

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

**FINANCIAL STATEMENTS**

**Years ended December 31,  
2019 and 2018**

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, 2019 and 2018, 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 financial position of the Foundation's business-type activities as of December 31, 2019 and 2018, and the 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 May 15, 2020, 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 15, 2020  
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, 2019 and 2018**

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, 2019 and 2018. 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.

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.

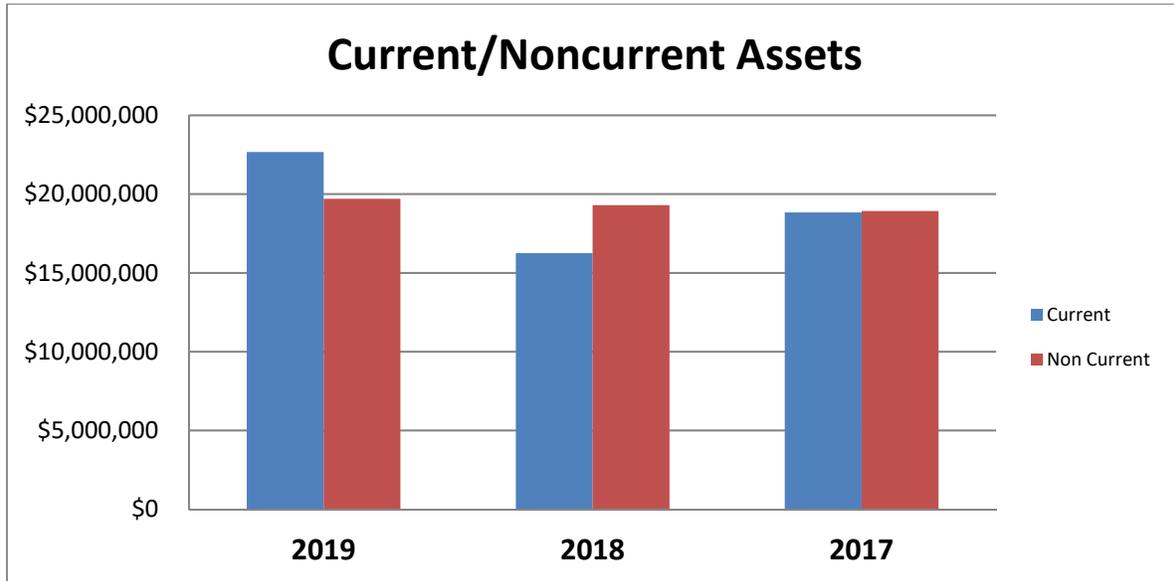
**Financial Highlights**

Summarized Statements of Net Position (in thousands)

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current Assets	\$ 22,664	\$ 16,245	\$ 18,832
Noncurrent Assets	19,699	19,292	18,925
<b>Total Assets</b>	<b>42,363</b>	<b>35,537</b>	<b>37,757</b>
Current Liabilities	509	929	245
Noncurrent Liabilities	781	763	870
<b>Total Liabilities</b>	<b>1,290</b>	<b>1,692</b>	<b>1,115</b>
Restricted			
Permanently Restricted	19,699	19,292	18,925
Temporarily Restricted	17,634	11,882	14,582
Unrestricted	3,740	2,671	3,135
<b>Total Net Position</b>	<b>41,073</b>	<b>33,845</b>	<b>36,642</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 42,363</b>	<b>\$ 35,537</b>	<b>\$ 37,757</b>

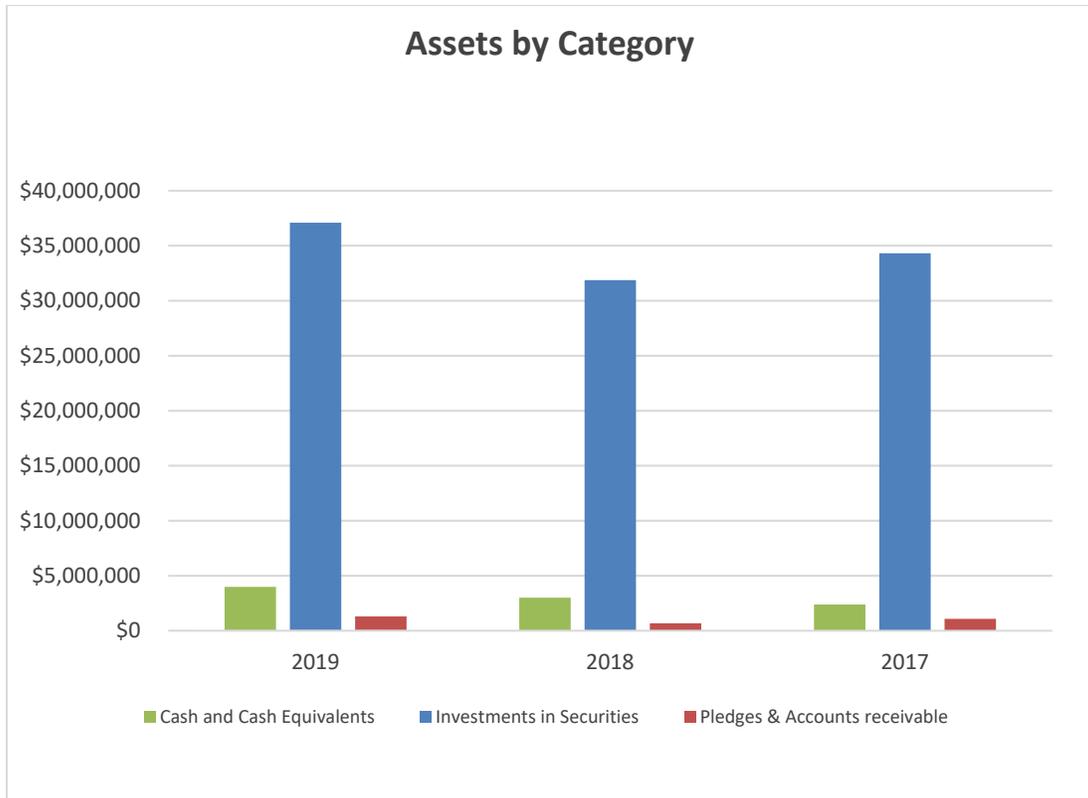
## Foundation Assets

The total assets of the Foundation as of December 31, 2019, were \$42.3 million. This reflected an increase of \$6.8 million from the previous year of \$35.5 million; and in 2018, a decrease of \$2.2 million from the 2017 total of \$37.7 million. The chart below compares the assets between current and non-current assets for the years 2019, 2018, and 2017.



## Assets by Category

The chart below summarizes assets as of December 31, 2019, 2018, and 2017 by category. The major changes in assets from the previous year (2018) are the increase of investments by \$5.2 million, an increase in cash and cash equivalents by \$1 million and an increase in pledges and accounts receivable by \$0.6 million. The major changes in assets from 2017 to 2018 are the decrease of investments by \$2.4 million.



## Liabilities

As of December 31, 2019, the liabilities amounted to \$1.3 million, included in this amount is \$0.85 million for 6 annuity contracts. The corresponding annuity liability as of December 31, 2018 and 2017 was \$0.86 million and \$0.96 million, for 7 annuities in 2018 and 2017.

## Net Position

The Foundation's components of the net position for the fiscal years ended December 31, 2019, 2018 and 2017 are shown in the following table in thousands.

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Permanently Restricted	\$ 19,699	\$ 19,292	\$ 18,925
Temporarily Restricted	17,634	11,882	14,582
Unrestricted	3,740	2,671	3,135
<b>Total Net Position</b>	<b>\$ 41,073</b>	<b>\$ 33,845</b>	<b>\$ 36,642</b>

The primary reason for the increase of \$7.2 million in total net position from 2018 to 2019 is the increase of the Foundation investments (\$5.2 million) and \$0.6 million in pledges and receivables, and the increase in cash and cash equivalents, as previously stated under the paragraph for Assets by Category.

## Operating Results

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Operating Revenues &amp; Expenses</b>			
Total Operating Revenue	\$ 5,358	\$ 2,639	\$ 2,521
Total Operating Expenses	(4,371)	(4,494)	(4,064)
<b>Income (loss) from Operations</b>	<u>987</u>	<u>(1,855)</u>	<u>(1,543)</u>
<b>Nonoperating Revenues &amp; Expenses</b>			
Contributions to endowments	321	361	108
Net realized and unrealized gains (losses) on investments	5,071	(2,157)	3,909
Interest and dividend income	849	854	684
<b>Total Non Operating Revenues (Expenses)</b>	<u>6,241</u>	<u>(942)</u>	<u>4,701</u>
Change in Net Position	7,228	(2,797)	3,158
Net Position, beginning of year	33,845	36,642	33,484
<b>Net Position, end of year</b>	<u><u>\$ 41,073</u></u>	<u><u>\$ 33,845</u></u>	<u><u>\$ 36,642</u></u>

## Revenues

The following table compares the revenues earned by the Foundation in 2019, 2018, and 2017, by category. The total revenue for 2019 of \$11.6 million represents a significant increase of \$9.9 million from the 2018 revenue of \$1.7 million. The primary reason for this difference was the increase in investment income of \$7.2 million and Contributions and Gifts of \$2.5 million. 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 reason for this difference was a decrease in Investment Revenues of \$5.9 million and a combined increase of \$0.4 million in other revenues. The Foundation received state provisions under the First Generation in College Matching Grant for the years ended December 31, 2019, 2018, and 2017 in the amount of \$170,251, \$222,689, and \$104,477 respectively.

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

	2019	2018	2017
Contributions & Gifts	\$ 4,259	\$ 1,739	\$ 1,515
Donated Services	888	799	714
Fundraising	532	462	400
Investment Income (loss)	5,920	(1,303)	4,593
<b>Total Revenue</b>	<b>\$ 11,599</b>	<b>\$ 1,697</b>	<b>\$ 7,222</b>

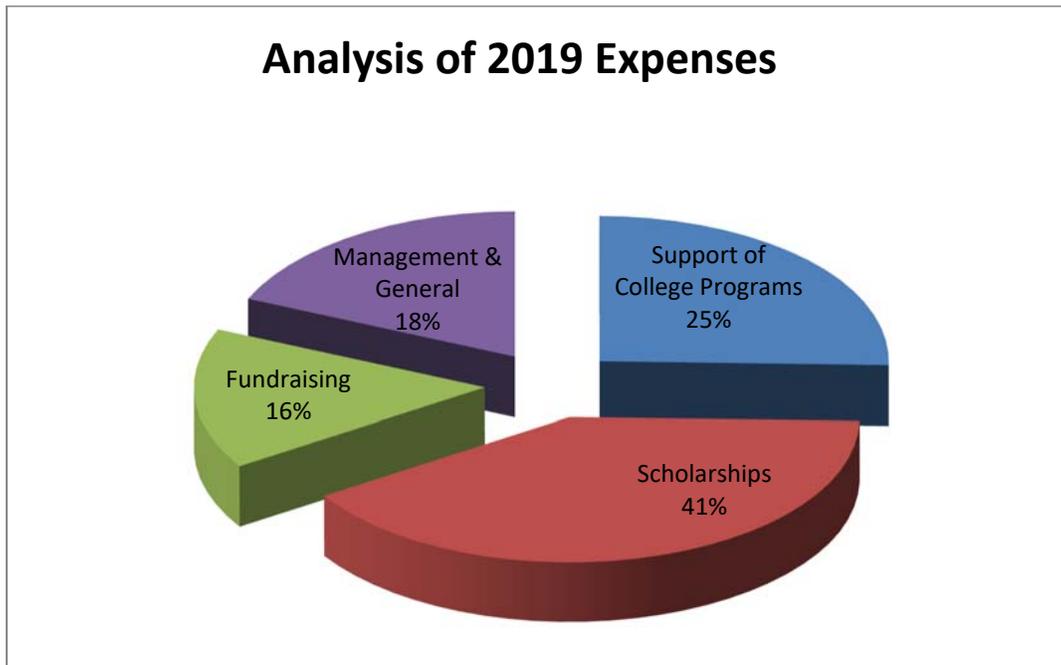
## Expenses

Total expenses for 2019 of \$4.4 million remains slightly below the 2018 expenses of \$4.5 million.

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

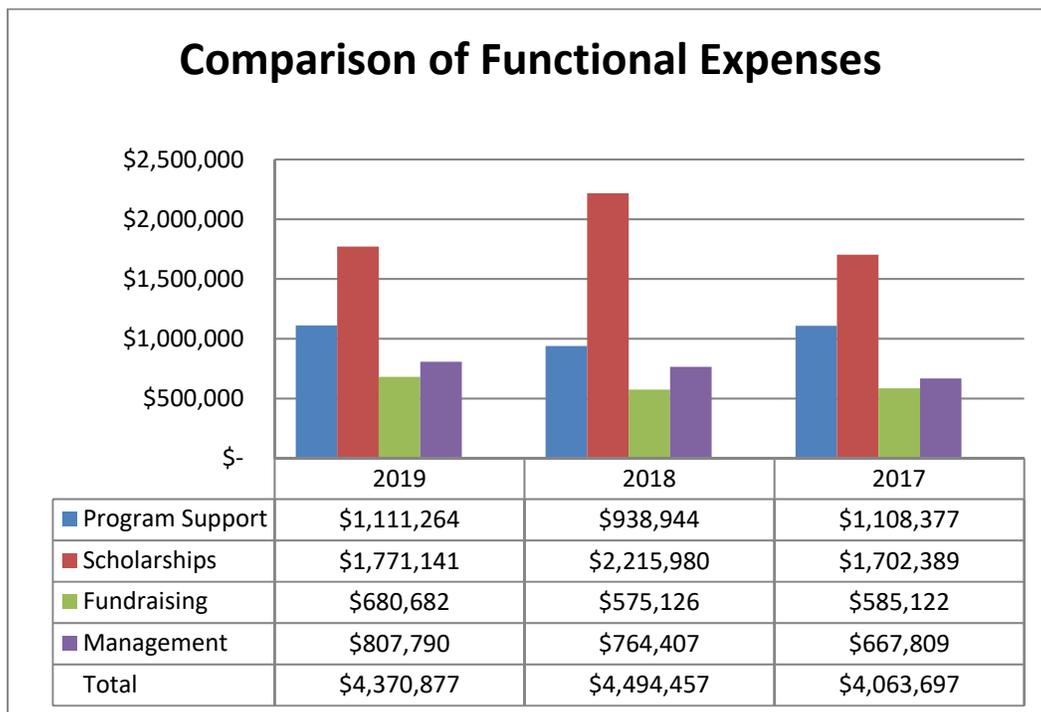
	2019	2018	2017
Support of College Programs	\$ 1,111	\$ 939	\$ 1,108
Scholarships	1,771	2,216	1,702
Fundraising	681	575	585
Management & General	808	764	669
<b>Total</b>	<b>\$ 4,371</b>	<b>\$ 4,494</b>	<b>\$ 4,064</b>

The graphic below analyzes the distribution of 2019 expenses by category.



### Comparative Trend Analysis of Foundation Functional Expenses

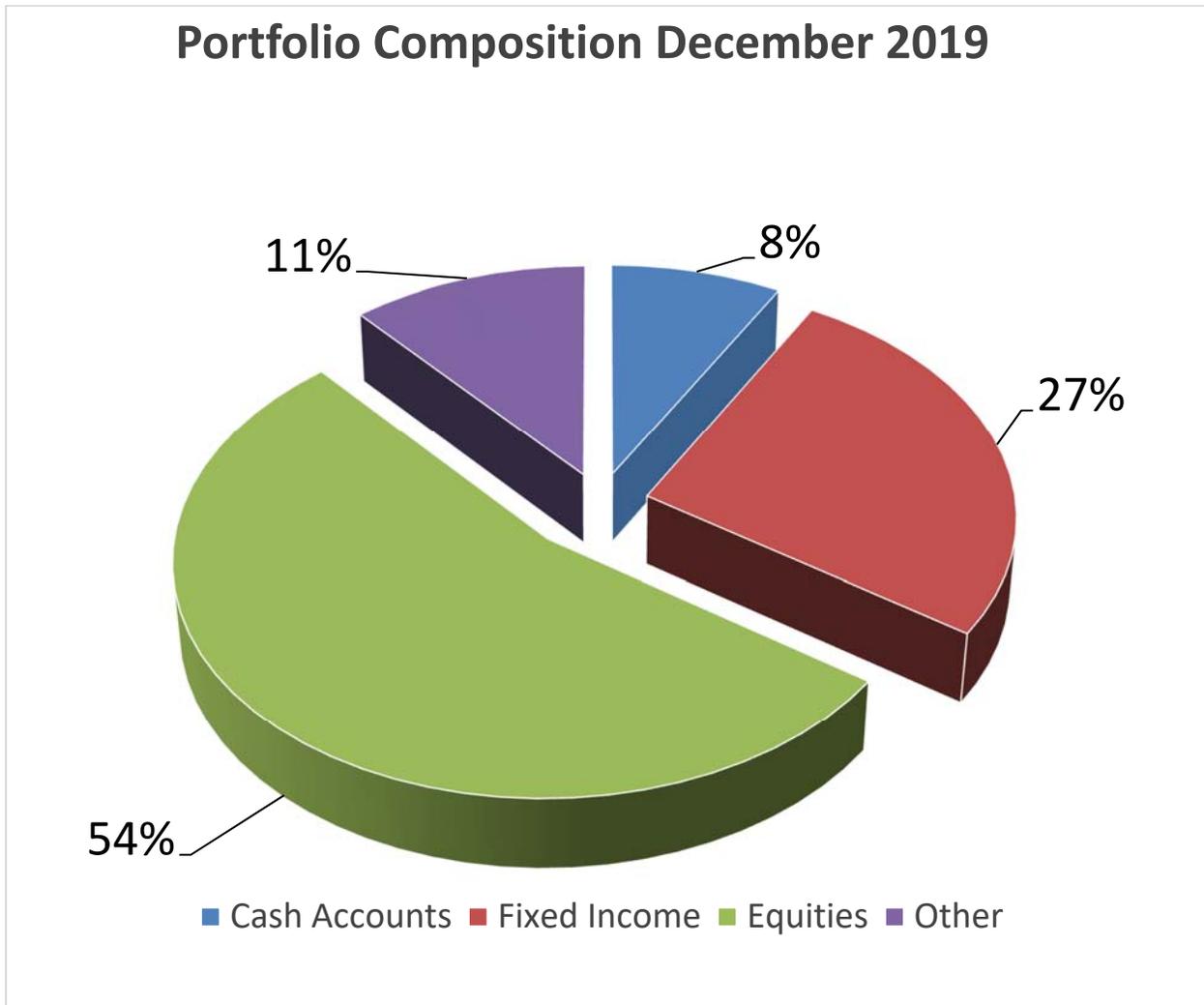
The graphic below compares the Foundation's Functional Expenses - Program Support, Scholarships, Fundraising, and Management Overhead for the periods 2019 through 2017.



## Investments Performance

The return on investments as of December 31, 2019 based on the past 12 months actual performance was 17.81% (-4.27% for the 12 months ended December 31, 2018).

The total value of the portfolio including cash as of December 31, 2019 was \$41.1 million (\$34.9 million last year). The graphic below presents the composition of the portfolio as of December 31, 2019.



## **Outlook 2020**

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.

Established only two years ago, the Office of Institutional Advancement's mission 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 stakeholders while pursuing the College's vision and assisting in fulfilling its mission and 5-year strategic plan (Panther Strong 2023). To date, the area's manifest achievements are a testament to this commitment.

As of this writing, the COVID-19 global pandemic continues to influence every sector of American society. For 2020, while the Foundation is poised to provide consistent support for the College, this health crisis will play a significant role in determining the extent to which the Foundation can fulfill its mission and achieve fundraising goals. The College's unprecedented needs are considerable and Foundation and College leadership, with the assistance of their boards, meet regularly to address and plan for short, mid, and long-term priorities, considering the fluidity of the situation and responding appropriately. For example, interruption of service to students, staff, and community has been minimal. Students have successfully transitioned to online instruction, all non-essential personnel are working remotely, and budgets are currently under review. In short, the Foundation and College are open and continue to serve the community.

However, while the Florida College System serves approximately 800,000 students - over 50,000 of which are PBSC students, state support of the college system continues to decline significantly due to ever-tightening fiscal constraints. The single 2020 Legislative funding priority for the College is a request for \$27 million for the Dental and Medical Services Technology Building on the College's Dennis P. Gallon campus in Loxahatchee Groves. This facility will house programs to meet the rapidly growing demand for healthcare professionals.

The Foundation plans to continue to host strategic annual events that attract donors and prospects, including the popular STEAM luncheon and golf tournament; however, careful consideration will be made regarding the timing and format of these events to ensure prudent use of resources and compliance with CDC guidelines. There will continue to be an emphasis on cultivating long-term relationships with those who have the capacity to make major and transformational gifts to meet the College's needs for capital improvements, program support, and student scholarships.

## Outlook 2020 (continued)

While we are still in the speculative phase of gauging COVID-19's impact on higher education fundraising, the prevailing wisdom points to uncertain times ahead in the short-term. Donors will give less despite the College's need for additional support for the reasons stated above.

The big open question involves the long-term fundraising impact of COVID-19. A growing body of evidence and commentary suggests that short-term fundraising for major projects will grind to a halt. The College and the Foundation will likely seek to focus short-term donor attention on academic services for a growing population of students who were already at a disadvantage in getting to and through college and facilitating quality online learning, as well as access to it. This reality may provide the opportunity to bring disengaged middle-of-the-pyramid donors back into the fold. It also stands to reason that short-term funding priorities centered around access to healthcare and developing a robust pipeline of healthcare professionals could attract donor attention and support.

While President Trump signed the \$2 trillion CARES Act on March 27, 2020, to address the economic impact of the COVID-19 pandemic, ultimately, the cumulative effects this crisis will have on society and the ability of donors to provide support to higher education in 2020-2021 are unknown. It is expected that in the short to mid-term, donors will be focused on urgent needs such as food, housing, and healthcare.

Local, state, and national elections will take place in 2020. In general, political donations have not been found to have a negative impact on charitable giving. In 2020 and 2021, donors may respond to policy changes proposed by potential presidential candidates should they be elected. Regardless, a new wealth-tax would likely create a major incentive for donors to give in the year before the new tax would go into effect.

New legislation may have an impact on charitable giving in the coming years. For instance, several pieces of legislation have proposed a universal charitable deduction as a way for non-itemizing individuals to claim a tax deduction for giving to charity. In late 2019, a bill was introduced that would allow a universal charitable deduction of \$4,000 for individuals and \$8,000 for married couples. A universal charitable deduction is expected to have a positive effect on giving to charity.

For its part, Palm Beach State College Foundation remains steadfast in pursuing its mission by continuing to employ best practices as a direct-support organization, adhering to its conservative investment policy, and developing relationships with its existing and prospective constituents.

For the record, included here is the philanthropic forecast According to *Philanthropy Outlook*<sup>1</sup>, whose findings were released prior to the COVID-19 pandemic.

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

## Outlook 2020 (continued)

It is predicted that overall, Americans could expect philanthropic growth in the coming years:

- The growth rate for total giving is expected to rise above the historical 10-year, 25-year, and 40-year annualized average rates of growth.
- All sources of giving are projected to increase their contributions in 2020 and 2021. Giving by bequest will see the largest increase in 2020, followed by giving by foundations. Giving by foundations will see the largest increase in 2021. Increases in contributions from individuals/households will be higher than increases in gifts made by corporations, which are more tepid.
- Among the recipient subsectors, giving to health is projected to increase the most in 2020 and 2021. In 2020 and 2021, the health, education, and public-society benefit subsectors are expected to see giving rise above the 10-year, 25-year, and 40-year historical trends.

In 2020 and 2021, total giving 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 2020 and 2021 include:

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

Year-over-year growth in the current year's S&P 500 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 2020 and 2021.

Other factors that will positively influence total giving in 2020 and 2021 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.

In 2020, 67.1% of total giving is expected to derive from personal giving, followed by 18.3% from foundations, 9.7% from estates, and 4.9% from corporations. In 2021, the proportion of personal giving and giving by corporations will decline slightly, while the proportion of giving from estates and foundations will rise slightly.

Giving to education is predicted to increase by 5.1% in 2020 and by 5.5% in 2021.

The projections for giving to education in 2020 and 2021 are higher than the historical 10-year, 25-year, and 40-year annualized average growth rate for giving of this type.

## **Outlook 2020 (continued)**

Specific factors that will significantly and positively influence education giving in 2020 and 2021 include:

- Average growth in personal consumption in the preceding years,
- Average growth in GDP, and
- Average growth in consumer expenditures on health in the preceding years.

These factors will account for the majority of the predicted growth in giving to education in these years. However, average growth in consumer expenditures on recreation and average growth in consumer expenditures on nonprofit services will temper these positive effects.

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

**STATEMENTS OF NET POSITION**

December 31,

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,984,250	\$ 2,997,969
Contributions receivable	258,779	85,542
Accrued interest receivable	48,745	-
Pledges receivable, net	905,610	542,721
Investments	17,390,693	12,577,929
Prepaid items	75,902	41,265
Total current assets	22,663,979	16,245,426
<b>Noncurrent assets</b>		
Investments	19,698,917	19,292,197
<b>Total assets</b>	<b>42,362,896</b>	<b>35,537,623</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	406,575	803,722
Annuities payable	65,665	100,287
Unearned revenues	36,354	25,000
Total current liabilities	508,594	929,009
<b>Noncurrent liabilities</b>		
Annuities payable	781,395	763,286
<b>Total liabilities</b>	<b>1,289,989</b>	<b>1,692,295</b>
<b>NET POSITION</b>		
Restricted		
Permanent endowments	19,698,917	19,292,197
Student assistance and College programs	17,634,495	11,881,668
Unrestricted	3,739,495	2,671,463
<b>Total net position</b>	<b>\$ 41,072,907</b>	<b>\$ 33,845,328</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>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
Contributions and gifts	\$ 3,938,011	\$ 1,377,762
Grants and matching funds	260,118	222,689
Donated services	888,345	799,397
Special events income	266,971	239,109
Other revenues	4,918	549
Total operating revenues	5,358,363	2,639,506
 <b>Operating Expenses</b>		
Support of college programs	1,111,264	938,944
Scholarships	1,771,141	2,215,980
Management and general	807,790	764,407
Fundraising	680,682	575,126
Total operating expenses	4,370,877	4,494,457
<b>Income (loss) from operations</b>	987,486	(1,854,951)
 <b>Nonoperating revenues (expenses)</b>		
Contributions to endowments	320,446	361,100
Net realized and unrealized gains (losses) on investments	5,071,065	(2,157,016)
Interest and dividend income	848,582	853,641
Total nonoperating revenues (expenses)	6,240,093	(942,275)
<b>Change in net position</b>	7,227,579	(2,797,226)
<b>Net position, beginning of year</b>	33,845,328	36,642,554
<b>Net position, end of year</b>	\$ 41,072,907	\$ 33,845,328

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>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Contributions received	\$ 3,396,726	\$ 1,676,043
Other revenue received	1,160,234	1,046,075
Federal and state grants received	260,118	222,689
Payments to the college for scholarships	(1,771,141)	(938,944)
Payments to support college programs	(1,238,644)	(1,754,605)
Payments to suppliers	(1,112,194)	(548,553)
Payments for fundraising	(680,682)	(575,126)
Net cash provided by (used in) operating activities	14,417	(872,421)
 <b>Cash flows from noncapital financing activities</b>		
Restricted contributions received	320,446	361,100
 <b>Cash flows from investing activities</b>		
Investment income received	799,837	853,641
Proceeds from sales and maturities of investments	12,425,175	692,434
Purchase of investments	(12,573,594)	(406,668)
Net cash provided by investing activities	651,418	1,139,407
 <b>Net increase (decrease) in cash and cash equivalents</b>	986,281	628,086
<b>Cash and cash equivalents, beginning of year</b>	2,997,969	2,369,883
<b>Cash and cash equivalents, end of year</b>	\$ 3,984,250	\$ 2,997,969
 <b>Reconciliation of net operating income (loss) to net cash flows provided by (used in) operating activities</b>		
Operating income (loss)	\$ 987,486	\$ (1,854,951)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
Decrease (increase) in operating assets		
Receivables	(173,237)	65,320
Pledges receivable	(362,889)	332,722
Other assets	(34,637)	7,020
Increase (decrease) in operating liabilities		
Accounts payable	(397,147)	677,228
Annuities payable	(16,513)	(91,799)
Unearned revenues	11,354	(7,961)
Net cash provided by (used in) operating activities	\$ 14,417	\$ (872,421)

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**

**Years Ended December 31, 2019 and 2018**

**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 Statements. 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 adherence with the GASB Codification Section Co5, *Colleges and Universities*. 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**

**Years Ended December 31, 2019 and 2018**

**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**

**Years Ended December 31, 2019 and 2018**

**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, 2019, are reported at fair value, as follows:

	Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1)
<b>Debt Securities</b>	
U.S. guaranteed obligations	\$ 4,533,776
Domestic bonds and notes	3,298,275
Total Debt Securities	<u>7,832,051</u>
<b>Equity Securities</b>	
Domestic stocks	14,107,327
International stocks	3,196,085
Total Equity Securities	<u>17,303,412</u>
<b>Investments not measured at Net Assets Value (NAV)</b>	
Mutual funds	11,082,867
Real estate investments	871,278
Money Market Funds	3,147,120
Total Investments not measured at NAV	<u>15,101,265</u>
<b>Total Investments measured at Fair Market Value</b>	<u><u>\$ 40,236,728</u></u>

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

**Years Ended December 31, 2019 and 2018**

**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 2019 and 2018.

**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, 2019 and 2018, personnel costs were \$888,345 and \$799,397 respectively.

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

**Years Ended December 31, 2019 and 2018**

**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, 2019 and 2018 was \$20,498 and \$9,930, 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 2016.

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 2.03% and 3.38% at December 31, 2019 and 2018, respectively.

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

**Years Ended December 31, 2019 and 2018**

**NOTE B - PLEDGES (continued)**

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

	<b>2019</b>	<b>2018</b>
Unconditional promises receivable (pledges)		
before unamortized discount	\$ 972,165	\$ 617,300
Less unamortized discount	(66,555)	(74,579)
	<b>\$ 905,610</b>	<b>\$ 542,721</b>
Pledges are due to be collected as follows:		
Less than one year	\$ 452,165	\$ 389,800
More than one year	520,000	227,500
	<b>\$ 972,165</b>	<b>\$ 617,300</b>

**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>2019</b>	<b>2018</b>
Cash and cash equivalents	Not rated	N/A	\$ 3,984,250	\$ 2,997,969
Corporate Bonds	AAA/AA	5-10 years	3,298,275	2,900,725
U.S. Government notes	N/A	1-10 years	4,533,776	4,268,443
Mutual Funds	N/A	N/A	11,082,867	10,348,384
Equity securities	N/A	N/A	17,303,412	13,523,265
Alternative investments	N/A	N/A	871,280	829,309
			<b>\$ 41,073,860</b>	<b>\$ 34,868,095</b>

As presented on the Statement of Net Position:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 3,984,250	\$ 2,997,969
Current investments	17,390,693	12,577,929
Noncurrent investments	19,698,917	19,292,197
	<b>\$ 41,073,860</b>	<b>\$ 34,868,095</b>

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

**Years Ended December 31, 2019 and 2018**

**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 \$25,000 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, 2019, the Foundation's total bank balance was \$910,589 and the Foundation has cash with MLTC in the amount of \$3,147,120. As of December 31, 2019, 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, 2019, 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, 2019, 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, 2019, 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>2019</u>	<u>2018</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.**  
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**NOTES TO FINANCIAL STATEMENTS**

**Years Ended December 31, 2019 and 2018**

**NOTE E - GIFT ANNUITY**

The Foundation is party to six charitable gift annuity agreements as of December 31, 2019. 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 2.03% 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, 2019 and 2018, the investment balance was \$1,716,571 and \$1,562,202, respectively, which is presented with the other Foundation investments. As of December 31, 2019 and 2018, the annuity payable is \$847,060 and \$863,573, respectively.

**NOTE F - ENDOWMENTS**

The Foundation's endowment consists of approximately 139 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 2019 and 2018. The Foundation's general spending was calculated within the policy guidelines.

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

**Years Ended December 31, 2019 and 2018**

**NOTE F - ENDOWMENTS (continued)**

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

	<u>2019</u>	<u>2018</u>
Total endowment balance	\$ 29,853,995	\$ 26,193,135
Less amounts restricted for student assistance and college programs	<u>10,155,078</u>	<u>6,900,938</u>
Restricted for permanent endowments	<u>\$ 19,698,917</u>	<u>\$ 19,292,197</u>

All assets of the Foundation are considered restricted. For 2019, the amount restricted for student assistance and college programs totals \$17,634,495 which is made up of temporarily restricted endowments of \$10,155,078 and temporarily restricted amounts related to non-endowment contributions of \$7,479,416. For 2018, the amount restricted for student assistance and college programs totals \$11,881,668 which is made up of temporarily restricted endowments of \$6,900,938 and temporarily restricted amounts related to non-endowment contributions of \$4,980,730.

**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, 2019 and 2018, the Foundation's First Generation in College Matching Grant funds is \$170,251 and \$222,689 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 2019. Settled claims resulting from the risks described above have not exceeded the insurance coverage for each of the prior three years.

**NOTE I - COMMITMENTS 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 15, 2020, the date which the financial statements became available for issue and has determined that no material events occurred that would require disclosure, other than the uncertainty of the negative impact that COVID-19 may have on fundraising efforts and investment returns.

**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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated May 15, 2020.

**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 15, 2020  
Melbourne, Florida

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