

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

FINANCIAL STATEMENTS

December 31, 2020 and 2019



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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, 2020 and 2019, 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 opinion 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, 2020 and 2019, 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 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 5, 2021, 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 5, 2021
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

For the years ended December 31, 2020 and 2019

This Management Discussion and Analysis of the Palm Beach State College Foundation Inc.'s ("Foundation") financial statements provide an overview of the Foundation's financial activities for the fiscal years ended December 31, 2020 and 2019. The presentation of 2018 financial information is included for financial analysis and comparison to the 2019 information. 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)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current Assets	\$ 29,663	\$ 22,664	\$ 16,245
Noncurrent Assets	26,188	19,699	19,292
Total Assets	<u>55,851</u>	<u>42,363</u>	<u>35,537</u>
Current Liabilities	832	509	929
Noncurrent Liabilities	872	781	763
Total Liabilities	<u>1,704</u>	<u>1,290</u>	<u>1,692</u>
Restricted			
Permanent endowments	20,726	19,699	19,292
Student assistance and College programs	20,913	17,634	11,882
Unrestricted	12,508	3,740	2,671
Total Net Position	<u>54,147</u>	<u>41,073</u>	<u>33,845</u>
Total Liabilities and Net Position	<u><u>\$ 55,851</u></u>	<u><u>\$ 42,363</u></u>	<u><u>\$ 35,537</u></u>

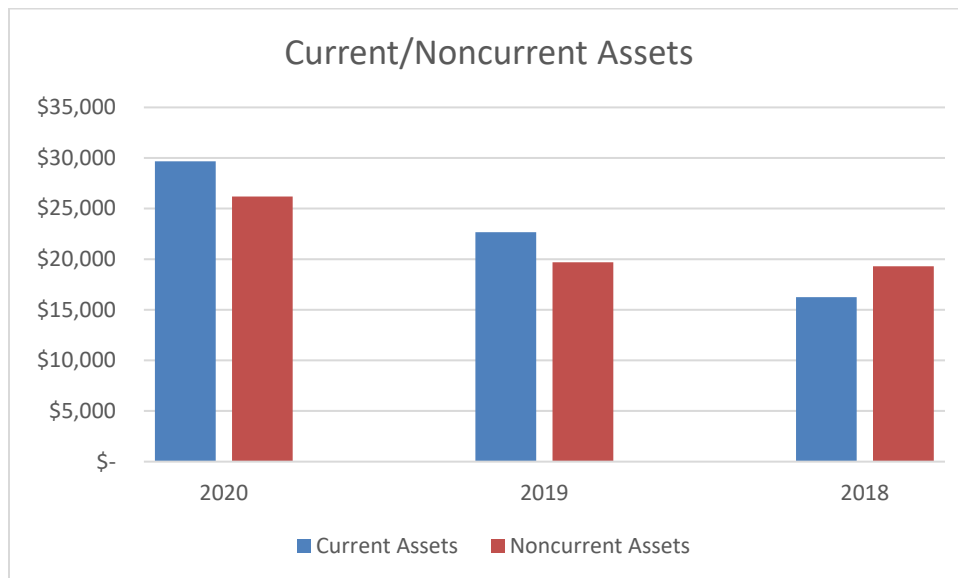
**Palm Beach State College Foundation, Inc.
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Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

Foundation Assets

The total assets of the Foundation as of December 31, 2020, were \$55.9 million. This reflected an increase of \$13.5 million from the previous year of \$42.4 million due to increased contributions and gifts; and in 2019, an increase of \$6.9 million from the previous year of \$35.5 million due to investment performance. The chart below compares the assets between current and non-current assets for the years 2020, 2019, and 2018:



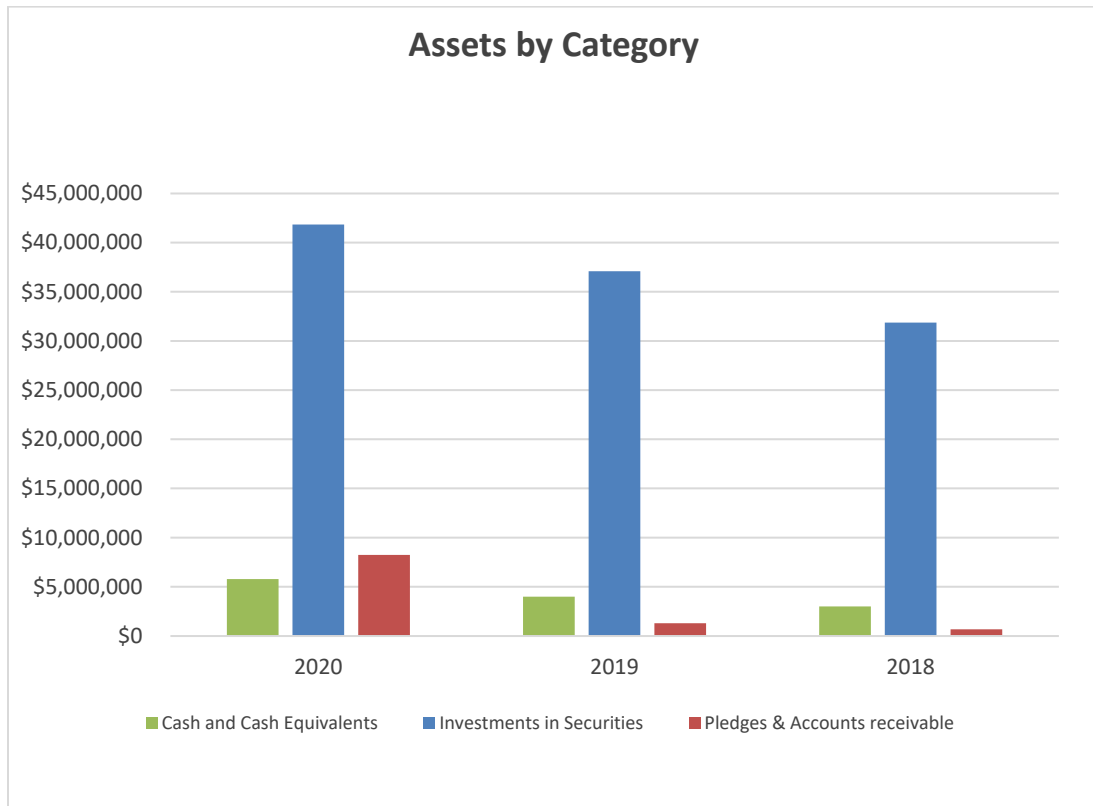
Assets by Category

The chart below summarizes assets as of December 31, 2020, 2019, and 2018 by category. The major changes in assets from the previous year (2019) are the increase of investments by \$4.7 million, an increase in cash and cash equivalents by \$1.8 million and an increase in pledges receivable of \$7 million. These increases are due to major contributions and favorable market returns. The major changes in assets from 2018 to 2019 are the increase of investments by \$5.2 million due to favorable market rates and an increase in other assets of \$0.6 million.

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Liabilities

As of December 31, 2020, the liabilities amounted to \$1.7 million, which includes \$0.94 million for 4 annuity contracts. The corresponding annuity liability as of December 31, 2019 and 2018 was \$0.85 million and \$0.86 million, for 6 annuity contracts in 2019 and 8 annuity contracts in 2018. Accounts payable was \$0.77 million in 2020 and \$0.41 million in 2019. This increase was mainly due to increased scholarships and laptops purchased at year end of 2020 for the FLP project. Accounts payable in 2018 was \$0.80 million mainly due to increased scholarships.

Net Position

The Foundation's components of the net position for the fiscal years ended December 31, 2020, 2019 and 2018 are shown in the following table (in thousands):

	2020	2019	2018
Permanently Restricted	\$ 20,726	\$ 19,699	\$ 19,292
Temporarily Restricted	20,913	17,634	11,882
Unrestricted	12,508	3,740	2,671
Total net position	\$ 54,147	\$ 41,073	\$ 33,845

Palm Beach State College Foundation, Inc.
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Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

Net Position (continued)

The primary reason for the increase of \$13 million in total net position from 2019 to 2020 is the increase of the Foundation's investments by \$4.7 million, \$7 million in contributions and gifts, and the increase in cash and cash equivalents, as previously stated under the paragraph "Assets by Category".

Operating Results

Summarized Statement of Revenues, Expenses and Changes in Net Position for the Years
 Ended December 31,
 (in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues (Expenses)			
Total Operating Revenue	\$ 11,515	\$ 5,358	\$ 2,639
Total Operating Expenses	(4,373)	(4,371)	(4,494)
Income (loss) from Operations	<u>7,142</u>	<u>987</u>	<u>(1,855)</u>
Nonoperating Revenues (Expenses)			
Contributions to endowments	946	321	361
Net realized and unrealized gains (losses) on investments	4,184	5,071	(2,157)
Interest and dividend income	802	849	854
Total Nonoperating Revenues (Expenses)	<u>5,932</u>	<u>6,241</u>	<u>(942)</u>
Change in net position	13,074	7,228	(2,797)
Net position, beginning of year	41,073	33,845	36,642
Net position, end of year	<u><u>\$ 54,147</u></u>	<u><u>\$ 41,073</u></u>	<u><u>\$ 33,845</u></u>

Revenues

The following table compares the revenues earned by the Foundation in 2020, 2019, and 2018, by category. The total revenue for 2020 of \$17.4 million represents a significant increase of \$5.8 million from the 2019 revenue of \$11.6 million. The primary reason for this difference was the increase in contribution and gifts of \$7 million. 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 Foundation received state allocations under the First Generation in College Matching Grant for the years ended December 31, 2020, 2019, and 2018 in the amount of \$ 177,999, \$170,251 and \$222,689, respectively.

Palm Beach State College Foundation, Inc.
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Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contributions & Gifts	\$ 11,210	\$ 4,259	\$ 1,739
Donated Services	742	888	799
Grants and matching funds	228	260	223
Fundraising	281	272	239
Investment Income (loss)	4,987	5,920	(1,303)
Total Revenue	<u>\$ 17,448</u>	<u>\$ 11,599</u>	<u>\$ 1,697</u>

Expenses

Total expenses for 2020 and 2019 are fairly consistent with no significant decrease from 2018.

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

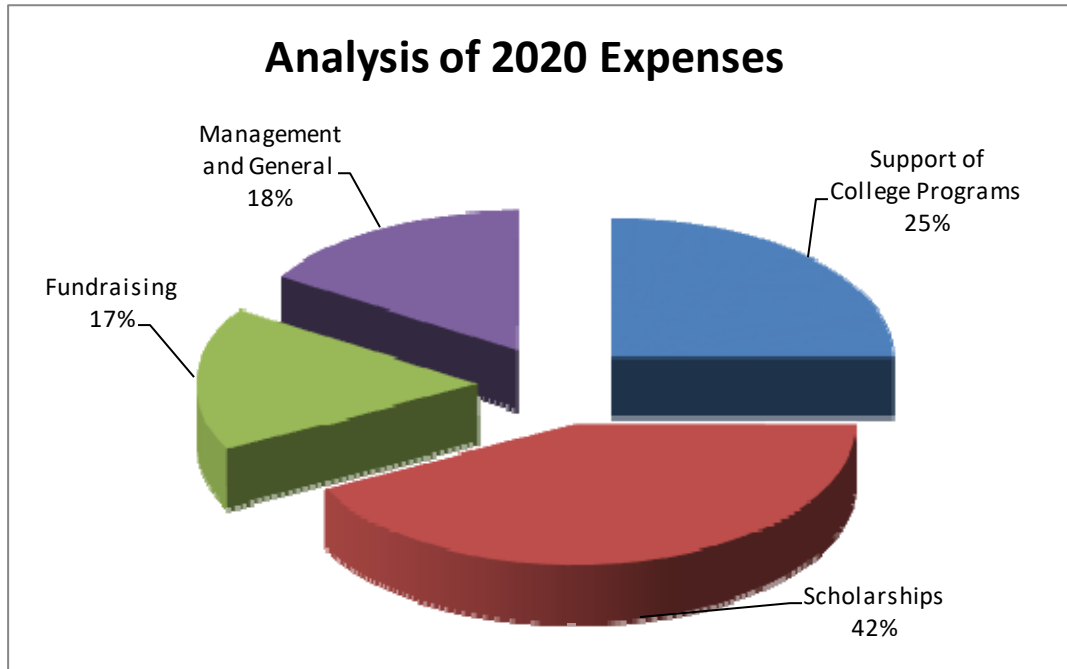
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Support of College Programs	\$ 1,094	\$ 1,111	\$ 939
Scholarships	1,849	1,771	2,216
Fundraising	703	681	575
Management & General	727	808	764
Total	<u>\$ 4,373</u>	<u>\$ 4,371</u>	<u>\$ 4,494</u>

**Palm Beach State College Foundation, Inc.
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Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

The graphic below analyzes the distribution of 2020 expenses by category.



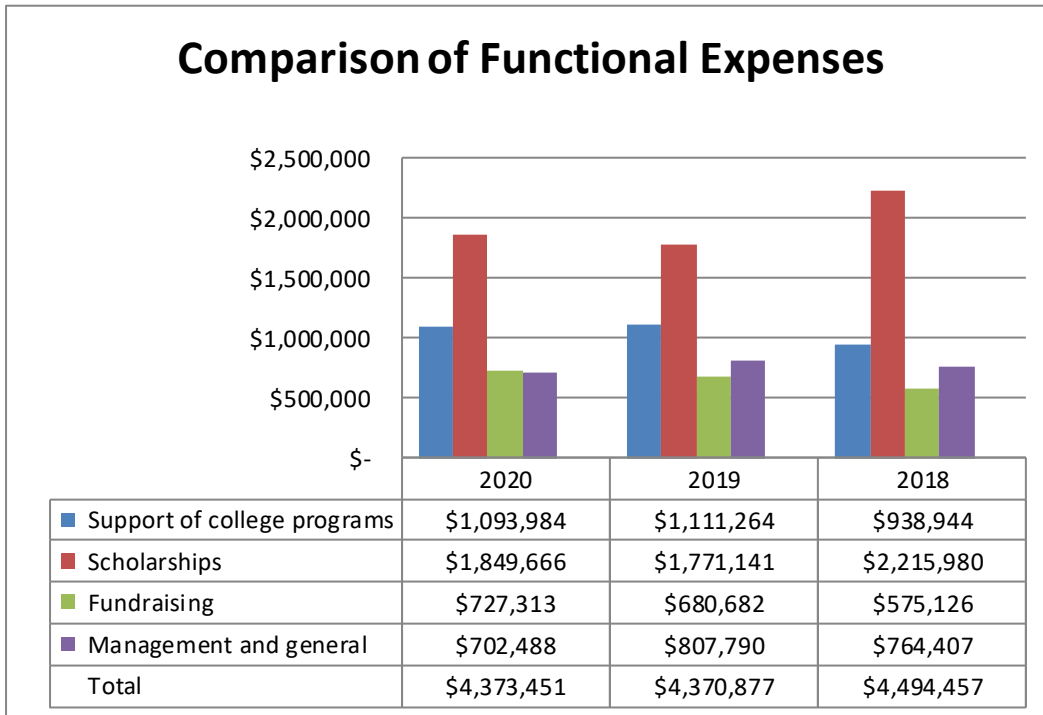
Comparative Trend Analysis of Foundation Functional Expenses

The graphic below compares the Foundation's Functional Expenses – Support of college programs, Scholarships, Fundraising, and Management and general Overhead for the periods 2020 through 2018.

**Palm Beach State College Foundation, Inc.
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Management’s Discussion & Analysis

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Investments Performance

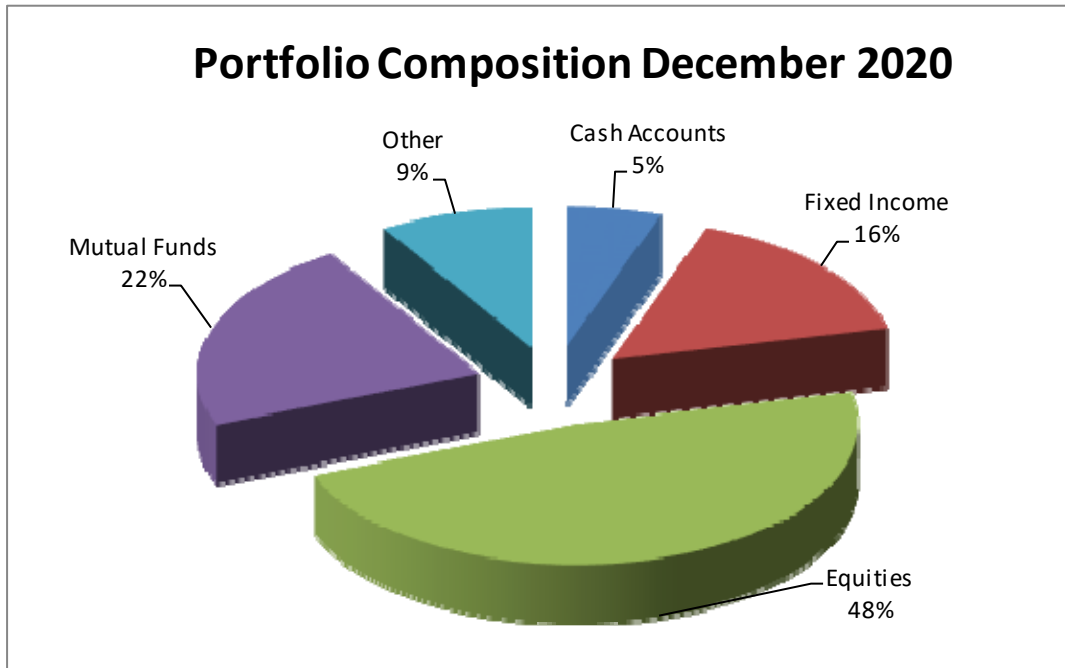
The return on investments as of December 31, 2020 based on the past 12 months actual performance was 11.85% (17.81% for the 12 months ending December 31, 2019).

The total value of the portfolio including cash as of December 31, 2020 was \$47.6 million (\$41.1 million as of December 31, 2019). The graphic below presents the composition of the portfolio as of December 31, 2020.

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For the years ended December 31, 2020 and 2019



Outlook 2021

Established in 1973, the Palm Beach State College Foundation, Inc. is the 501 (c)(3) direct support organization for Palm Beach State College, which was founded in 1933 as Florida's first public junior college. The Foundation is the cornerstone of the Office of Institutional Advancement, which was created in 2018 and includes Resource and Grant Development, College Relations and Marketing, Palm Beach State College Theatres, and the Institute of Excellence in Early Care and Education.

The Office of Institutional Advancement's (the "Office's") mission is to increase awareness of, engagement in, and philanthropic giving in accordance with donors' wishes to the College through a diverse 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 five-year strategic plan (*Panther Strong 2023*). The Office's record-breaking and award-winning achievements are a testament to this commitment.

Palm Beach State College Foundation, Inc.
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Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

Outlook 2021 (continued)

The COVID-19 global pandemic continues to influence every sector of American society. For 2021, while the current health crisis plays a significant yet undetermined role in its effect on philanthropy, the Foundation has committed to fulfilling its mission as the College's direct support organization. The College's needs are considerable and the Foundation and College leadership, with the assistance of their Boards, meet regularly to address and plan priorities, evaluate circumstances, and respond appropriately. For example, interruption of service to students, staff, and the community continues to be minimal. Students have successfully transitioned to online instruction, most non-essential personnel continue to work remotely, and budgets are under review. Observing CDC guidelines, the Foundation and College continue to serve our students and the community-at-large. Currently, the College is in Phase 3 of its Return to Campus Plan.

President Biden's \$1.9 trillion American Rescue Plan, which includes some emergency relief for higher education, is meant to address the economic impact of the COVID-19 pandemic. If the past is prologue, several short-term programs in the plan are likely to be extended at considerable added cost, and, while the administration reports three vaccines will be made available to the public by Spring 2021, the cumulative effects of the pandemic on the economy and the ability of donors to provide support to education in 2021 remain to be seen.

While the Florida State College System serves approximately 800,000 students - nearly 50,000 of which are PBSC students - state support of the college system has declined significantly due to ever deepening fiscal constraints. The College's Legislative priorities for 2021 are:

- Increase in operational funding to create programs to meet workforce and industry needs in Palm Beach County.
- Authorize colleges to implement tuition cost differential, which would allow colleges to charge a different rate for the more costly programs (e.g., workforce, health sciences and public safety) to help offset the cost to run them and hire instructors at a more competitive rate.
- Public Education Capital Outlay (PECO) funding for deferred maintenance to ensure the College is able to maintain and when necessary renovate current buildings for safety and efficiency.

Giving opportunities exist through the Foundation, serving several significant initiatives, advancements and signature priorities of the College:

- Dennis P. Gallon campus, Loxahatchee Groves
 - Dental and Medical Services Technology Building
 - Frank DiMino Center for Medical Innovation
- Lake Worth campus
 - Center of Excellence in Medical Simulation
 - Dr. Barbara Carey-Shuler Cross-Cultural Equity Institute
(Diversity, equity, and inclusion initiatives)
 - Performing Arts Center

**Palm Beach State College Foundation, Inc.
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Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

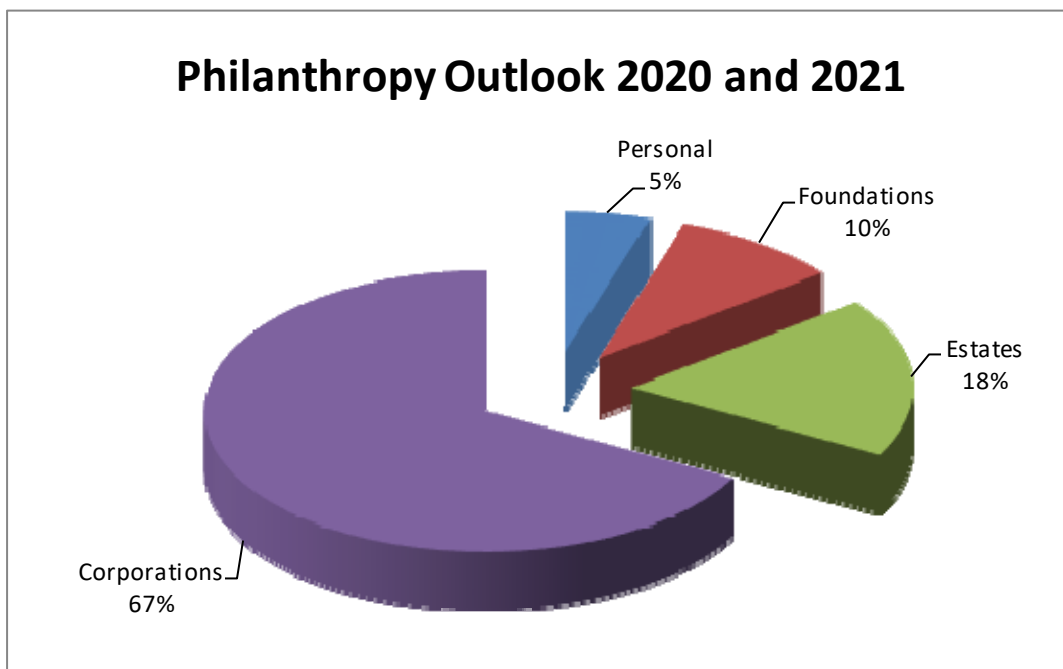
Outlook 2021 (continued)

The Foundation continues to attract donors and philanthropic prospects, hosting strategic events such as its annual Golf Classic. However, careful considerations 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 and partnerships 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*, giving to education is predicted to increase .4% from 5.1% in 2020 to 5.5% in 2021. The projections for giving to education in 2021 are higher than the historical 10-year, 25-year, and 40-year annualized average growth rate for giving of this type. Specific factors that will significantly and positively influence education giving in 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.

The graph shown below represents total giving by source for 2020 and total expected giving by source for 2021 (provided by *Philanthropy Outlook*). In 2021, the proportion of personal giving and giving by corporations is expected to decline slightly while the proportion of giving from estates and foundations is predicted to rise slightly. Some economic recovery is expected in 2021 with philanthropy overall at least keeping pace with 2020. However, if 2020 taught us anything, it is that projections are hard to make. The significant variable continues to be public health.



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

Management's Discussion & Analysis

For the years ended December 31, 2020 and 2019

Outlook 2021 (continued)

Despite all the uncertainty, the Palm Beach State College Foundation remains committed to employing best practices as a direct support organization, adhering to its conservative investment policy, and developing relationships with its existing and prospective constituents to meet the College's highest priorities and greatest needs.

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

STATEMENTS OF NET POSITION

December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,774,687	\$ 3,984,250
Contributions receivable	183,772	258,779
Accrued interest receivable	42,255	48,745
Pledges receivable, net	2,557,454	905,610
Investments	21,104,904	17,390,693
Prepaid items	-	75,902
Total current assets	29,663,072	22,663,979
Noncurrent assets		
Investments	20,726,537	19,698,917
Pledges receivable, net	5,461,586	-
Total noncurrent assets	26,188,123	19,698,917
Total assets	55,851,195	42,362,896
LIABILITIES		
Current liabilities		
Accounts payable	767,900	406,575
Annuities payable	64,425	65,665
Unearned revenues	-	36,354
Total current liabilities	832,325	508,594
Noncurrent liabilities		
Annuities payable	871,444	781,395
Total liabilities	1,703,769	1,289,989
NET POSITION		
Restricted donor specified:		
Permanent endowments	20,726,537	19,698,917
Student assistance and College programs	20,913,083	17,634,495
Unrestricted	12,507,806	3,739,495
Total net position	\$ 54,147,426	\$ 41,072,907

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, 2020 and 2019

	2020	2019
Operating Revenues		
Contributions and gifts	\$ 10,264,073	\$ 3,938,011
Grants and matching funds	227,887	260,118
Donated services	742,447	888,345
Special events income	279,297	266,971
Other revenues	1,466	4,918
Total operating revenues	11,515,170	5,358,363
Operating Expenses		
Support of college programs	1,093,984	1,111,264
Scholarships	1,849,666	1,771,141
Management and general	702,488	807,790
Fundraising	727,313	680,682
Total operating expenses	4,373,451	4,370,877
Income from operations	7,141,719	987,486
Nonoperating revenues		
Contributions to endowments	945,686	320,446
Net realized and unrealized gains on investments	4,185,389	5,071,065
Interest and dividend income	801,725	848,582
Total nonoperating revenues	5,932,800	6,240,093
Change in net position	13,074,519	7,227,579
Net position, beginning of year	41,072,907	33,845,328
Net position, end of year	\$ 54,147,426	\$ 41,072,907

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

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Contributions received	\$ 3,278,105	\$ 3,396,726
Other revenue received	1,023,210	1,160,234
Federal and state grants received	227,887	260,118
Payments to the college for scholarships	(1,849,666)	(1,771,141)
Payments to support college programs	(1,016,868)	(1,238,644)
Payments to suppliers	(342,377)	(1,112,194)
Payments for fundraising	(727,313)	(680,682)
Net cash provided by operating activities	592,978	14,417
Cash flows from noncapital financing activities		
Restricted contributions received	945,686	320,446
Cash flows from investing activities		
Investment income received	808,215	799,837
Proceeds from sales and maturities of investments	15,414,160	12,425,175
Purchase of investments	(15,970,602)	(12,573,594)
Net cash provided by investing activities	251,773	651,418
Net increase in cash and cash equivalents	1,790,437	986,281
Cash and cash equivalents, beginning of year	3,984,250	2,997,969
Cash and cash equivalents, end of year	\$ 5,774,687	\$ 3,984,250
Reconciliation of net operating income to net cash flows provided by operating activities		
Operating income	\$ 7,141,719	\$ 987,486
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
Decrease (Increase) in operating assets		
Receivables	75,007	(173,237)
Pledges receivable	(7,113,430)	(362,889)
Other assets	75,902	(34,637)
Increase (Decrease) in operating liabilities		
Accounts payable	361,325	(397,147)
Annuities payable	88,809	(16,513)
Unearned revenues	(36,354)	11,354
Net cash provided by operating activities	\$ 592,978	\$ 14,417

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

For the years ended December 31, 2020 and 2019

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 for pledges and contributions; 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.
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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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 the promise to give is made 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.

As of the years ended 2020 and 2019 the Foundation had no allowance for pledges receivable based on prior experience with similar types of receivables. The Foundation considers the pledges receivable fully collectable.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

**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, 2020, are reported at fair value, as follows:

	<u>Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Debt Securities	
U.S. guaranteed obligations	\$ 4,312,398
Domestic bonds and notes	2,732,715
Total Debt Securities	<u>7,045,113</u>
Equity Securities	
Domestic stocks	17,801,553
International stocks	4,808,949
Total Equity Securities	<u>22,610,502</u>
Investments not measured at Net Assets Value (NAV)	
Mutual funds	10,904,684
Real estate investments	1,271,141
Money market funds	5,062,029
Total Investments not measured at NAV	<u>17,237,854</u>
Total Investments measured at Fair Market Value	<u>\$ 46,893,469</u>

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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

8. Capital assets - Capital assets are generally considered assets of the College even though they are utilized by the Foundation, unless donated and restricted in nature. 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 2020 and 2019.

9. 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 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. The Foundation considers restricted donations from donors as part of this category, see Note E for further detail.

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

10. Personnel costs - All employees of the Foundation are considered employees of the College. These personnel costs are reported as an in-kind contribution or donated services 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. For the years ended December 31, 2020 and 2019, personnel costs were \$742,447 and \$888,345 respectively.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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

- 11. 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.
- 12. Advertising costs** - Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2020 and 2019 was \$55,756 and \$20,498, respectively.
- 13. 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 2017.

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.

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 0.51% and 2.03% at December 31, 2020 and 2019, respectively.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

NOTE B - PLEDGES (continued)

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

	<u>2020</u>	<u>2019</u>
Unconditional promises receivable (pledges)		
before unamortized discount	\$ 8,119,200	\$ 972,165
Less unamortized discount	<u>(100,160)</u>	<u>(66,555)</u>
	<u>\$ 8,019,040</u>	<u>\$ 905,610</u>
Pledges are due to be collected as follows:		
Less than or equal to one year	\$ 2,557,454	\$ 905,610
More than one year	<u>5,461,586</u>	<u>-</u>
	<u>\$ 8,019,040</u>	<u>\$ 905,610</u>

NOTE C - DEPOSITS AND INVESTMENTS

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

	<u>Credit Quality</u>	<u>Average Maturity</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	Not rated	N/A	\$ 5,774,688	\$ 3,984,250
Corporate bonds	AAA/AA	1-10 years	2,732,715	3,298,275
U.S. Government notes	N/A	5-15 years	4,312,398	4,533,776
Mutual funds	N/A	N/A	10,904,684	11,082,867
Equity securities	N/A	N/A	22,610,502	17,303,412
Alternative investments	N/A	N/A	<u>1,271,141</u>	<u>871,280</u>
			<u>\$ 47,606,128</u>	<u>\$ 41,073,860</u>

As presented on the Statement of Net Position:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,774,687	\$ 3,984,250
Current investments	21,104,904	17,390,693
Noncurrent investments	<u>20,726,537</u>	<u>19,698,917</u>
	<u>\$ 47,606,128</u>	<u>\$ 41,073,860</u>

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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, 2020, the Foundation's total bank balance was \$712,659 and the Foundation has cash with MLTC in the amount of \$5,062,029. As of December 31, 2020, 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, 2020, 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, 2020, 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, 2020, no single security represented more than 5% of the total portfolio value invested in any individual account managed by MLTC.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

NOTE D - ANNUITY PAYABLE

The Foundation is party to six charitable gift annuity agreements as of December 31, 2020. 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 0.51% to 2.26%.

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, 2020 and 2019, the investment balance was \$1,849,247 and \$1,716,571, respectively, which is presented with the other Foundation investments based on the applicable investment type. As of December 31, 2020 and 2019, the annuity payable is \$935,869 and \$847,060, respectively.

NOTE E - ENDOWMENTS

The Foundation's endowment consists of approximately 142 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 617.2104, 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 4% for 2020 and 5% 2019. 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

For the years ended December 31, 2020 and 2019

NOTE E - ENDOWMENTS (continued)

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

	<u>2020</u>	<u>2019</u>
Total endowment balance	\$ 33,257,781	\$ 29,853,995
Less amounts restricted for student assistance and college programs	<u>12,531,244</u>	<u>10,155,078</u>
Restricted for permanent endowments	<u>\$ 20,726,537</u>	<u>\$ 19,698,917</u>

All assets of the Foundation are considered restricted for college support. For 2020, the amount restricted for student assistance and college programs totals \$20,913,083 which is made up of temporarily restricted endowments of \$12,531,243 and temporarily restricted amounts related to non-endowment contributions of \$8,381,840. 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.

NOTE F - 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, 2020 and 2019, the Foundation's First Generation in College Matching Grant funds is \$177,999 and \$170,251 respectively.

NOTE G - 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 2020. Settled claims resulting from the risks described above have not exceeded the insurance coverage for each of the prior three years.

NOTE H - 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 I - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through May 5, 2021, 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, 2020 and 2019, 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 5, 2021.

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 opinion 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 5, 2021
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP