



Palomar College  
Foundation

Financial Statements

Years Ended  
December 31, 2022  
and  
December 31, 2021



WILKINSON HADLEY  
KING & CO. LLP  
CPAs AND ADVISORS



**PALOMAR COLLEGE FOUNDATION**  
Financial Statements and Supplemental Information  
Years Ended December 31, 2022 and December 31, 2021

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## Independent Auditor's Report

To the Board of Directors of  
Palomar College Foundation

### Opinion

We have audited the accompanying financial statements of Palomar College Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and December 31, 2021, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

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, 2022 and December 31, 2021, 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Palomar College 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 the 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 Palomar College Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **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 generally accepted 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 generally accepted 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 Palomar College 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 Palomar College 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.

*Wilkinson Hadley King & Co LLP*

El Cajon, California

June 28, 2023

## Financial Statements

**PALOMAR COLLEGE FOUNDATION**

Statement of Financial Position  
December 31, 2022 and December 31, 2021

|   | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Cash and cash equivalents                                   | \$ 1,703,862         | \$ 1,556,402         |
| Operating investments                                       | 4,482,984            | 5,379,781            |
| Accounts receivable   | 27,026               | 83,535               |
| Property & equipment, net                                   | 493                  | 625                  |
| Beneficial interests in assets held by charitable trusts    | 210,797              | 273,375              |
| Endowments  |                      |                      |
| Beneficial interests in assets held by community foundation | 564,849              | 698,025              |
| Other endowment investments                                 | 17,093,169           | 8,162,458            |
| <b>Total Assets</b>   | <u>\$ 24,083,180</u> | <u>\$ 16,154,201</u> |
| <b>LIABILITIES AND NET ASSETS</b>                           |                      |                      |
| <b>Liabilities</b>  |                      |                      |
| Accounts payable  | \$ 11,019            | \$ 9,532             |
| Payable to charitable trust beneficiaries                   | 28,073               | 33,676               |
| <b>Total Liabilities</b>                                    | <u>39,092</u>        | <u>43,208</u>        |
| <b>Net Assets</b>   |                      |                      |
| Without Donor Restrictions                                  |                      |                      |
| Undesignated  | 2,045,207            | 2,337,314            |
| Total without donor restrictions                            | <u>2,045,207</u>     | <u>2,337,314</u>     |
| With Donor Restrictions                                     |                      |                      |
| Restricted for specific purposes                            | 4,130,066            | 4,639,821            |
| Charitable trusts   | 210,797              | 273,375              |
| Endowments  | 17,658,018           | 8,860,483            |
| Total with donor restrictions                               | <u>21,998,881</u>    | <u>13,773,679</u>    |
| <b>Total Net Assets</b>                                     | <u>24,044,088</u>    | <u>16,110,993</u>    |
| <b>Total Liabilities and Net Assets</b>                     | <u>\$ 24,083,180</u> | <u>\$ 16,154,201</u> |

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION**  
Statement of Activities  
Years Ended December 31, 2022 and December 31, 2021

|  | 2022                          |                            |                      | 2021                          |                            |                      |
|--|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|----------------------|
|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total<br>2022        | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total<br>2021        |
| <b>Revenue, Support, and Gains</b>       |                               |                            |                      |                               |                            |                      |
| Gross special events revenue             | \$ 162,145                    | \$ -                       | \$ 162,145           | \$ 162,579                    | \$ -                       | \$ 162,579           |
| Less cost of direct benefits to donors   | (69,623)                      | -                          | (69,623)             | (50,445)                      | -                          | (50,445)             |
| Net special events revenue               | <u>92,522</u>                 | <u>-</u>                   | <u>92,522</u>        | <u>112,134</u>                | <u>-</u>                   | <u>112,134</u>       |
| Contributions                            | 57,549                        | 10,975,354                 | 11,032,903           | 71,208                        | 3,373,325                  | 3,444,533            |
| Grants                                   | 48,000                        | 340,000                    | 388,000              | 176,500                       | 205,432                    | 381,932              |
| Donated services and facilities          | 623,770                       | -                          | 623,770              | 621,466                       | -                          | 621,466              |
| Interest and dividends                   | 82,214                        | 505,607                    | 587,821              | 80,561                        | 256,815                    | 337,376              |
| Net investment return*                   | (529,967)                     | (2,510,463)                | (3,040,430)          | 244,795                       | 721,108                    | 965,903              |
| Net assets released from restriction     | <u>1,085,295</u>              | <u>(1,085,295)</u>         | <u>-</u>             | <u>887,486</u>                | <u>(887,486)</u>           | <u>-</u>             |
| <b>Total Revenue, Support, and Gains</b> | <u>1,459,383</u>              | <u>8,225,203</u>           | <u>9,684,586</u>     | <u>2,194,150</u>              | <u>3,669,194</u>           | <u>5,863,344</u>     |
| <b>Expenses and Losses</b>               |                               |                            |                      |                               |                            |                      |
| Program services expenses                | 1,502,370                     | -                          | 1,502,370            | 1,302,217                     | -                          | 1,302,217            |
| Supporting services expenses             | <u>249,120</u>                | <u>-</u>                   | <u>249,120</u>       | <u>214,304</u>                | <u>-</u>                   | <u>214,304</u>       |
| <b>Total Expenses and Losses</b>         | <u>1,751,490</u>              | <u>-</u>                   | <u>1,751,490</u>     | <u>1,516,521</u>              | <u>-</u>                   | <u>1,516,521</u>     |
| <b>Change in Net Assets</b>              | (292,107)                     | 8,225,203                  | 7,933,096            | 677,629                       | 3,669,194                  | 4,346,823            |
| <b>Net Assets, Beginning of Year</b>     | <u>2,337,314</u>              | <u>13,773,679</u>          | <u>16,110,993</u>    | <u>1,659,685</u>              | <u>10,104,485</u>          | <u>11,764,170</u>    |
| <b>Net Assets, End of Year</b>           | <u>\$ 2,045,207</u>           | <u>\$ 21,998,882</u>       | <u>\$ 24,044,089</u> | <u>\$ 2,337,314</u>           | <u>\$ 13,773,679</u>       | <u>\$ 16,110,993</u> |

\*Includes changes in beneficial interests in charitable trusts and community foundations.

The accompanying notes are an integral part of this statement.

**PALOMAR COLLEGE FOUNDATION**  
Statement of Functional Expenses  
Years Ended December 31, 2022 and December 31, 2021

|  | <u>2022</u>             |                           |                              |                     | <u>2021</u>             |                           |                              |                     |
|--|-------------------------|---------------------------|------------------------------|---------------------|-------------------------|---------------------------|------------------------------|---------------------|
|  | Program<br>Services     | Support Services          |                              | Total<br>2022       | Program<br>Services     | Support Services          |                              | Total<br>2021       |
|  | Educational<br>Programs | Management<br>and General | Fundraising &<br>Development |                     | Educational<br>Programs | Management<br>and General | Fundraising &<br>Development |                     |
| Grants and other assistance  | \$ 567,320              | \$ -                      | \$ -                         | \$ 567,320          | \$ 404,498              | \$ -                      | \$ -                         | \$ 404,498          |
| Scholarships   | 404,845                 | -                         | -                            | 404,845             | 360,415                 | -                         | -                            | 360,415             |
| Donated services and facilities  | 530,205                 | 56,139                    | 37,426                       | 623,770             | 528,246                 | 55,932                    | 37,288                       | 621,466             |
| Salaries and benefits  | -                       | 36,735                    | 15,744                       | 52,479              | -                       | 8,987                     | 3,851                        | 12,838              |
| Advertising and promotion  | -                       | -                         | 2,397                        | 2,397               | 9,058                   | -                         | 36,230                       | 45,288              |
| Professional services  | -                       | 39,600                    | -                            | 39,600              | -                       | 39,600                    | -                            | 39,600              |
| Investment management fees   | -                       | 42,857                    | -                            | 42,857              | -                       | 38,171                    | -                            | 38,171              |
| Bank and merchant fees   | -                       | -                         | 2,138                        | 2,138               | -                       | -                         | 1,317                        | 1,317               |
| Training and development   | -                       | 21,623                    | -                            | 21,623              | -                       | 16,330                    | -                            | 16,330              |
| Printing and duplicating   | -                       | 388                       | -                            | 388                 | -                       | 2,992                     | -                            | 2,992               |
| Travel and conference  | -                       | 4,281                     | -                            | 4,281               | -                       | 971                       | -                            | 971                 |
| Audit and tax preparation  | -                       | 12,800                    | -                            | 12,800              | -                       | 12,800                    | -                            | 12,800              |
| Office expenses  | -                       | 1,868                     | -                            | 1,868               | -                       | 3,962                     | -                            | 3,962               |
| Membership and board meetings  | -                       | 10,255                    | -                            | 10,255              | -                       | 7,653                     | -                            | 7,653               |
| Donor stewardship  | -                       | 1,597                     | -                            | 1,597               | -                       | 11,605                    | -                            | 11,605              |
| Insurance  | -                       | 4,426                     | -                            | 4,426               | -                       | 3,445                     | -                            | 3,445               |
| Other operating expenses   | -                       | 1,572                     | -                            | 1,572               | -                       | 7,371                     | -                            | 7,371               |
| Other special events expenses  | -                       | -                         | 69,623                       | 69,623              | -                       | -                         | 14,215                       | 14,215              |
| Depreciation   | -                       | 131                       | -                            | 131                 | -                       | 200                       | -                            | 200                 |
| <b>Total expenses by function</b>  | <b>1,502,370</b>        | <b>234,272</b>            | <b>127,328</b>               | <b>1,863,970</b>    | <b>1,302,217</b>        | <b>210,019</b>            | <b>92,901</b>                | <b>1,605,137</b>    |
| Less expenses included with revenues<br>on the statement of activities                   |                         |                           |                              |                     |                         |                           |                              |                     |
| Investment management fees   | -                       | (42,857)                  | -                            | (42,857)            | -                       | (38,171)                  | -                            | (38,171)            |
| Cost of direct benefits to donors  | -                       | -                         | (69,623)                     | (69,623)            | -                       | -                         | (50,445)                     | (50,445)            |
| <b>Total expenses included in the expense<br/>section on the statement of activities</b> | <b>\$ 1,502,370</b>     | <b>\$ 191,415</b>         | <b>\$ 57,705</b>             | <b>\$ 1,751,490</b> | <b>\$ 1,302,217</b>     | <b>\$ 171,848</b>         | <b>\$ 42,456</b>             | <b>\$ 1,516,521</b> |

The accompanying notes are an integral part of this statement.



**PALOMAR COLLEGE FOUNDATION**

Statement of Cash Flows

Years Ended December 31, 2022 and December 31, 2021

|   | <b>2022</b>          | <b>2021</b>         |
|---|----------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>   |                      |                     |
| Receipts from special events  | \$ 162,145           | \$ 162,579          |
| Receipts from grants and contributions  | 11,477,413           | 3,772,176           |
| Receipts from interest and dividends  | 587,821              | 337,376             |
| Payments for grants and scholarships  | (977,768)            | (770,193)           |
| Payments for salaries and benefits  | (52,479)             | (12,838)            |
| Payments for other expenses   | (213,938)            | (199,817)           |
| <b>Net Cash Used For Operating Activities</b>   | <b>10,983,194</b>    | <b>3,289,283</b>    |
| <b>Cash Flows From Investing Activities</b>   |                      |                     |
| Proceeds from sale of investments   | (60,750)             | 49,923              |
| Purchases of investments  | (10,774,984)         | (3,428,513)         |
| <b>Net Cash From Investing Activities</b>   | <b>(10,835,734)</b>  | <b>(3,378,590)</b>  |
| <b>Net Change in Cash and Cash Equivalents</b>  | 147,460              | (89,307)            |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                     | 1,556,402            | 1,645,709           |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b>\$ 1,703,862</b>  | <b>\$ 1,556,402</b> |
| <b>Reconciliation of Change in Net Assets to Net Cash Used For Operating Activities</b> |                      |                     |
| Change in net assets  | \$ 7,933,096         | \$ 4,346,823        |
| Adjustments to reconcile change in net assets to net cash:                              |                      |                     |
| Depreciation  | 131                  | 200                 |
| Unrealized investment gains/losses  | 2,936,824            | (954,151)           |
| Realized investment gains/losses  | 60,750               | (49,923)            |
| (Increase) Decrease in assets   |                      |                     |
| Accounts receivable   | 56,509               | (50,289)            |
| Increase (Decrease) in liabilities  |                      |                     |
| Accounts payable  | 1,487                | 5,903               |
| Deferred revenue  | -                    | (4,000)             |
| Payable to beneficiaries of charitable remainder trusts                                 | (5,603)              | (5,280)             |
| <b>Net Cash Used For Operating Activities</b>   | <b>\$ 10,983,194</b> | <b>\$ 3,289,283</b> |

The accompanying notes are an integral part of this statement.

# PALOMAR COLLEGE FOUNDATION

## Notes to the Financial Statements

Years Ended December 31, 2022 and December 31, 2021

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### A. Principal Activity and Summary of Significant Accounting Policies

#### **Organization**

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).

#### **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.

#### **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.

#### **Cash and Cash Equivalents**

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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**Accounts Receivable**

Accounts receivable consist primarily of non-interest-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, 2022 and 2021, no allowance for uncollectible accounts has been recorded.

**Investments**

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

**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.

**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 are available for use in general operations and not subject to donor restrictions. The governing board has designated an operating reserve within the net assets without donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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**Donated Services and Facilities**

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and developing activities. The financial statements represent the fair market value for professional services that can be quantified. The financial statements do not reflect the value of contributed services that do not meet recognition criteria prescribed by generally accepted accounting principles. Donated facilities are recorded at fair value at the date of donation.

**Advertising**

Advertising costs are expensed as incurred and approximated \$2,397 and \$45,288 during the years ended December 31, 2022 and December 31, 2021.

**Functional Allocation of Expenses**

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

**Income Taxes**

The Palomar College Foundation is organized as a California nonprofit corporation and is recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3). Contributions to the Foundation qualify for the charitable contribution under IRC Sections 170(b)(1)(A)(vi) and have been determined not to be private foundations under IRC Sections 509(a)(1) and (3). The Foundation is required to file an annual Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. We have determined that the Foundation is not subject to unrelated business income tax and therefore have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The federal income tax and informational returns are subject to examination by the Internal Revenue Service for three years after the returns are filed.

The Foundation is also exempt from California franchise or income tax under Section 23701d of the California Revenue and Taxation Code. The Foundation is required to file a California Exempt Organization Annual Information Return (Form 199) each fiscal year with the California Franchise Tax Board. In addition, the Foundation is required to file an Annual Registration Renewal Fee Report to Attorney General of California (Form RRF-1) to the California Registry of Charitable Trusts. The state income tax and informational returns are subject to examination by the California Franchise Tax Board for four years after the returns are filed.

The Foundation follows provisions of uncertain tax positions as addressed in ASC 958. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the Years Ended December 31, 2022 and December 31, 2021.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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**Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Foundation to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from board members and individuals supportive of the Foundations mission. Investments are made by diversified investment managers whose performance is monitored by the board of directors for the Foundation. Although fair values of investments are subject to fluctuation on a year-to-year basis, the Foundation believes that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

**New Accounting Guidance**

The Financial Accounting Standards Board (FASB) regularly issues Accounting Standards Updates (ASU). These updates are issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The Foundation adheres to updated accounting guidelines as they become effective. For the years ended December 31, 2022 and December 31, 2021 there were no changes that resulted in adjustments to ending net position.

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 28, 2023, the date the financial statements were available to be issued.

**B. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

|  | <b>Year Ended December 31,</b> |                     |
|--|--------------------------------|---------------------|
|  | <b>2022</b>                    | <b>2021</b>         |
| Cash and cash equivalents                                | \$ 1,703,862                   | \$ 1,556,402        |
| Accounts receivable                                      | 27,026                         | 83,535              |
| Endowment spending-rate distributions and appropriations | 804,097                        | 411,024             |
|  | <u>\$ 2,534,985</u>            | <u>\$ 2,050,961</u> |

Endowment funds consist of donor-restricted endowments. Income earned on donor-restricted endowments remains restricted for the same purpose, except for annual distributions from the Endowment based on the distribution policy set forth by the Endowment Advisory Board, a subcommittee of the Foundation's Board of Directors. Annual distributions from the Endowment range from 3-5% of the Endowment per the distribution policy. Donor-restricted endowment funds are not available for general expenditures.

As part of the Foundation's liquidity management plan, cash in excess of daily requirements is invested in short-term investments, certificates of deposit, and money market funds.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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**C. Fundraising Expense**

For the years ended December 31, 2022 and December 31, 2021 the Foundation incurred fundraising expenses of \$127,328 and \$92,901 which are 1.14% and 2.58% of special events and contribution revenue, respectively.

**D. Property and Equipment**

Property and equipment consists of the following:

|                               | 2022      | 2021      |
|-------------------------------|-----------|-----------|
| Furniture and equipment       | \$ 35,329 | \$ 35,329 |
| Less accumulated depreciation | (34,836)  | (34,704)  |
| Property and equipment, net   | \$ 493    | \$ 625    |

**E. 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 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 used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable 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 that can be accessed on 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 in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market corroborated inputs.

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

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 judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

The following table presents assets measured at fair value on a recurring basis at December 31, 2022:

| Assets                                  | Total                | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|---|---|--|
| <b>Charitable Trusts</b>                |                      |   |   |  |
| Fixed Income                            | \$ 84,658            | \$ 84,658   | \$ -  | \$ -   |
| US Equity                               | 80,645               | 80,645  | -   | -  |
| International Equity                    | 45,494               | 45,494  | -   | -  |
| Total                                   | <u>210,797</u>       | <u>210,797</u>  | <u>-</u>  | <u>-</u>   |
| <b>Endowment - Community Foundation</b> |                      |   |   |  |
| Cash                                    | 24,476               | 24,476  | -   | -  |
| Fixed Income                            | 155,792              | -   | 155,792   | -  |
| US Equity                               | 201,488              | -   | 201,488   | -  |
| International Equity                    | 183,093              | -   | 183,093   | -  |
| Total                                   | <u>564,849</u>       | <u>24,476</u>   | <u>540,373</u>  | <u>-</u>   |
| <b>Endowment - Other</b>                |                      |   |   |  |
| Cash                                    | 5,670                | 5,670   | -   | -  |
| Fixed Income                            | 5,345,397            | 5,345,397   | -   | -  |
| US Equity                               | 5,437,742            | 5,437,742   | -   | -  |
| International Equity                    | 4,040,782            | 4,040,782   | -   | -  |
| Emerging Markets                        | 354,633              | 354,633   | -   | -  |
| Real Asset Securities                   | 544,403              | 544,403   | -   | -  |
| Dynamic Asset Allocation                | 611,701              | -   | 611,701   | -  |
| Alternative Investments                 | 752,841              | -   | 752,841   | -  |
| Total                                   | <u>17,093,169</u>    | <u>15,728,627</u>   | <u>1,364,542</u>  | <u>-</u>   |
| <b>Operating Investments</b>            |                      |   |   |  |
| Fixed Income                            | 1,165,893            | 1,165,893   | -   | -  |
| US Equity                               | 1,130,418            | 1,130,418   | -   | -  |
| International Equity                    | 487,710              | 487,710   | -   | -  |
| Emerging Markets                        | 29,545               | 29,545  | -   | -  |
| Real Asset Securities                   | 111,902              | 111,902   | -   | -  |
| REIT                                    | 17,177               | 17,177  | -   | -  |
| Dynamic Asset Allocation                | 729,905              | -   | 729,905   | -  |
| Alternative Investments                 | 810,434              | -   | 810,434   | -  |
| Total                                   | <u>4,482,984</u>     | <u>2,942,645</u>  | <u>1,540,339</u>  | <u>-</u>   |
| <b>Total Investments</b>                | <u>\$ 22,351,799</u> | <u>\$ 18,906,545</u>  | <u>\$ 3,445,254</u>                                       | <u>\$ -</u>  |

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

The following table presents assets measured at fair value on a recurring basis at December 31, 2021:

| <u>Assets</u>                           | <u>Total</u>         | <u>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
|---|----------------------|---|--|--|
| <b>Charitable Trusts</b>                |                      |   |  |  |
| Fixed Income                            | \$ 100,307           | \$ 100,307  | \$ -   | \$ -   |
| US Equity                               | 106,873              | 106,873   | -  | -  |
| International Equity                    | 66,195               | 66,195  | -  | -  |
| Total                                   | <u>273,375</u>       | <u>273,375</u>  | <u>-</u>   | <u>-</u>   |
| <b>Endowment - Community Foundation</b> |                      |   |  |  |
| Cash                                    | 43,253               | 43,253  | -  | -  |
| Fixed Income                            | 178,043              | -   | 178,043  | -  |
| US Equity                               | 247,507              | -   | 247,507  | -  |
| International Equity                    | 229,222              | -   | 229,222  | -  |
| Total                                   | <u>698,025</u>       | <u>43,253</u>   | <u>654,772</u>   | <u>-</u>   |
| <b>Endowment - Other</b>                |                      |   |  |  |
| Cash                                    | 8,721                | 8,721   | -  | -  |
| Fixed Income                            | 2,750,583            | 2,750,583   | -  | -  |
| US Equity                               | 2,529,566            | 2,529,566   | -  | -  |
| International Equity                    | 1,936,309            | 1,936,309   | -  | -  |
| Emerging Markets                        | 117,031              | 117,031   | -  | -  |
| Real Asset Securities                   | 57,809               | 57,809  | -  | -  |
| Dynamic Asset Allocation                | 660,286              | -   | 660,286  | -  |
| Alternative Investments                 | 102,153              | -   | 102,153  | -  |
| Total                                   | <u>8,162,458</u>     | <u>7,400,019</u>  | <u>762,439</u>   | <u>-</u>   |
| <b>Operating Investments</b>            |                      |   |  |  |
| Money Market                            | 19,204               | 19,204  | -  | -  |
| Fixed Income                            | 1,351,269            | 1,351,269   | -  | -  |
| US Equity                               | 1,275,050            | 1,275,050   | -  | -  |
| International Equity                    | 736,292              | 736,292   | -  | -  |
| Emerging Markets                        | 37,578               | 37,578  | -  | -  |
| Real Asset Securities                   | 117,187              | 117,187   | -  | -  |
| REIT                                    | 19,760               | 19,760  | -  | -  |
| Dynamic Asset Allocation                | 1,111,615            | -   | 1,111,615  | -  |
| Alternative Investments                 | 711,826              | -   | 711,826  | -  |
| Total                                   | <u>5,379,781</u>     | <u>3,556,340</u>  | <u>1,823,441</u>   | <u>-</u>   |
| <b>Total Investments</b>                | <u>\$ 14,513,639</u> | <u>\$ 11,272,987</u>  | <u>\$ 3,240,652</u>  | <u>\$ -</u>  |



**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

**F. Cash and Cash Equivalents**

Cash and cash equivalents for the years ended December 31, 2022 and December 31, 2021 were:

|                                  | <b>2022</b>  | <b>2021</b>  |
|----------------------------------|--------------|--------------|
| California Bank & Trust Checking | \$ 276,696   | \$ 217,103   |
| Petty Cash                       | 336          | 500          |
| Money Market Funds               | 1,426,830    | 1,338,799    |
| Total                            | \$ 1,703,862 | \$ 1,556,402 |

Amounts held in California Bank & Trust exceed FDIC insurance limitations by \$26,696 as of December 31, 2022 and were therefore exposed to custodial credit risk. Amounts held in California Bank & Trust did not exceed FDIC insurance limitations as of December 31, 2021.

Money market funds are not insured by the FDIC and are therefore exposed to custodial credit risk. The Foundation has not experienced losses in these accounts.

**G. Investments**

Investments for the years ended December 31, 2022 and December 31, 2021 were:

|                                      | <b>2022</b>   | <b>2021</b>   |
|--------------------------------------|---------------|---------------|
| Restricted Cash and Cash Equivalents | \$ 30,146     | \$ 71,178     |
| Fixed Income Investments             | 6,751,740     | 4,380,202     |
| US Equity                            | 6,850,293     | 4,158,996     |
| International Equity                 | 4,757,079     | 2,968,018     |
| Emerging Markets                     | 384,178       | 154,609       |
| Real Asset Securities                | 656,305       | 174,996       |
| REIT                                 | 17,177        | 19,760        |
| Dynamic Asset Allocation             | 1,341,606     | 1,771,901     |
| Alternative Investments              | 1,563,275     | 813,979       |
| Total                                | \$ 22,351,799 | \$ 14,513,639 |

Investment returns for the years ended December 31, 2022 and December 31, 2021 were:

|                                       | <b>2022</b>    | <b>2021</b> |
|---------------------------------------|----------------|-------------|
| Realized gain (loss) on investments   | \$ (60,750)    | \$ 49,923   |
| Unrealized gain (loss) on investments | (2,936,824)    | 954,151     |
| Investment fees                       | (42,856)       | (38,171)    |
| Investment return, net                | \$ (3,040,430) | \$ 965,903  |
| Interest and dividends                | \$ 587,821     | \$ 337,376  |

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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*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.

**H. Accounts Receivable**

Accounts receivable consists of scholarship donations, associates dues, grants receivable and special events receivables. Balances in accounts receivable for the years ended December 31, 2022 and December 31, 2021 were \$27,026 and \$83,535 respectively. All amounts are anticipated to be collected and as such there has been no allowance for doubtful accounts established.

**I. Beneficial Interests in Assets Held by 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.

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.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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.

Activity for the years ended December 31, 2022 and December 31, 2021 in beneficial interests in assets held by charitable trusts were:

|  | Charitable Trusts |            |
|--|-------------------|------------|
|  | 2022              | 2021       |
| Balance - Beginning of Year            | \$ 273,375        | \$ 215,524 |
| Purchases/contributions of investments | -                 | -          |
| Investment return, net                 | (55,078)          | 65,351     |
| Distributions                          | (7,500)           | (7,500)    |
| Balance - End of Year                  | \$ 210,797        | \$ 273,375 |

**J. Payables to Charitable Trusts 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.

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 the charitable gift annuities are as follows:

| Year Ended<br>December 31, | Principal | Interest | Total     |
|----------------------------|-----------|----------|-----------|
| 2023                       | \$ 5,949  | \$ 1,551 | \$ 7,500  |
| 2024                       | 6,313     | 1,187    | 7,500     |
| 2025                       | 6,700     | 800      | 7,500     |
| 2026                       | 7,111     | 389      | 7,500     |
| 2027                       | 2,000     | 1,750    | 3,750     |
| Total                      | \$ 28,073 | \$ 5,677 | \$ 33,750 |

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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**K. Endowment**

The Foundation's endowments consists of forty five 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, 2022 and 2021, 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.

As of December 31, 2022 and December 31, 2021, the Foundation had the following endowment net asset composition:

|  | <b>2022</b>   | <b>2021</b>  |
|--|---------------|--------------|
| Donor-restricted endowment funds       |               |              |
| Original donor restricted gift amounts | \$ 17,998,775 | \$ 8,436,186 |
| Accumulated investment gains           | (340,757)     | 424,297      |
|  | \$ 17,658,018 | \$ 8,860,483 |

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). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022 there were seventeen funds in the endowment considered to be underwater endowments as a direct result of investment losses that occurred during the 2022 year. At December 31, 2021 there were no funds in the endowment considered to be underwater endowments. The Foundation is monitoring underwater endowments closely and anticipates market corrections to restore balances over the next couple of years.

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

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*Investment and Spending Policies*

The Foundation has adopted investment and spending policies for the Endowments that seek to provide adequate funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over the long-term, rates of return should be sufficient to maintain the purchasing power of the Endowment assets, provide necessary capital to fund its spending policies, and cover the costs of managing the Endowment investments. The investment objective of the Endowments is to provide for a disciplined longer-term and risk and return investment program that is consistent with the needs of a permanent endowment. Actual returns in any given year may vary from targeted amounts. To satisfy their 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). Generally, 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. In determining amounts to spend, the Endowment Advisory Board evaluates the average fair value of the Endowment investments for the prior twelve quarters at June 30 of each year to determine the spending amount for the upcoming year. 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 Endowment over time. During the years ended December 31, 2022 and December 31, 2021 the Endowment spending rate was limited to 4.5%. Actual spending from the endowment funds were equal to 1.03% for the year ended December 31, 2022 and 2.09% for the year ended December 31, 2021.

Changes in Endowment net assets for the years ended December 31, 2022 and December 31, 2021 is as follows:

|   | <u>2022</u>          | <u>2021</u>         |
|---|----------------------|---------------------|
| Endowment net assets, beginning of year       | \$ 8,860,483         | \$ 5,740,989        |
| Contributions                                 | 10,451,733           | 2,819,130           |
| Investment return, net                        | (1,559,742)          | 424,639             |
| Distributions pursuant to distribution policy | <u>(94,456)</u>      | <u>(124,275)</u>    |
| Endowment net assets, end of year             | <u>\$ 17,658,018</u> | <u>\$ 8,860,483</u> |

**PALOMAR COLLEGE FOUNDATION**  
Notes to the Financial Statements (Continued)  
Years Ended December 31, 2022 and December 31, 2021

**L. Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods:

|   | <b>2022</b>          | <b>2021</b>          |
|---|----------------------|----------------------|
| Subject to purpose restrictions:                      |                      |                      |
| Trust accounts  | 1,072,053            | 1,241,439            |
| Financial aid   | 288,831              | 347,775              |
| Palomar Promise                                       | 614,298              | 699,524              |
| Steinberg funds                                       | 751,045              | 907,269              |
| Charitable trusts                                     | 210,797              | 273,375              |
| Other restrictions                                    | 1,193,042            | 1,170,439            |
| Endowments:   |                      |                      |
| Subject to endowment spending and distribution policy | 17,868,815           | 9,133,858            |
| Total net assets with donor restrictions              | <b>\$ 21,998,881</b> | <b>\$ 13,773,679</b> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2022 and December 31, 2021:

|  | <b>2022</b>         | <b>2021</b>       |
|--|---------------------|-------------------|
| Purpose restrictions met                       | \$ 990,839          | \$ 763,211        |
| Restricted-purpose spending-rate distributions |                     |                   |
| Endowment funds                                | 94,456              | 124,275           |
| Net assets released from restriction           | <b>\$ 1,085,295</b> | <b>\$ 887,486</b> |

**M. Donated Services and Facilities**

During the fiscal years ended December 31, 2022 and December 31, 2021, the Foundation received \$623,770 and \$621,466 in donated services and facilities.

**N. Upcoming Changes in Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) regularly issues Accounting Standards Updates (ASU). These updates are issued to provide clarification and simplification in accounting for certain transactions. In addition, they provide for additional note disclosures to create transparency involving these transactions. The updates effective during the next fiscal year are not expected to impact the financial accounting or presentation for the Foundation.