

PASCO EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2023 and 2022

(1) Description of Organization

The Pasco Education Foundation, Inc. ("the Organization") is an independent nonprofit organization established in 1991 in the state of Florida. The Organization is the avenue for the individuals and the private sector to develop positive and supportive relationships with the Pasco County School district and to make philanthropic contributions to help accomplish the goals of Pasco County's public schools.

The Organization's mission is to advance student achievement and invest community resources to enrich educational opportunities for students and educators.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations, including restricted contributions whose restrictions are met in the same reporting period.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that:

- may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.
- are maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

(b) Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(c) Cash and Cash Equivalents

Cash includes amounts on deposit in bank accounts and currency on hand.

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(2) Summary of Significant Accounting Policies - Continued

(d) Investments

Investments are reported at fair value based on quoted market value with unrealized gains and losses included in changes in net assets.

(e) Property and Equipment

Property and equipment are stated at historical cost and depreciated using the straight-line method over the estimated useful lives of each asset ranging from 3 to 5 years. Acquisitions of property and equipment in excess of \$1,000 are capitalized.

(f) Prepaid Scholarships

Prepaid scholarships consist of prepaid college tuition fees purchased through the Florida Prepaid College Foundation, Inc. The Organization raises money through contributions, which are matched dollar-for-dollar by the State of Florida passed through the Consortium of Florida Education Foundations. The scholarships are recorded at the lower of contract cost or current tuition value and are amortized based on actual credit hours used by students.

(g) Donated Facilities, Materials and Services

Donated facilities are reflected in the accompanying financial statements as revenue and expense based on the fair rental value of comparable facilities which totaled \$61,366 and \$59,645 for the years ended June 30, 2023 and 2022, respectively. Donated materials and services, when received are reflected as contributions in the financial statements at their estimated fair market values at the date of receipt. Volunteer services not requiring specialized skills are not reflected in the financial statements since no objective basis exists for recording and assigning values to many of these services.

(h) Functional Allocation of Expenses

Expenses are shown by natural expense classification and function in the accompanying statement of functional expenses for each year presented. Expenses that are attributable to more than one program or supporting function are allocated on a reasonable basis that is consistently applied. Allocations are based on direct usage or management's estimate of the benefit derived by each activity. Management's estimates may be based on factors such as time and effort, square footage, clients served, or any other reasonable basis. The expenses that are allocated on the basis of estimates of time and effort are salaries, wages and employee benefits. Occupancy, maintenance, insurance, utilities and depreciation are allocated on a square footage basis.

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(2) Summary of Significant Accounting Policies - Continued

(i) Income Tax Status

The Organization is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and similar state provisions. The Organization is treated as a public supported organization, and not as a private foundation. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. The Organization accounts for uncertain tax positions, if any, in accordance with ASC Section 740.

Management is not aware of any activities that would jeopardize the organization's tax-exempt status. The Organization is not aware of any tax positions that is has taken that are subject to a significant degree of uncertainty. The Organization believes it is no longer subject to income tax examinations for fiscal years ending prior to June 30, 2020.

(j) Fair Value of Financial Instruments

Professional standards require disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash, money market funds, prepaid scholarships and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

(k) Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash, money market funds, and certificates of deposit. The Organization places its deposits with creditworthy, high quality financial institutions. The amount in excess of the FDIC limit totaled \$219,663 and \$254,925 for the years ended June 30, 2023 and 2022, respectively.

(l) Subsequent Events

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition and disclosure through October 26, 2023, which is the date the financial statements were available to be issued.

(3) Liquidity and Availability

The following reflects the Organization's financial assets as of the statement of financial position date. These financial assets are required to be reduced by those not available for general use within one year of the statement of financial position date.

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(3) Liquidity and Availability - Continued

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 469,477	438,716
Accounts receivable	57,016	51,993
Investments	<u>3,424,773</u>	<u>3,008,226</u>
	3,951,266	3,498,935
Less: those unavailable for general expenditure within one year to:		
Amounts restricted for endowment	<u>(2,549,583)</u>	<u>(2,256,859)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,401,683</u>	<u>1,242,076</u>

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due and strives to operate within a prudent range of financial soundness and stability, maintain adequate liquid assets to fund near-term operating needs, and maintain sufficient reserves to provide reasonable assurance that any long-term obligations will be discharged. Financial assets in excess of daily cash requirements may be invested in certificates of deposit, money market funds or other short-term investments.

The Organization receives significant grants and contributions restricted by funders and donors. The Organization considers grants and contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

(4) Prepaid Scholarships

During the years ended June 30, 2023 and 2022, the Organization paid \$23,674 and \$19,475, respectively, to the Florida Prepaid College Foundation, Inc. (FPCF) for the purpose of purchasing prepaid scholarships to be awarded in the future to qualified, economically disadvantaged students in Florida. Certain amounts are matched dollar-for-dollar by the State of Florida depending upon budget allocations. The State of Florida matching contributions for the year ended June 30, 2023 and 2022 totaled \$23,674 and \$19,475, respectively, and are recorded as restricted contributions until the scholarships are utilized.

(5) Fair Value Measurements

Professional standards establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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June 30, 2023 and 2022

(5) Fair Value Measurements - Continued

- **Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- **Level 2** Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- **Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable input and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2023:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short term investments	\$ 39,576	39,576	-	-
Corporate bonds	80,515	-	80,515	-
Municipal bonds	114,870	-	114,870	-
Exchange traded funds	3,189,812	3,189,812	-	-
	<u>\$ 3,424,773</u>	<u>3,229,388</u>	<u>195,385</u>	<u>-</u>

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Notes to Financial Statements

June 30, 2023 and 2022

(5) Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2022:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short term investments	\$ 545,281	545,281	-	-
Corporate bonds	31,017	-	31,017	-
Municipal bonds	119,201	-	119,201	-
Equities	155,384	155,384	-	-
Exchange traded funds	2,157,343	2,157,343	-	-
	<u>\$ 3,008,226</u>	<u>2,858,008</u>	<u>150,218</u>	<u>-</u>

Investment return consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 67,215	47,132
Unrealized gains (losses)	80,073	(466,115)
	147,288	(418,983)
Less: investment expenses	(23,463)	(25,178)
	<u>\$ 123,825</u>	<u>(444,161)</u>

(6) Property and Equipment

Property and equipment, at costs, at June 30:

	<u>2023</u>	<u>2022</u>
Computer software	\$ 48,490	48,490
Computer equipment	1,007	1,007
Total property and equipment	49,497	49,497
Less: investment expenses	(49,497)	(49,497)
Net property and equipment	<u>\$ -</u>	<u>-</u>

Depreciation expense for the years ended June 30, 2023 and 2022 was \$0 and \$1,229, respectively.

(7) Endowment

At June 30, 2023 and 2022, the Organization was the beneficiary of various endowment funds that totaled \$2,549,583 and \$2,256,859, respectively.

PASCO EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2023 and 2022

(7) Endowment - Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Organization			
Endowment principal	\$ -	2,549,583	2,549,583
Less: underwater endowments	-	-	-
	<u>\$ -</u>	<u>2,549,583</u>	<u>2,549,583</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Organization			
Endowment principal	\$ -	2,256,859	2,256,859
Less: underwater endowments	-	(75,567)	(75,567)
	<u>\$ -</u>	<u>2,181,292</u>	<u>2,181,292</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	2,256,859	2,256,859
Contributions	-	292,724	292,724
Investment return, net	-	112,521	112,521
Amounts subject to appropriation for expenditures	-	(108,555)	(108,555)
Endowment net assets, end of the year	<u>\$ -</u>	<u>2,553,549</u>	<u>2,553,549</u>

PASCO EDUCATION FOUNDATION, INC.

Notes to Financial Statements

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(7) Endowment - Continued

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	2,256,859	2,256,859
Contributions	-	-	-
Investment return, net	-	(56,534)	(56,534)
Amounts subject to appropriation for expenditures	-	(19,033)	(19,033)
Endowment net assets, end of the year	<u>\$ -</u>	<u>2,181,292</u>	<u>2,181,292</u>

Interpretation of Relevant Law

The Board of Directors has interpreted the law as requiring donor restricted net assets in an endowment fund to remain restricted until appropriated for expenditure by the Organization for the donor's intended purpose.

In accordance with the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA), the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The purposes of the Organization and the donor restricted endowment fund
2. General economic conditions
3. The possible effect of inflation and deflation
4. The expected total return on investment
5. Other resources of the Organization
6. The investment policies of the Organization
7. The duration and preservation of the endowment fund.

Return Objectives and Risk Parameters

The Organization has adopted an Investment Guideline Policy for endowment assets that attempts to emphasize continued focus on planned giving. The objective is to enhance maximum total return from a combination of capital appreciation and income, without assuming unreasonable risk. Investments are divided between fixed income and equity securities. The range of equity investments ranges from 0-70%. The fixed income range is up to 30%.

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(7) Endowment - Continued

Spending Policy

Each endowment fund has an endowment book value, an endowment spending base and an endowment market value. Distributions are made on an annual basis in accordance with the endowment spending policy. The current annual spending rate is 4.0% of the endowment principal fund's adjusted endowment spending base. The Board has the discretion to adjust the spending rate.

Market Fluctuations

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that current law requires the Organization to retain for a fund of perpetual duration. Deficiencies of this nature reported in unrestricted net assets were approximately \$75,567 at June 30, 2022. There are no deficiencies of this nature as of June 30, 2023. Such deficiency for the year ended June 30, 2022 resulted from unfavorable market fluctuations that occurred after the investment of restricted contributions and continued appropriation for certain scholarships was deemed prudent by the Board of Directors. To remedy the situation, The Board of Directors adopted an endowment spending policy to preserve the purchasing power of the endowments and to generate a current income stream to support donor objectives, while assuming a prudent level of investment risk.

(8) Department of Highway Safety and Motor Vehicles

The Organization receives revenue from the sale of the Florida Education specialty license plate offered by the Florida Department of Highway Safety and Motor Vehicles (the Department). For the years ended June 30, 2023 and 2022, the Organization recognized \$2,943 and \$13,259, respectively, in revenue from the Department. The Organization expended the monies on providing scholarships and grants in accordance with the mission of the Organization and in compliance with sections 320.08056 and 320.08058 of the Florida Statutes governing the use of the moneys received from the Department.

(9) Net Assets With Donor Restrictions

Net assets with donor restrictions of the Organization are comprised of cash, prepaid expenses and investments available for the following purposes:

PASCO EDUCATION FOUNDATION, INC.

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(9) Net Assets With Donor Restrictions - Continued

	<u>2023</u>	<u>2022</u>
Purpose restricted:		
Florida Prepaid College Fund Scholarships	\$ 1,205,590	1,212,888
Other scholarships	684,702	642,702
	<u>1,890,292</u>	<u>1,855,590</u>
Restricted in perpetuity - endowment	2,549,583	2,256,859
Underwater endowments	-	(75,567)
	<u>2,549,583</u>	<u>2,181,292</u>
Total net assets with donor restrictions	<u>\$ 4,439,875</u>	<u>4,036,882</u>

Net assets of \$134,000 and \$99,500 were released from donor restrictions in satisfaction of program restrictions during the years ended June 30, 2023 and 2022, respectively.

(10) Related Party Transactions

During the years ended June 30, 2023 and 2022 a member of the Board of Directors is an officer at a bank that is used by the Organization. This Board member does not receive any payment of commission for the banking services. The School District of Pasco County donates space to the Organization. Donated facilities at June 30, 2023 and 2022 totaled \$61,366 and \$59,645 respectively. A member of the Board of Directors is also a Pasco County School Board member. The superintendent of Pasco County schools is also a member of the Organization's Board of Directors. Neither of these Board members receives any compensation for the donation of space.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Pasco Education Foundation, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pasco Education Foundation, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Schaefer, Tschoy, Whitcomb, Mitchell & Shulden, LLP

October 26, 2023
Maitland, Florida