

PALOMAR COLLEGE FOUNDATION
FINANCIAL STATEMENTS
FOR YEARS ENDED
DECEMBER 31, 2021 AND 2020

**PALOMAR COLLEGE FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Palomar College Foundation

We have audited the accompanying financial statements of Palomar College Foundation, (a non-profit organization), which comprise the statements of financial position as of December 31, 2021 and 2020 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 an 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. 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 Palomar College Foundation as of December 31, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wilkinson Hadley King & Co., LLP

El Cajon, California
June 28, 2022

**PALOMAR COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 217,603	\$ 257,750
Accounts Receivable	83,535	33,246
Short-Term Investments	5,239,081	4,396,640
Total Current Assets	5,540,219	4,687,636
Fixed Assets:		
Property and Equipment, Net	625	825
Non-Current Assets:		
Endowment Investments	10,339,982	6,864,777
Investments Held Under Split-Interest Agreements	273,375	257,516
Total Non-Current Assets	10,613,357	7,122,293
TOTAL ASSETS	\$ 16,154,201	\$ 11,810,754
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 9,532	\$ 3,629
Unearned Revenue	-	4,000
Payable to Beneficiaries, Current Portion	5,604	5,280
Total Current Liabilities	15,136	12,909
Long-term Liabilities:		
Payable to Beneficiaries, Net of Current Portion	28,072	33,676
TOTAL LIABILITIES	43,208	46,585
NET ASSETS		
Without Donor Restrictions	2,337,314	1,659,685
With Donor Restrictions	13,773,679	10,104,484
TOTAL NET ASSETS	16,110,993	11,764,169
TOTAL LIABILITIES AND NET ASSETS	\$ 16,154,201	\$ 11,810,754

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
General Contributions	\$ 71,208	\$ 3,370,268	\$ 3,441,476
Contributions From Fund Raising Events	162,579	-	162,579
Grants	176,500	205,432	381,932
Donated Services and Facilities	621,466	-	621,466
Investment Return, Net	325,356	977,923	1,303,279
Increase in Value of Beneficial Interests in Remainder Trusts	-	3,058	3,058
Net Assets Released From Restrictions, Satisfaction of Program Restrictions	887,486	(887,486)	-
	2,244,595	3,669,195	5,913,790
TOTAL REVENUE AND SUPPORT			
EXPENSES			
Program Services:			
Grants/Allocations	404,498	-	404,498
Scholarships	360,415	-	360,415
Donated Services and Facilities	528,246	-	528,246
Fund Raising Events	9,058	-	9,058
Total Program Services	1,302,217	-	1,302,217
Supporting Services:			
Clerical Support	12,838	-	12,838
Software, Support and Training	16,330	-	16,330
Printing and Duplicating	2,992	-	2,992
Consulting Fees	39,600	-	39,600
Travel and Conference	971	-	971
Audit and Tax Preparation	12,800	-	12,800
Office Expenses	13,481	-	13,481
Donor Stewardship	11,605	-	11,605
Other Operating Expenses	16,829	-	16,829
Fund Raising Events	36,230	-	36,230
Donated Services and Facilities	93,220	-	93,220
Memberships and Board Meetings	7,653	-	7,653
Depreciation	200	-	200
Total Supporting Services	264,749	-	264,749
	1,566,966	-	1,566,966
TOTAL EXPENSES			
INCREASE (DECREASE) NET ASSETS	677,629	3,669,195	4,346,824
NET ASSETS, BEGINNING OF YEAR	1,659,685	10,104,484	11,764,169
NET ASSETS, END OF YEAR	\$ 2,337,314	\$ 13,773,679	\$ 16,110,993

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
General Contributions	\$ 86,077	\$ 2,733,285	\$ 2,819,362
Contributions From Fund Raising Events	90,678	-	90,678
Grants	8,353	115,290	123,643
Donated Services and Facilities	644,296	-	644,296
Investment Return, Net	214,905	565,558	780,463
Increase in Value of Beneficial Interests in Remainder Trusts	-	2,924	2,924
Net Assets Released From Restrictions, Satisfaction of Program Restrictions	924,736	(924,736)	-
TOTAL REVENUE AND SUPPORT	1,969,045	2,492,321	4,461,366
EXPENSES			
Program Services:			
Grants/Allocations	538,894	-	538,894
Scholarships	447,728	-	447,728
Donated Services and Facilities	547,652	-	547,652
Salaries and Benefits	4,958	-	4,958
Fund Raising Events	1,425	-	1,425
Total Program Services	1,540,657	-	1,540,657
Supporting Services:			
Clerical Support	18,902	-	18,902
Software, Support and Training	4,808	-	4,808
Printing and Duplicating	5,070	-	5,070
Consulting Fees	39,600	-	39,600
Travel and Conference	501	-	501
Audit and Tax Preparation	12,250	-	12,250
Office Expenses	11,930	-	11,930
Other Operating Expenses	14,273	-	14,273
Fund Raising Events	5,699	-	5,699
Donated Services and Facilities	96,644	-	96,644
Memberships and Board Meetings	9,120	-	9,120
Depreciation	542	-	542
Total Supporting Services	219,339	-	219,339
TOTAL EXPENSES	1,759,996	-	1,759,996
INCREASE (DECREASE) NET ASSETS	209,049	2,492,321	2,701,370
NET ASSETS, BEGINNING OF YEAR	1,450,636	7,612,163	9,062,799
NET ASSETS, END OF YEAR	\$ 1,659,685	\$ 10,104,484	\$ 11,764,169

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

	Program Services			
	Educational Support	Management and General	Fundraising and Development	Total
Grants and Other Assistance	\$ 404,498	\$ -	\$ -	\$ 404,498
Scholarships	360,415	-	-	360,415
Donated Services and Facilities	528,246	55,932	37,288	621,466
Salaries and Benefits	-	8,987	3,851	12,838
Advertising and Promotion	9,058	-	36,230	45,288
Professional Services	-	39,600	-	39,600
Training and Development	-	16,330	-	16,330
Printing and Duplicating	-	2,992	-	2,992
Travel and Conference	-	971	-	971
Audit and Tax Preparation	-	12,800	-	12,800
Office Expenses	-	13,481	-	13,481
Membership and Board Meetings	-	7,653	-	7,653
Donor Stewardship	-	11,605	-	11,605
Other Operating Expenses	-	16,829	-	16,829
Depreciation	-	200	-	200
Total Expenses By Function	<u>\$ 1,302,217</u>	<u>\$ 187,380</u>	<u>\$ 77,369</u>	<u>\$ 1,566,966</u>

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020**

	Program Services			
	Educational Support	Management and General	Fundraising and Development	Total
Grants and Other Assistance	\$ 538,894	\$ -	\$ -	\$ 538,894
Scholarships	447,728	-	-	447,728
Donated Services and Facilities	547,652	57,986	38,658	644,296
Salaries and Benefits	4,958	11,341	7,561	23,860
Advertising and Promotion	1,425	-	5,699	7,124
Professional Services	-	39,600	-	39,600
Training and Development	-	4,808	-	4,808
Printing and Duplicating	-	5,070	-	5,070
Travel and Conference	-	501	-	501
Audit and Tax Preparation	-	12,250	-	12,250
Office Expenses	-	11,930	-	11,930
Membership and Board Meetings	-	9,120	-	9,120
Other Operating Expenses	-	14,273	-	14,273
Depreciation	-	542	-	542
Total Expenses By Function	<u>\$ 1,540,657</u>	<u>\$ 167,421</u>	<u>\$ 51,918</u>	<u>\$ 1,759,996</u>

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 4,346,824	\$ 2,701,370
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	200	542
(Gain) Loss on Investments	(954,151)	(640,742)
Increase in Value of Beneficial Interests in Remainder Trusts	(3,058)	(2,924)
Distribution of Investments Under Split-Interest Agreements	13,338	12,898
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(50,289)	(15,921)
Unearned Revenue	(4,000)	4,000
Accounts Payable	5,902	(5,936)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,354,766	2,053,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sale of Investments	\$ 49,923	\$ 7,332
Purchase of Investments	(3,444,836)	(2,117,073)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3,394,913)	(2,109,741)
NET INCREASE (DECREASE) IN CASH	(40,147)	(56,454)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	257,750	314,204
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 217,603	\$ 257,750

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

A. Organization and Summary of Significant Accounting Policies:

Nature of Activities

Palomar College Foundation (Foundation) is a California nonprofit organization established in 1959 to secure supplemental funding and other resources for the benefit of the students and faculty of Palomar Community College District (District). The Foundation's programs include student scholarships, faculty grants, donor-designated funds, and special projects. The Foundation receives contributions to support the students and programs of the District.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Revenues are recorded in the accounting period they become both measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Funds from split-interest agreements will not be available to the Foundation until the occurrence of a specific event; therefore, the amounts received by the Foundation will be different than reported and the difference could be material.

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Entities*, and Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958 and ASU No. 2016-14, the Foundation is required to report information regarding its financial position and activities to two classes of net assets; net assets with donor restrictions and net assets without donor restrictions.

Cash and Cash Equivalents

For the purpose of the statement of financial position and the statement of cash flows, the Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

A. Organization and Summary of Significant Accounting Policies: (Continued)

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions received are recorded with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. It has been the policy of the Foundation that donations are considered to be available for unrestricted use unless specifically restricted by the donor.

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of the donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for scholarships, grants, and fundraising activities. The Foundation determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. As of December 31, 2021 and 2020, no allowance for uncollectible accounts has been recorded.

Contributions Receivable

The Foundation records unconditional contributions receivable that are expected to be collected within one year as net realizable value. Contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in the contribution revenue in the statements of activities. The Foundation determines the allowance for uncollectible contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. At December 31, 2021 and 2020 no allowance for uncollectible contributions receivable has been recorded.

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fundraising and in carrying out the Foundation's operations. The services do not meet the criteria for recognition under ASC No. 958 and are, therefore, not recognized in the financial statements.

PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)

A. Organization and Summary of Significant Accounting Policies: (Continued)

Property and Equipment

Acquisitions of property and equipment of \$500 or more are capitalized and are recorded at cost. Donated property and equipment are recorded at fair market value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

Assets Held and Liabilities Under Split-Interest Agreements

Charitable Trusts:

The Foundation acts as trustee for various irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period, or upon the occurrence of a specific event. Since the trusts are irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income.

Charitable Gift Annuities:

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of the receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by the payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year.

All gift annuities are negotiated between the Foundation and the donor/annuitant, and based on the rate tables approved by the California Insurance Commissioner for gift annuity agreements. The assets are included in investments held under split-interest agreements and the liabilities for the net present value of the annuity payments are included in payable to beneficiaries in the statements of financial position.

PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)

A. Organization and Summary of Significant Accounting Policies: (Continued)

Change in Accounting Principles

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Advertising Costs

Advertising costs are expensed as incurred. There were no advertising costs for the years ended December 31, 2021 and 2020.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Foundation reports contributions restricted by the donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

A. Organization and Summary of Significant Accounting Policies: (Continued)

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation may be subject to tax on income which is not related to its exempt purpose. No such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Foundation is not a private foundation.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 31, 2022 the date the financial statements were available to be issued.

B. Cash:

Cash balances on hand and in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by financial institutions is entirely insured or collateralized.

Cash consists of the following:

	2021	2020
California Bank & Trust Checking	\$ 217,103	\$ 257,750
Petty Cash	500	-
	<u>\$ 217,603</u>	<u>\$ 257,750</u>

C. Investments:

Investments consists of the following:

	2021	2020
Mutual funds:		
Marketable securities	\$ 12,953,950	\$ 8,041,638
Real estate investments	6,280	8,040
Trust funds	698,025	650,296
Other mutual funds	813,979	398,499
Money market funds	1,380,204	2,420,460
	<u>\$ 15,852,438</u>	<u>\$ 11,518,933</u>

Investments are carried at fair value, and realized and unrealized gains and losses are reflected within investment return, net in the statement of activities.

PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)

C. Investments (Continued):

Investment return and its classification for the year ended December 31, 2021 included in the statement of activities is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 80,561	\$ 256,815	\$ 337,376
Realized gain (loss) on investments	-	49,923	49,923
Unrealized gain (loss) on investments	253,246	700,905	954,151
Investment fees	<u>(8,451)</u>	<u>(29,720)</u>	<u>(38,171)</u>
	<u>\$ 325,356</u>	<u>\$ 977,923</u>	<u>\$ 1,303,279</u>

Investment return and its classification for the year ended December 31, 2020 included in the statement of activities is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 46,416	\$ 111,910	\$ 158,326
Realized gain (loss) on investments	-	7,332	7,332
Unrealized gain (loss) on investments	175,714	465,028	640,742
Investment fees	<u>(7,225)</u>	<u>(18,712)</u>	<u>(25,937)</u>
	<u>\$ 214,905</u>	<u>\$ 565,558</u>	<u>\$ 780,463</u>

Investment Accounting Policy

The Foundation's general policy is to report money market investments and short-term participating interest-earning investment contracts at cost with all other investments being reported at fair value unless a legal contract exists which guarantees a higher value.

All funds of the Foundation are invested in a prudent manner with the intention to pursue a long-term investment objective of consistent capital growth through priority objectives of a) preservation of capital, b) liquidity sufficient for annual spending, and c) long-term income growth. Diversification policy states that no security shall exceed 2% of the portfolio (excluding treasury and agency securities and commingled fund vehicles) and bond quality shall be a minimum weighted average fixed income rating of "A" grade with bond maturity having an average duration not to exceed seven years.

The Foundation's policy for endowments and endowed scholarship funds states that the endowed principal will be invested in those assets which have the highest statistical probability of preserving, in real rather than nominal terms, the corpus, while generating the maximum possible rate of return. Investment parameters include a) investing the funds on a long-term basis (five years or more), consistent capital growth, preserving the principal, and accepting minimal market risk.

PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)

D. Fair Value Measurements and Disclosures:

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Foundation develops inputs using the best information available.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to entire measurement requires judgement, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of the Foundation's investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption rates. The following table presents assets measured at fair value on a recurring basis, except those measured at cost:

PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)

D. Fair Value Measurements and Disclosures (Continued):

The following tables presents assets measured at fair value on a recurring basis, except those measured at cost as identified in the following as of December 31, 2021 and 2020:

Assets December 31, 2021	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments:				
Cash and money markets funds (at cost)	\$ 1,356,011	\$ -	\$ -	\$ -
Marketable securities	3,604,090	3,604,090	-	-
Other mutual funds	278,980	278,980	-	-
	<u>\$ 5,239,081</u>	<u>\$ 3,883,070</u>	<u>\$ -</u>	<u>\$ -</u>
Assets held under split-interest agreements:				
Marketable securities	<u>\$ 273,375</u>	<u>\$ 273,375</u>	<u>\$ -</u>	<u>\$ -</u>
Endowment investments:				
Cash and money markets funds (at cost)	\$ 24,193	\$ -	\$ -	\$ -
Marketable securities	9,076,485	9,076,485	-	-
Trust funds	698,025	698,025	-	-
Other mutual funds	534,999	534,999	-	-
Real estate funds	6,280	6,280	-	-
	<u>\$ 10,339,982</u>	<u>\$ 10,315,789</u>	<u>\$ -</u>	<u>\$ -</u>

Assets December 31, 2020	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments:				
Cash and money markets funds (at cost)	\$ 1,397,242	\$ -	\$ -	\$ -
Marketable securities	2,738,396	2,738,396	-	-
Other mutual funds	261,002	261,002	-	-
	<u>\$ 4,396,640</u>	<u>\$ 2,999,398</u>	<u>\$ -</u>	<u>\$ -</u>
Assets held under split-interest agreements:				
Marketable securities	<u>\$ 257,516</u>	<u>\$ 257,516</u>	<u>\$ -</u>	<u>\$ -</u>
Endowment investments:				
Cash and money markets funds (at cost)	\$ 1,023,218	\$ -	\$ -	\$ -
Marketable securities	5,045,726	5,045,726	-	-
Trust funds	650,296	650,296	-	-
Other mutual funds	137,497	137,497	-	-
Real estate funds	8,040	8,040	-	-
	<u>\$ 6,864,777</u>	<u>\$ 5,841,559</u>	<u>\$ -</u>	<u>\$ -</u>

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

E. Accounts Receivable:

There are no significant current receivables which are not scheduled for collection within one year of year end. Accounts receivable consist of the following:

	<u>2021</u>	<u>2020</u>
Scholarship donations	\$ 21,160	\$ 18,364
Associates dues	1,025	1,085
Grants and contributions	36,275	3,797
Special events	<u>25,075</u>	<u>10,000</u>
Totals	<u>\$ 83,535</u>	<u>\$ 33,246</u>

All current accounts receivable as of December 31, 2021 and 2020 are considered collectible by management. As a result, no allowance for doubtful accounts has been recorded.

F. Property and Equipment:

Property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 35,329	\$ 35,329
Less accumulated depreciation	<u>(34,704)</u>	<u>(34,504)</u>
Totals	<u>\$ 625</u>	<u>\$ 825</u>

G. Accounts Payable:

Accounts payable consists of the following:

	<u>2021</u>	<u>2020</u>
Salaries and benefits	\$ 3,638	\$ -
Vendors payables	<u>5,894</u>	<u>3,629</u>
Totals	<u>\$ 9,532</u>	<u>\$ 3,629</u>

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

H. Payables to Beneficiaries:

The Foundation has received contributions under charitable gift annuities. The Foundation agrees to pay a stated amount annually to the beneficiaries as long as they live, at which time, the remaining assets are available for use by the Foundation. Total assets held under split-interest agreements as of December 31, 2021 and 2020 are \$273,375 and \$257,516, respectively, and the actuarial present value of the Foundation’s interest in the gift annuities are \$239,999 and \$218,560 respectively. At December 31, 2021, the amounts payable to beneficiaries are \$33,676, of which \$5,604 is current and \$28,072 is long-term. At December 31, 2020, the amounts payable to beneficiaries are \$38,956 of which \$5,280 is current and \$33,676 is long-term. Payable to beneficiaries is the present value of the expected future cash flows to be paid to the beneficiaries.

The principal valuation technique for the split interest agreements is the present value of beneficial interests. As of December 31, 2021 and December 31, 2020 the range of significant input values in the split interest trusts reflected discount rates ranging from 1.2%-4.2% with a payout rate ranging from 5.00%-11.02%. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate and evaluates and adjusts the inputs used in the fair value measurements based on current market conditions and third-party information.

Future amounts payable to beneficiaries from charitable gift annuities are as follows:

Year Ended December 31,	Principal	Interest	Total
2022	\$ 5,604	\$ 1,896	\$ 7,500
2023	5,948	1,552	7,500
2024	6,313	1,187	7,500
2025	6,700	800	7,500
2026	7,111	389	7,500
Thereafter	2,000	1,750	3,750
Total	<u>\$ 33,676</u>	<u>\$ 7,574</u>	<u>\$ 41,250</u>

I. Net Assets Without Donor Restrictions:

All net assets without donor restrictions are undesignated. There are no net assets without donor restrictions that have been designated by the governing board for a specific purpose.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

J. Net Assets With Donor Restrictions:

Net assets with donor restrictions consist of the following:

	2021	2020
Purpose Restricted:		
Subject to expenditure for specified purpose		
Departmental funds	\$ 540,891	\$ 754,573
Internal scholarship funds	661,088	848,472
Palomar Promise	701,183	671,993
Steinberg funds	808,940	833,027
Auxillary organization funds	50,800	49,215
Charitable remainder trusts	239,999	215,524
Arboretum Hubbell structure	421,647	45,329
Total Purpose Restricted	3,424,548	3,418,133
Perpetual In Nature:		
Subject to Foundation spending policy and appropriation		
Endowment funds	9,133,858	5,956,513
External scholarship funds	1,215,273	729,838
Total Perpetual In Nature	10,349,131	6,686,351
 Total Net Assets With Donor Restrictions	 \$ 13,773,679	 \$ 10,104,484

K. Endowment Funds:

The Foundation’s endowments consists of forty one individual funds established by donors to provide annual funding for specific activities and general operations. The Foundation’s board of directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of December 31, 2021 and 2020, there were no stipulations.

As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including contributions receivable, net of discount and allowance for doubtful accounts) donated to the endowment funds and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, (7) the investment policies of the organization.

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

K. Endowment Funds (Continued):

As of December 31, 2021 and 2020, the Foundation had the following endowment net asset composition by type of fund:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2021</u>			
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	7,569,900	7,569,900
Accumulated investment gains	-	1,563,958	1,563,958
	<u>\$ -</u>	<u>\$ 9,133,858</u>	<u>\$ 9,133,858</u>
<u>December 31, 2020</u>			
Board-designated endowment funds	\$ -	\$ -	\$ -
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	4,769,900	4,769,900
Accumulated investment gains	-	1,186,613	1,186,613
	<u>\$ -</u>	<u>\$ 5,956,513</u>	<u>\$ 5,956,513</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments as of December 31, 2021 and December 31, 2020.

PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)

K. Endowment Funds (Continued):

Investment and Spending Policies

The Foundation has adopted investment and spending policies for the endowments that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. The target minimum rate of return is the Consumer Price Index plus five percent on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

The Foundation uses an endowment spending-rate formula to determine the maximum amount to spend from the endowments, including those endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the endowment investments for the prior twelve quarters at December 31 of each year to determine the spending amount for the upcoming year. During 2021 and 2020, the spending rate maximum was 4.5 percent. In establishing this policy, the Foundation considered the long-term expected return on the endowments and set the rate with the objective of maintaining the purchasing power of the endowments over time.

Changes in endowment assets for the years ended December 31, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year Ended December 31, 2021</u>			
Endowment net assets, beginning of year	\$ -	\$ 5,956,513	\$ 5,956,513
Investment return, net	-	545,775	545,775
Contributions	-	2,819,130	2,819,130
Appropriation of endowment assets pursuant to spending-rate policy	-	(187,560)	(187,560)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 9,133,858</u>	<u>\$ 9,133,858</u>
<u>Year Ended December 31, 2020</u>			
Endowment net assets, beginning of year	\$ -	\$ 4,653,184	\$ 4,653,184
Investment return, net	-	419,149	419,149
Contributions	-	1,025,975	1,025,975
Appropriation of endowment assets pursuant to spending-rate policy	-	(141,795)	(141,795)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 5,956,513</u>	<u>\$ 5,956,513</u>

**PALOMAR COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Continued)**

L. Related Party Transactions:

The District is the primary beneficiary of the Foundation. To assist the Foundation in carrying out its purpose, the Foundation has a master agreement with the District whereby the District provides administrative support to the Foundation. The District pays 100% of the salaries and benefits of the Executive Director, two Development Officers, and the Accountant. In addition, the District provides free use of facilities.

Donated services and facilities for the year ended December 31, 2021 and for the year ended December 31, 2020 was \$621,466 and \$644,296, respectively. These amounts are included as donated services and facilities and as operating expenses in the statements of activities for the years ended December 31, 2021 and 2020.

M. Liquidity and Availability:

The Foundation’s financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date comprise the following:

	2021	2020
Cash and Cash Equivalents	\$ 217,603	\$ 257,750
Accounts Receivable	27,131	12,874
Short-Term Investments	1,356,011	1,390,816
Totals	\$ 1,600,745	\$ 1,661,440

The Foundation’s endowment funds consist of donor-restricted endowments and income from donor-restricted endowments which is restricted for specific purposes and, therefore, is not available for general expenditure. As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. As part of the liquidity management plan, the Foundation invests cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds.