2018</b>	<b>2017</b>
Unconditional promises receivable (pledges) before unamortized discount	\$ 617,300	\$ 949,500
Less unamortized discount	(74,579)	(74,058)
	\$ 542,721	\$ 875,442
Pledges are due to be collected as follows:		
Less than one year	\$ 389,800	\$ 352,500
More than one year	152,921	522,942
	\$ 542,721	\$ 875,442

**NOTE C - DEPOSITS AND INVESTMENTS**

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

	<b>Credit Quality</b>	<b>Average Maturity</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	Not rated	N/A	\$ 2,997,969	\$ 2,369,883
Corporate Bonds	AA-B	5-10 years	2,900,725	2,344,352
U.S. Government notes	N/A	4-10 years	4,268,443	4,050,662
Mutual Funds	N/A	N/A	10,348,384	11,838,636
Equity securities	N/A	N/A	13,523,265	15,306,711
Alternative investments	N/A	N/A	829,309	772,546
			\$ 34,868,095	\$ 36,682,791

As presented on the Statement of Net Position:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 2,997,969	\$ 2,369,883
Current investments	12,577,929	15,387,590
Noncurrent investments	19,292,197	18,925,318
	\$ 34,868,095	\$ 36,682,791

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

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**NOTE C - DEPOSITS AND INVESTMENTS (continued)**

The Foundation's investments are mainly 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. A sum of \$50,000 has been invested separately in the Community Foundation for Palm Beach and Martin Counties, as a beneficial interest in assets held by a community foundation in a permanently restricted endowment.

**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 Deposit 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, 2018, the Foundation's total bank balance was \$446,720 and the Foundation has cash with MLTC in the amount of \$2,296,286. As of December 31, 2018, 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, 2018, 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, 2018, 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, 2018, 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>2018</u>	<u>2017</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, 2018 and 2017**

**NOTE E - GIFT ANNUITY**

The Foundation is party to nine charitable gift annuity agreements as of December 31, 2018. 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 2.6% to 3.6%.

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, 2018 and 2017, the investment balance was \$1,562,202 and \$1,537,283, respectively, which is presented with the other Foundation investments. As of December 31, 2018 and 2017, the annuity payable is \$863,573 and \$955,372, 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 for 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 2018 and 2017. 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, 2018 and 2017**

**NOTE F - ENDOWMENTS (continued)**

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

	<u>2018</u>	<u>2017</u>
Total endowment balance	\$ 26,193,135	\$ 28,281,206
Less amounts restricted for student assistance and college programs	<u>6,900,938</u>	<u>9,355,888</u>
Restricted for permanent endowments	<u>\$ 19,292,197</u>	<u>\$ 18,925,318</u>

All assets of the Foundation are considered restricted. For 2018, the amount restricted for student assistance and college programs totals \$11,881,668 which is made up of the temporarily restricted endowments of \$6,900,938 and the temporarily restricted amounts related to non-endowment contributions of \$4,980,730. For 2017, the amount restricted for student assistance and college programs totals \$14,582,532 which is made up of the temporarily restricted endowments of \$9,355,888 and the temporarily restricted amounts related to non-endowment contributions of \$5,226,644.

**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, 2018 and 2017, the Foundation's First Generation in College Matching Grant funds is \$222,689 and \$131,528 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 2018. Settled claims resulting from the risks described above have not exceeded the insurance coverage for each of the prior three years.

**NOTE I - COMMENTS AND CONTINGENCIES**

The Foundation is not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed.

**NOTE J - SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through May 3, 2019, 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 years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated May 3, 2019.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free 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.

May 3, 2019  
Melbourne, Florida

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