

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

FINANCIAL STATEMENTS

**December 31, 2021 and
2020**



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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 Audit of the Financial Statements

Opinion

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 December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Foundation's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Foundation as of December 31, 2021 and 2020, and the respective changes in financial position, and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for twelve months beyond the financial statement date, including, any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, although not 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 3, 2022, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

May 3, 2022
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, 2021 and 2020

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, 2021 and 2020. The presentation of 2019 financial information is included for financial analysis and comparison to the 2020 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)

	2021	2020	2019
Current Assets	\$ 36,828	\$ 29,663	\$ 22,664
Noncurrent Assets	24,722	26,188	19,699
Total Assets	61,550	55,851	42,363
Current Liabilities	284	832	509
Noncurrent Liabilities	585	872	781
Total Liabilities	869	1,704	1,290
Restricted			
Permanent endowments	21,229	20,726	19,699
Student assistance and College programs	24,454	20,913	17,634
Unrestricted	14,998	12,508	3,740
Total Net Position	60,681	54,147	41,073
Total Liabilities and Net Position	\$ 61,550	\$ 55,851	\$ 42,363

Foundation Assets

The total assets of the Foundation as of December 31, 2021, were \$61.6 million. This reflected an increase of \$5.7 million from the previous year of \$55.9 million due to increased investments; and in 2020, an increase of \$13.5 million from the previous year of \$42.4 million due to increased contributions and gifts.

Liabilities

As of December 31, 2021, the liabilities amounted to \$0.87 million, which includes \$0.65 million for 4 annuity contracts. The corresponding annuity liability as of December 31, 2020 and 2019 was \$0.94 million and \$0.85 million, for 4 annuity contracts in 2020 and 6 annuity contracts in 2019. Accounts payable was \$0.22 million in 2021 and \$0.77 million in 2020. This decrease was mainly due to timing of payments, and that a large order of student laptops at the end of 2020 for the FLP project. Accounts payable in 2019 was \$0.41 million mainly due to increased scholarships.

Net Position

The Foundation's components of the net position for the fiscal years ended December 31, 2021, 2020 and 2019 are shown in the following table (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Permanently Restricted	\$ 21,229	\$ 20,726	\$ 19,699
Temporarily Restricted	24,454	20,913	17,634
Unrestricted	14,998	12,508	3,740
Total net position	<u>\$ 60,681</u>	<u>\$ 54,147</u>	<u>\$ 41,073</u>

The primary reason for the increase of \$6.4 million in total net position from 2020 to 2021 is the increase of the Foundation's investments by \$8.5 million and \$3.5 million in noncurrent pledges, offset by the decrease in cash and cash equivalents and current pledges receivable.

Operating Results

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues (Expenses)			
Total Operating Revenue	\$ 3,908	\$ 11,515	\$ 5,358
Total Operating Expenses	<u>(3,624)</u>	<u>(4,373)</u>	<u>(4,371)</u>
Income from Operations	<u>284</u>	<u>7,142</u>	<u>987</u>
Nonoperating Revenues			
Contributions to endowments	453	946	321
Net realized and unrealized gains on investments	4,712	4,184	5,071
Interest and dividend income	<u>1,085</u>	<u>802</u>	<u>849</u>
Total Nonoperating Revenues	<u>6,250</u>	<u>5,932</u>	<u>6,241</u>
Change in net position	6,534	13,074	7,228
Net Position, beginning of year	<u>54,147</u>	<u>41,073</u>	<u>33,845</u>
Net position, end of year	<u><u>\$ 60,681</u></u>	<u><u>\$ 54,147</u></u>	<u><u>\$ 41,073</u></u>

Revenues

The following table compares the revenues earned by the Foundation in 2021, 2020 and 2019, by category. The total revenue for 2021 of \$10.2 million represents a significant decrease of \$7.3 million from the 2020 revenue of \$17.4 million. The primary reason for this difference was the increase in contribution and gifts of \$7 million in 2020 which were not repeated in 2021. 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 Foundation received state allocations under the First Generation in College Matching Grant for the years ended December 31, 2021, 2020, and 2019 in the amount of \$172,937, \$177,999 and \$170,251, respectively.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contributions & Gifts	\$ 3,151	\$ 11,210	\$ 4,259
Donated Services	669	742	888
Grants and matching funds	173	228	260
Fundraising	368	281	272
Investment Income (loss)	5,797	4,987	5,920
Total Revenue	<u>\$ 10,158</u>	<u>\$ 17,448</u>	<u>\$ 11,599</u>

Expenses

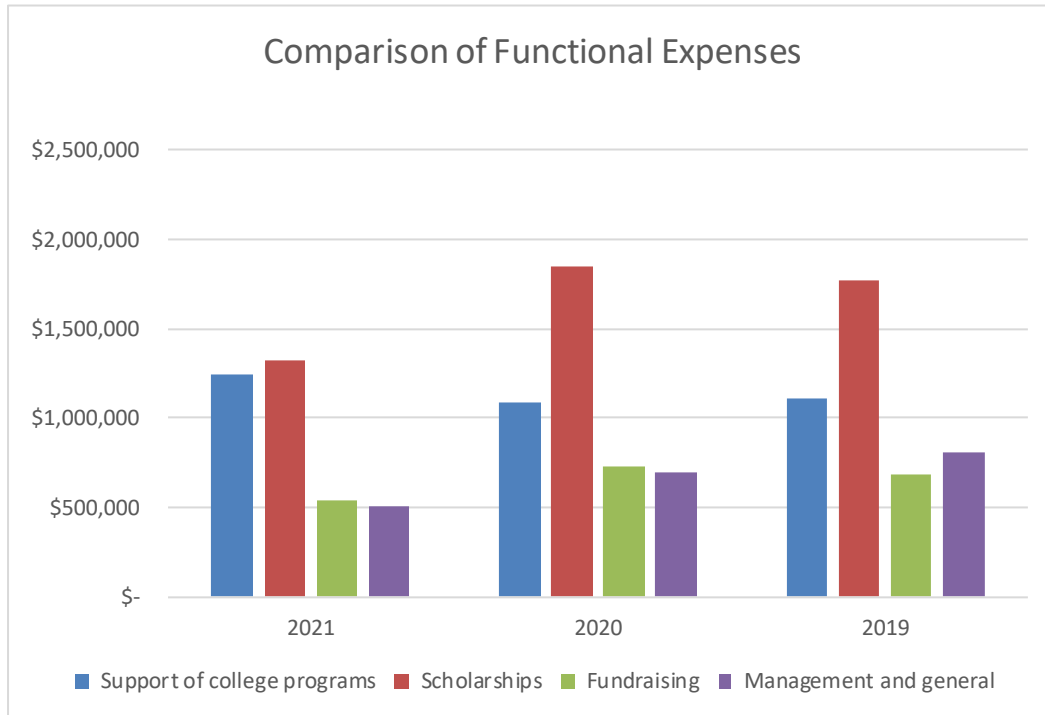
Total expenses for 2021 and 2020 are fairly consistent with no significant decrease from 2019.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Support of College Programs	\$ 1,244	\$ 1,094	\$ 1,111
Scholarships	1,324	1,849	1,771
Fundraising	512	727	681
Management & General	544	703	808
Total	<u>\$ 3,624</u>	<u>\$ 4,373</u>	<u>\$ 4,371</u>

Comparative Trend Analysis of Foundation Functional Expenses

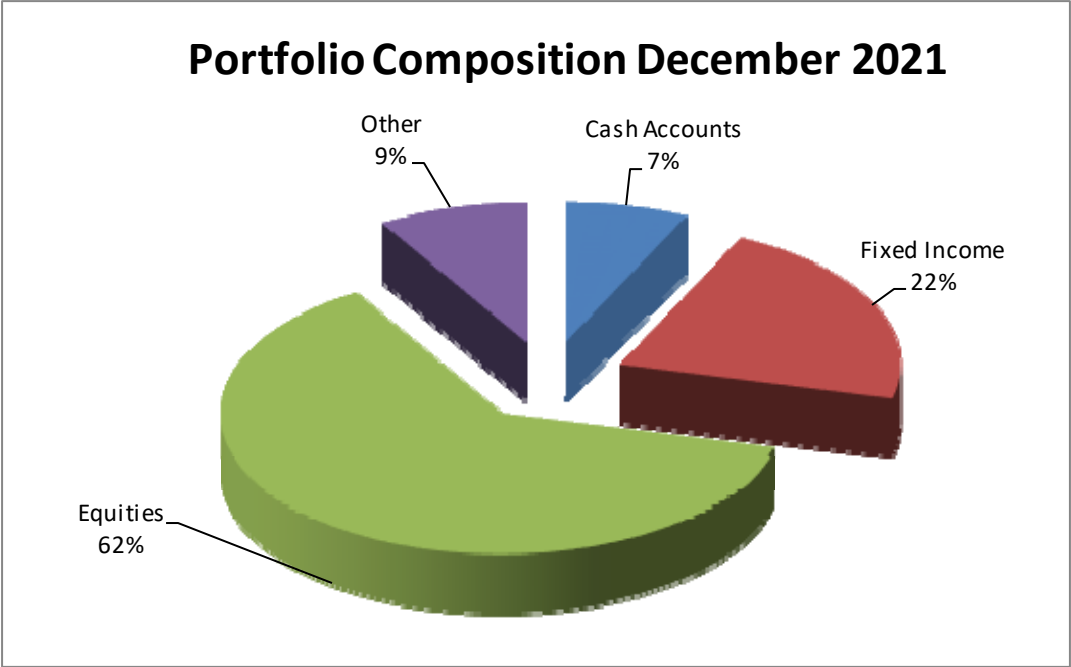
The graphic below compares the Foundation's Functional Expenses - Support of college programs, Scholarships, Fundraising, and Management and general Overhead for the periods 2021 through 2019.



Investments Performance

The return on investments as of December 31, 2021 based on the past 12 months actual performance was 11.37% (11.85% for the 12 months ending December 31, 2020).

The total value of the portfolio including cash as of December 31, 2021 was \$54.8 million (\$47.6 million as of December 31, 2020). The graphic below presents the composition of the portfolio as of December 31, 2021.



Outlook 2022

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 state college. The Foundation is the cornerstone of the Office of Institutional Advancement, which was created 2018 and includes Resource and Grant Development, Major Gift Fundraising, College Relations, Marketing and Communications, Palm Beach State College Theatres, and the College’s Early Childhood Development Program.

The Office of Institutional Advancement’s mission is to increase awareness of, engagement in, and philanthropic giving to Palm Beach State 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 5-year strategic plan (Panther Strong 2023). The Office’s continued record-breaking and award-winning achievements are a testament to this commitment.

The COVID-19 global pandemic continues to influence every sector of American society. For 2022, while the Foundation stands ready to provide consistent support for the College, the health crisis will play an important role in determining the extent to which the Foundation can fulfill its mission. Additionally, the short-term philanthropic climate will feel the effects of a declining economy and an escalating foreign war although the precise degree of impact is yet unknown. The Foundation remains steadfast in its commitment to raise the necessary resources to meet the college’s greatest needs and highest priorities. The Foundation’s ability to accomplish that, in part however, is dependent upon the college’s ability to clearly identify, quantify and clearly articulate its priorities and needs.

Outlook 2022 (continued)

The College's needs are considerable and 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 and budgets are under review. Observing CDC guidelines, the Foundation and College are open and continue to serve our students and the community-at-large. The execution of a plan to return to campus is ongoing.

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 past is prologue, several short-term programs in the \$1.9 trillion package are likely to be extended at considerable added cost. Moreover, the cumulative effects of the pandemic on the economy and the ability of donors to provide support to education in 2022 remains to be seen.

While the Florida State College System serves approximately 800,000 students - over 40,000 of which are PBSC students - state support of the college system has declined significantly due to ever deepening fiscal constraints. The College's sole legislative priority for 2022 is a \$25 million funding request for the College's Dental Building on its Loxahatchee Groves Campus. The estimated cost for the building is \$42 million of which \$10 million has already been raised through private philanthropy following an initial "PECO" allocation from the state's Public Education Capital Outlay budget.

While the College has benefitted from federal funding through the CARES Act and other public funding, the need for Foundation support remains constant. The Foundation's support of the College has expanded significantly from primarily scholarship to academic enhancement, program support, equipment, community awareness and engagement, faculty development and endowed chairs, and more. Areas of focus include health care services such as ophthalmology, physical therapy, surgical technician, cardiopulmonary, nursing as well as programs in public safety, trades, cybersecurity, and hospitality. Resources to support initiatives such as diversity, equity, inclusion and adapting course delivery modalities are also priorities.

On September 15, 2021, the Foundation Board of Directors approved a resolution to embark on a \$100M capital campaign that coincides with the College's 90th anniversary in 2023. The Foundation plans to cultivate foundations and individuals as primary sources of cash, deferred giving and gifts-in-kind. Solicitation for corporate support will continue. The Foundation is exploring several promising public/private partnership opportunities as well.

Giving opportunities to the Foundation exist for the Dental and Medical Services Technology Building on the College's Dennis P. Gallon campus in Loxahatchee Groves, state-of-the-art medical simulation, performing arts, athletics, and diversity, equity, and inclusion initiatives, all of which are the College's signature priorities. Significant philanthropic opportunities also exist to ensure access to degrees and credentials for every high school graduate in our county, particularly those within the poverty zip codes throughout our service region.

Outlook 2022 (continued)

There will continue to be an emphasis on stewarding and cultivating long-term relationships with those who have capacity to make major and transformational gifts to meet the College's needs for capital improvements, program support, and scholarships. The Foundation plans to host strategic events that attract donors and prospects, including its popular 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. Various donor-focused events are being planned, as is an event to commemorate the College's 90th anniversary as the State's first public junior college. The Foundation's support of athletic and theatre programs is helping to return attendance to pre-pandemic levels.

The Foundation is also making investments to increase awareness of the College and engagement with the community through strategic and regular public interest communications, marketing, and public relations. Early evidence of the effectiveness of this outreach in building relationships and sharing the value of the institution to meeting workforce and academic needs of the community is beginning to surface.

The Outlook for Charitable Giving report from the Lilly Family School of Philanthropy at IUPUI in Indianapolis highlights some encouraging statistics and projections. Total charitable giving was anticipated to increase 5.7% for 2022. The report also predicted increases in all four major contributing sources:

- Giving by American individuals and households is predicted to increase by 3.9% in 2022
- Giving by foundations is predicted to soar to 8.8% in 2022
- Giving by estates is predicted to increase by 11.9% in 2022
- Giving by corporations is predicted to increase by 6.4% in 2022

Historically, this type of giving is influenced by factors such as growth in the gross domestic product (GDP) and in the Standard & Poor's 500 Index (S&P 500). However, a volatile market, rising inflation, and declining consumer confidence are likely to have an impact on performance and thus, donor behavior.

Giving USA offers the following trends that will shape philanthropy in 2022:

The tax breaks for giving that Congress enacted during the pandemic will expire and will not be renewed. This means that the cap on deductions will revert to 60 percent of adjusted gross income and the \$300 limit for individuals to deduct donations will disappear. There does not appear to be support for a "universal" deduction among lawmakers, at least in 2022.

We expect to see the continued erosion of mid-level giving that resulted from the 2017 American Tax Cuts and Jobs Act. By increasing the standard deduction from \$6,500 to \$12,000 for individual filers (\$12,550 in 2021 after being indexed for inflation) and raising the limit on deductions from 50 percent to 60 percent of AGI, the monetary incentive for charitable gifts from all but the wealthiest Americans was eliminated.

Outlook 2022 (continued)

Corporations that support workforce development programs through local colleges benefit from a higher skilled workforce. Encouraging workplace volunteer programs builds a stronger culture among employees. Palm Beach State College recognizes these natural synergies and plans to capitalize on them.

However, the majority of giving in the United States will continue to be from individuals (78 percent of all giving including bequests in 2020); only 4 percent of all giving came from corporations. In 2020 corporations gave less than 1 percent (0.8 percent) of pre-tax profits to charities. Public corporations are justifiably accountable to their shareholders—and to quarterly earnings reports.

Despite ongoing social, economic, geopolitical, and global health crises, Palm Beach State College Foundation remains steadfastly 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,

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,383,224	\$ 5,774,687
Contributions receivable	255,419	183,772
Accrued interest receivable	50,715	42,255
Pledges receivable, net	2,991,298	2,557,454
Investments	29,146,890	21,104,904
Total current assets	36,827,546	29,663,072
Noncurrent assets		
Investments	21,228,494	20,726,537
Pledges receivable, net	3,493,726	5,461,586
Total noncurrent assets	24,722,220	26,188,123
Total assets	61,549,766	55,851,195
LIABILITIES		
Current liabilities		
Accounts payable	219,283	767,900
Annuities payable	64,425	64,425
Total current liabilities	283,708	832,325
Noncurrent liabilities		
Annuities payable	584,879	871,444
Total liabilities	868,587	1,703,769
NET POSITION		
Restricted donor specified:		
Permanent endowments	21,228,494	20,726,537
Student assistance and College programs	24,454,309	20,913,083
Unrestricted	14,998,376	12,507,806
Total net position	\$ 60,681,179	\$ 54,147,426

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,

	2021	2020
Operating Revenues		
Contributions and gifts	\$ 2,698,238	\$ 10,264,073
Grants and matching funds	172,937	227,887
Donated services	668,978	742,447
Special events income	150,094	279,297
Other revenues	217,545	1,466
Total operating revenues	3,907,792	11,515,170
Operating Expenses		
Support of college programs	1,244,443	1,093,984
Scholarships	1,324,417	1,849,666
Management and general	543,963	702,488
Fundraising	511,506	727,313
Total operating expenses	3,624,329	4,373,451
Income from operations	283,463	7,141,719
Nonoperating revenues		
Contributions to endowments	453,062	945,686
Net realized and unrealized gains on investments	4,712,573	4,185,389
Interest and dividend income	1,084,655	801,725
Total nonoperating revenues	6,250,290	5,932,800
Change in net position	6,533,753	13,074,519
Net position, beginning of year	54,147,426	41,072,907
Net position, end of year	\$ 60,681,179	\$ 54,147,426

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,

	2021	2020
Cash flows from operating activities		
Contributions received	\$ 3,874,042	\$ 3,278,105
Other revenue received	1,036,617	1,023,210
Federal and state grants received	172,937	227,887
Payments to the college for scholarships	(1,324,417)	(1,849,666)
Payments to support college programs	(1,463,890)	(1,016,868)
Payments to suppliers	(873,133)	(342,377)
Payments for fundraising	(511,506)	(727,313)
Net cash provided by operating activities	910,650	592,978
Cash flows from noncapital financing activities		
Restricted contributions received	453,062	945,686
Cash flows from investing activities		
Investment income received	1,076,195	808,215
Proceeds from sales and maturities of investments	14,880,222	15,414,160
Purchase of investments	(18,711,592)	(15,970,602)
Net cash provided by (used in) investing activities	(2,755,175)	251,773
Net increase (decrease) in cash and cash equivalents	(1,391,463)	1,790,437
Cash and cash equivalents, beginning of year	5,774,687	3,984,250
Cash and cash equivalents, end of year	\$ 4,383,224	\$ 5,774,687
Reconciliation of net operating income to net cash flows provided by operating activities		
Operating income	\$ 283,463	\$ 7,141,719
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
Decrease (Increase) in operating assets		
Contributions receivable	(71,647)	75,007
Pledges receivable, net	1,534,016	(7,113,430)
Other assets	-	75,902
Increase (Decrease) in operating liabilities		
Accounts payable	(548,617)	361,325
Annuities payable	(286,565)	88,809
Unearned revenues	-	(36,354)
Net cash provided by operating activities	\$ 910,650	\$ 592,978

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, 2021 and 2020

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), Codification Section Co5, *Colleges and Universities*, which 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
- 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.
(A Component Unit of Palm Beach State College)

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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 2021 and 2020 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, 2021 and 2020

**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, 2021, are reported at fair value, as follows:

	Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1)
Debt Securities	
U.S. guaranteed obligations	\$ 5,803,662
Domestic bonds and notes	3,193,077
Total Debt Securities	8,996,739
Equity Securities	
Domestic stocks	19,003,766
International stocks	7,013,477
Total Equity Securities	26,017,243
Investments not measured at Net Assets Value (NAV)	
Mutual funds	13,787,926
Real estate investments	1,573,476
Money market funds	3,737,194
Total Investments not measured at NAV	19,098,596
Total Investments measured at Fair Market Value	\$ 54,112,578

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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 2021 and 2020.

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, 2021 and 2020, personnel costs were \$668,978 and \$742,447, 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, 2021 and 2020

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, 2021 and 2020 was \$40,463 and \$55,756, 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 2018.

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 1.16% and 0.51% at December 31, 2021 and 2020, 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, 2021 and 2020

NOTE B - PLEDGES (continued)

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

	2021	2020
Unconditional promises receivable (pledges)		
before unamortized discount	\$ 6,627,200	\$ 8,119,200
Less unamortized discount	(142,176)	(100,160)
	\$ 6,485,024	\$ 8,019,040
Pledges are due to be collected as follows:		
Less than or equal to one year	\$ 2,991,298	\$ 2,557,454
More than one year	3,493,726	5,461,586
	\$ 6,485,024	\$ 8,019,040

NOTE C - DEPOSITS AND INVESTMENTS

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

	Credit Quality	Average Maturity	2021	2020
Cash and cash equivalents	Not rated	N/A	\$ 4,383,224	\$ 5,774,687
Corporate bonds	AAA/BBB	1-10 years	3,193,077	2,732,715
U.S. Government notes	N/A	5-15 years	5,803,663	4,312,398
Mutual funds	N/A	N/A	13,787,927	10,904,684
Equity securities	N/A	N/A	26,017,244	22,610,502
Alternative investments	N/A	N/A	1,573,473	1,271,142
			\$ 54,758,608	\$ 47,606,128

As presented on the Statement of Net Position:

	2021	2020
Cash and cash equivalents	\$ 4,383,224	\$ 5,774,687
Current investments	29,146,890	21,104,904
Noncurrent investments	21,228,494	20,726,537
	\$ 54,758,608	\$ 47,606,128

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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, 2021, 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, 2021, 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, 2021, 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, 2021, 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, 2021 and 2020

NOTE D - ANNUITY PAYABLE

The Foundation is party to four charitable gift annuity agreements as of December 31, 2021. Under the gift annuity agreements, the donors contribute assets to the Foundation in exchange for its commitment to make distributions to the donor or other beneficiaries for a specified period of time or until the death of the beneficiary. Assets received are recorded at fair value on the date the agreement is executed, and a liability equal to the present value of the future distributions is also recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue in the period the gift is made. On an annual basis, the Foundation evaluates the liability and makes distributions to the designated beneficiaries based on the fixed amount in the annuity agreements. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. Discount rates on these obligations range from 1.16% to 0.51%.

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, 2021 and 2020, the investment balance was \$1,450,477 and \$1,849,247, respectively, which is presented with the other Foundation investments based on the applicable investment type. As of December 31, 2021 and 2020, the annuity payable is \$649,304 and \$935,869, respectively.

NOTE E - ENDOWMENTS

The Foundation's endowment consists of approximately 140 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 both 2021 and 2020. 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, 2021 and 2020

NOTE E - ENDOWMENTS (continued)

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

	<u>2021</u>	<u>2020</u>
Total endowment balance	\$ 36,809,506	\$ 33,257,781
Less amounts restricted for student assistance and college programs	<u>15,581,012</u>	<u>12,531,244</u>
Restricted for permanent endowments	<u>\$ 21,228,494</u>	<u>\$ 20,726,537</u>

All assets of the Foundation are considered restricted for college support. For 2021, the amount restricted for student assistance and college programs totals \$24,454,309 which is made up of temporarily restricted endowments of \$15,581,012 and temporarily restricted amounts related to non-endowment contributions of \$8,873,297. 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.

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, 2021 and 2020, the Foundation's First Generation in College Matching Grant funds is \$172,937 and \$177,999 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 2021. 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 3, 2022, the date which the financial statements became available for issue and has determined that no material events occurred that would require disclosure.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Palm Beach State College Foundation, Inc.
Lake Worth, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Palm Beach State College Foundation, Inc. (the "Foundation"), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Foundation's financial statements, and have issued our report thereon dated May 3, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 3, 2022
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP