

**FLORIDA KEYS COLLEGE CAMPUS
FOUNDATION, INC.**
**(A COMPONENT UNIT OF THE FLORIDA KEYS
COMMUNITY COLLEGE)**

FINANCIAL STATEMENTS

As of and for the Year Ended September 30, 2016

And Reports of Independent Auditor

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

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Report of Independent Auditor

The Board of Directors
Florida Keys College Campus Foundation, Inc.
Key West, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Keys College Campus Foundation, Inc. (the "Foundation"), a component unit of the Florida Keys Community College, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2016, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern

The accompanying financial statements have been prepared assuming that the Foundation will continue as a going concern. However, the following conditions raise substantial doubt about its ability to continue as a going concern. As discussed in Note 5 to the financial statements, the Foundation's bond payable is subject to compliance with provisions of a Trust Indenture and forbearance agreement with the Trustee. This forbearance agreement expired, subsequent to year end, on December 31, 2016. As of December 31, 2016, the Foundation has debt of \$8,305,000 that is in default. Management has met with the bond holders in an attempt to refinance the bond payable; however, at the present time, future refinancing for the Foundation is not determinable. Since the bond holder asserts that the Foundations capital assets are pledged as collateral for the bond payable, foreclosure by the bank would seriously impair the Foundation's ability to continue as a going concern and to realize its investment in assets through future successful operations.

Additionally, as reflected in the accompanying financial statements, the Foundation incurred a net loss of \$69,594 for the year ended September 30, 2016, which further decreased net position to a negative \$1,900,381.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Cherry Bekart LLP

Tampa, Florida
August 31, 2017

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

SEPTEMBER 30, 2016

Introduction

The Florida Keys College Campus Foundation, Inc. (the "Foundation") provides the following management discussion and analysis ("MD&A") as an overview of the financial activities for the year ended September 30, 2016. This discussion, the following financial statements, and the related footnote disclosures have been prepared by management and comprise the Foundation's complete financial report. The financial statements, footnotes, and this discussion are the responsibility of management.

The purpose of the Foundation, formed in April 2010, is to enhance the Florida Keys Community College (the "College") educational mission, including, without limitation, assisting with the acquisition, development, financing, construction, management, and operation of capital assets of the College.

The Foundation's primary activity is the receiving, investing, and administering real and personal property including, but not limited to, the construction of a 100-bed student housing facility (the "Facility") for the benefit of the College. The College manages the day to day operations of the residence hall per a management agreement with the Foundation.

Using the Financial Report

Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 35, the Foundation's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The Foundation is reported as a discretely presented component unit in the College's financial report and, therefore, is prepared in accordance with GASB principles.

Statement of Net Position

The Statement of Net Position is a "point of time" financial statement that presents the assets, liabilities, and net position of the Foundation. The purpose of this financial statement is to present to the readers of the Foundation's financial report a fiscal snapshot as of the end of the fiscal year (i.e., September 30th). The statement of net position presents both the current and noncurrent portions of assets and liabilities.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

SEPTEMBER 30, 2016

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the Foundation. The statement of net position also provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the Foundation. Net position includes net investment in capital assets and unrestricted net position. The categories of net position are discussed further in the footnotes to the financial statements.

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 775,088	\$ 1,207,734
Capital assets, net of accumulated depreciation	5,918,476	6,107,361
Total Assets	<u>\$ 6,693,564</u>	<u>\$ 7,315,095</u>
Liabilities:		
Current liabilities	\$ 423,086	\$ 1,265,360
Bond payable current, net	8,170,859	7,880,522
Total Liabilities	<u>\$ 8,593,945</u>	<u>\$ 9,145,882</u>
Net Position:		
Net investment in capital assets	\$ (2,202,600)	\$ (1,634,905)
Unrestricted	302,219	(195,882)
Total Net Position	<u>\$ (1,900,381)</u>	<u>\$ (1,830,787)</u>

The total assets of the Foundation as of September 30, 2016 were \$6,693,564, of which most of the assets represent the student housing building and restricted cash. The current liabilities include accrued interest payable, related party payable to the College, and the current portion of the bond payable. The College advanced operating funds to the Foundation which will be repaid from surplus funds when available. The liability due to the College was reduced by \$103,129 in the year ended September 30, 2016 as a result of the third forbearance agreement signed on May 1, 2016, whereas these expenses paid by the College are non-reimbursable. Student receivables decreased by \$35,803 compared to 2015 primarily due to the timing of receipts and an increase in the allowance for doubtful accounts.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position, as presented on the statement of net position, are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of the statement is to present the revenues earned by the Foundation, both operating and nonoperating, and the expenses incurred by the Foundation, both operating and nonoperating, and any other revenues, expenses, gains, and losses earned or incurred by the Foundation. Nonoperating revenues are revenues earned for which goods and services are not provided.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

SEPTEMBER 30, 2016

	2016	2015
Net operating income	\$ 555,377	\$ 327,098
Nonoperating expenses	(624,971)	(581,046)
Decrease in net position	(69,594)	(253,948)
Net position, beginning of period	(1,830,787)	(1,576,839)
Net position, end of period	\$ (1,900,381)	\$ (1,830,787)

The statement of revenues, expenses, and changes in net position reflects a decrease in the net position of \$69,594 at the end of the year despite a net operating income of \$555,377 which was offset by non-operating interest expenses of \$624,971.

Statement of Cash Flows

The final statement presented by the Foundation is the statement of cash flows. This statement is divided into four parts and presents detailed information about the cash activity of the Foundation during the period. The first part deals with operating cash flows and shows the net cash provided by the operating activities of the Foundation. The second section reflects cash flows from investing activities. This section reflects the changes in fair value of investments. The third section reflects the cash flows from capital and related financing activities and shows cash received from financing activities and spent for capital expenditures. The fourth section reconciles the net cash used to the operating income or loss reflected on the statement of revenues, expenses, and changes in net position.

	2016	2015
Net cash provided by operating activities	\$ 609,433	\$ 341,484
Net cash provided by investing activities	(51,456)	50,984
Net cash used in capital and related financing activities	(1,038,126)	(518,647)
Net decrease in cash	(480,149)	(126,179)
Cash, beginning of period	891,020	1,017,199
Cash, end of period	\$ 410,871	\$ 891,020

The major sources of funds are proceeds related to student housing revenue included in operating activities. The major uses of funds included in financing activities are payments to vendors/suppliers and payments for interest on outstanding debt balance.

Capital Assets

There were no new capital asset additions or disposals in the current year. The net capital asset balance decreased from the prior year due to depreciation expense of \$188,885 in the current year. Additional information about the Foundation's capital assets can be found in Note 4 in the notes to the financial statements.

Long-Term Debt

The outstanding bond payable balance of \$8,305,000 did not change from the prior year as there were no principal payments due. Additional information about the Foundation's bond payable can be found in Note 5 in the notes to the financial statements.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

SEPTEMBER 30, 2016

Economic Outlook

The Foundation and College had entered into a third forbearance agreement from May 2016 through December 2016. The third forbearance agreement was approved the Foundation's Board of Directors on July 6, 2016 with no changes to the language presented. The third forbearance agreement included all obligations set forth in the second forbearance agreement and additional obligations related to performance and refinancing measures.

The following outlines the obligations that were set forth in the third forbearance agreement:

Obligation A: Require each student resident to pay a security deposit against damage to the room and suite.

Obligation B: Develop and adopt a written policy prior to the summer 2014 term related to the use and return of security deposits.

Obligation C: Provide the Trustee with an accounting of the use and disposition of amounts on deposit in the Security Deposit Account within 30 days following the close of the fall, spring, and summer sessions.

Obligations A through C relate to the implementation and report of security deposits. The Foundation implemented a \$250 refundable security deposit in summer 2014 and remains in effect to date. Reports for security deposit activity are completed through Spring of 2016.

Obligation D: Develop leasing programs to attract summer residents.

Obligation D relates to college affiliates that provide educational services that are seeking use of facilities for summer programs. Mote Marine and Scubanauts rented the facility in summer 2016 totaling \$51,131.

FKCC summer camps no longer include an overnight component thus no rental income will be generated from program. The Foundation has been able to increase occupancy for summer through its twelve-month term contract.

Summer Occupancy:

2016	14	Twelve-Month
	19	Single Term
2017	41	Twelve-Month
	5	Single Term

Obligation E: Explore opportunities to refinance and/or restructure the bonds.

Per the forbearance agreement approved by the Florida Keys College Campus Foundation Board of Directors on July 6, 2016, the intent of the Foundation and Bondholder was to refinance bonds by December 31, 2016. A credit package for request of tax-exempt bank loan was submitted to various banks in January 2017. The College and Foundation had several meetings with financial institutions regarding the operations of the facility and projected performance. To date none of the initial banks solicited have submitted offers to the Foundation for refinance options. The College and Foundation continue to pursue refinance options.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

SEPTEMBER 30, 2016

Obligation F: Explore market potential and legislative approval to expand degree programs and student housing on the College's campus.

The College has taken several initiatives to increase its enrollment. Its primary concentration is expanding program offerings. The College has recently expanded its program offerings with its first Bachelor's degree in B.S. Supervision and Management in spring 2017. Additional degrees set to launch in August 2017 and August 2018 are Associates in Science in Engineering Technology and Associates in Science in Emergency Services, respectively. There are three additional bachelor's program in the accreditation review process which includes a Bachelor of Science in Nursing, Bachelor of Science in Hospitality and Ecotourism Management and Bachelor of Applied Science in Marine Resource Management.

Obligation G: Maintain and Early Alerts pilot program for at-risk students.

The College continues to maintain its Early Alerts program initiated in September 2014.

Obligation H: Maintain activities to promote the College and the Facility.

Obligation H is to maintain activities to promote the College and the Facility. Several college employees promote the College and the Facility.

Marketing Director of College and Public Relations, regularly features the Facility in marketing activities. It is highlighted in a seven-minute video profile which is syndicated to hundreds of search websites via College Video Network. It is also included in a 30-second commercial that is aired on those search websites which target college-bound students actively searching for colleges. Lagoon Landing has also been included in national ads that target veterans, out-of-state college-bound students, and visitors to the Keys. The residence hall maintains a strong presence on the College's website that includes a virtual tour of the Facility as well as a photo slide show of student life in Lagoon Landing.

Recruiter, promotes the Lagoon Landing at all local High School events, including college fairs and classroom presentations, community events in the Florida Keys, local organizations and businesses, military presentations, College Fall/Spring Open House events, Maritime high school presentations and college fairs. The recruiter travels with a display case for Lagoon Landing and College General Information Books for all recruitment events. The College mails out all inquiry packets with a flyer informing students about the Lagoon Landing along with a College General Information Book.

Residence Life Coordinator, promotes housing through two initiatives. First, current residents are supported through social programming, on-call staff support, and consistent face-to face interaction to make their living experience the most beneficial and engaging it can be. This creates an experience that will promote retention, as well as create a culture for students that promote their experience to friends, social networks, and potential students in their daily lives. The second avenue is that of marketing and support for new and potential residents. The Residence Life Department has a website with a number of resources, including local activities and hotel discounts that offer potential students the information necessary to visit and easily adapt to life in Key West. There are also a number of phone and email support systems, including the availability of the Coordinator of Residence Life to walk students and their parents through the application process, the community guide and housing contract, and other aspects of student life at the College. Residence Life also provides a housing orientation for all new residents to offer them more detailed information about living on campus and to give them an avenue to get any final questions answered. All of these items are achieved through the Coordinator of Residence Life and four Resident Assistants who live in the building and offer their support 24/7. Along with the face-to-face interaction provided for residents of Lagoon Landing, there are a number of initiatives designed to promote an educational and social atmosphere inherent in a Living-Learning community. These include events for residents where activities such as cornhole games, chess matches, and holiday parties provide opportunities for residents to interact and meet new friends outside of the classroom while strengthening the educational environment around them.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

SEPTEMBER 30, 2016

Obligation I: Maintain proper financial records and preparation of financial reports related to the Facility as required by the Indenture, including the preparation of the Facilities annual budget

Obligation J: Update the monthly cash receipts, requisition reports, and Financial Report for measurement

Obligation K: No less than on a quarterly basis, provide a written report to the Trustee and Bondholder on the progress and status related to each of the College's Obligations listed above.

Obligation L: Operate the Facility on a monthly basis in compliance with each line item included in the Budget for Operating Expenses, subject to a permitted variance of no expense line item exceeding 10% of the amount in the Budget and the aggregate expense amount not exceeding the Budget amount by \$3,000 (the "Monthly Expense Test").

Obligations I through L outline financial reporting requirements. All financial and other reporting requirements are up to date. Reports are available upon request. As part of financial reporting requirements, the Foundation must operate the Facility on a monthly basis in compliance with each line item included in the Budget for Operating Expenses, subject to a permitted variance of no expense line item exceeding 10% of the amount in the Budget and the aggregate expense amount not exceeding the Budget amount by \$3,000 (the "Monthly Expense Test"). None of the aggregated expense amount variances exceeded the \$3,000 threshold. However, there were three instances that occurred where an expense item exceeded 10% of budgeted amount.

1. Insurance October 2015 expense budget total \$7,500 vs. \$8,309 budget. The Foundation does not have any control over insurance rates.

New obligations as of May 2016 included the performance of rental use in order to increase the viability of refinancing for December 2016. Performance goals included the following.

- *Summer 2016 Revenue.* Summer 2016 revenue (from camp revenue and summer-only leases [not including 12 month leases]) to exceed \$75,000.

As of June 30, 2016, summer revenue is \$62,290 from residents and \$51,131 for Mote Marine and Scubanauts rental totaling \$ 113,421.

- *Twelve Month Leases.* Minimum of 30 twelve month leases signed for 2016-2017 academic year.

Fall 2016 occupancy included thirty-two (32) twelve-month contracts and sixty-eight (68) two-term contracts.

- *Occupancy.* Lagoon Landing to achieve minimum 94% rate for Fall 2016. Beginning in September 2016, average occupancy for each rolling 3 month period (tested monthly) must exceed 92%.

Occupancy by term as of July 1, 2017

Fall 2016	100%
Spring 2017	92%
Summer 2017	46%

Achievement of the following goals will also result in the development of a scholarship program funded by the bondholder as incentive for the Foundation to increase performance of rental use.

- *Target 1* -- Achieve 95% occupancy for fall 2016 semester.
- *Target 2* -- Achieve 30 twelve month leases for 2016/2017 fiscal year

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

SEPTEMBER 30, 2016

The Foundation achieved all performance goals set forth in the forbearance agreement, including the target one and target two above.

To date, neither the Foundation nor College have agreed to a fourth term forbearance agreement. Overall, the Foundation believes the most appropriate action to take to successfully continue their operation is to refinance debt obligations at a lower interest rate.

In addition, the bond trustee erroneously over paid bondholders interest in May 2016 at a total of \$83,050. This error has been reported on EMMA, documentation provided, and notes the over payment of interest due in November 2016 is reflected appropriately in both performance base and historical base budgets.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

ASSETS

Current Assets:

Cash	\$ 23,387
Restricted cash	387,484
Student receivables, net of allowance for doubtful accounts of \$40,533	53,468
Related party receivable	262,527
Prepaid expenses and other current assets	48,222
Total Current Assets	<u>775,088</u>

Capital assets, net of accumulated depreciation	<u>5,918,476</u>
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Total Assets	<u><u>\$ 6,693,564</u></u>
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LIABILITIES

Accrued interest payable	\$ 159,179
Accrued expenses	28,335
Deposits	25,000
Related party payable	210,572
Bond payable, net	8,170,859

Total Liabilities	<u><u>\$ 8,593,945</u></u>
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NET POSITION

Net investment in capital assets	\$ (2,202,600)
Unrestricted	302,219
Total Net Position	<u><u>\$ (1,900,381)</u></u>

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2016

Operating Revenues:	
Residence hall revenue	\$ 1,050,633
Other revenue	47,950
Total Operating Revenues	<u>1,098,583</u>
Operating Expenses:	
Operating expenses	348,984
Depreciation expense	188,885
Bond amortization expense	5,337
Total Operating Expenses	<u>543,206</u>
Net operating income	<u>555,377</u>
Nonoperating Revenues (Expenses):	
Interest income	224
Interest expense	(625,195)
Total Nonoperating Expenses	<u>(624,971)</u>
Change in net position	(69,594)
Net position, beginning of year	<u>(1,830,787)</u>
Net position, end of year	<u>\$ (1,900,381)</u>

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2016

Cash flows from operating activities:	
Receipts from students	\$ 1,134,386
Payments to vendors	(524,953)
Net cash provided by operating activities	<u>609,433</u>
Cash flows from investing activities:	
Interest income	224
Decrease in deposits	(51,680)
Net cash provided by investing activities	<u>(51,456)</u>
Cash flows from capital and related financing activities:	
Interest paid on bond	(1,038,126)
Net cash used in capital and related financing activities	<u>(1,038,126)</u>
Net decrease in cash and cash equivalents	(480,149)
Cash, beginning of year	891,020
Cash, end of year	<u>\$ 410,871</u>
Cash:	
Unrestricted	\$ 23,387
Restricted	387,484
	<u>\$ 410,871</u>
Reconciliation of net operating expenses to net cash provided by operating activities:	
Operating income	\$ 555,377
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation expense	188,885
Bond amortization expense	5,337
Bad debt expense	22,348
Decrease in student receivables	13,455
Increase in related party receivables	(75,970)
Increase in prepaid expenses	(7,336)
Increase in accrued expenses	10,466
Decrease in related party payable	(103,129)
Net cash provided by operating activities	<u>\$ 609,433</u>

The accompanying notes to the financial statements are an integral part to these statements.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 1—Nature of activities

Organization – The Florida Keys College Campus Foundation, Inc. (the “Foundation”) was incorporated under the laws of the state of Florida on April 26, 2010. The Foundation exists to enhance the Florida Keys Community College, Inc.’s (the “College”) educational mission, including assisting with the acquisition, development, financing, construction, management, and operation of capital assets for the College. Although legally separate from the College, the Foundation is reported as if it were part of the College because its sole purpose is to benefit the College. The Foundation’s financial statements are presented as a discretely presented component unit in the College’s financial statements.

Note 2—Significant accounting policies

Financial Statements – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”).

Basis of Accounting – The financial statements of the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of when the related cash flows take place.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The full scope of the Foundation’s activities is considered to be a single business-type activity and, accordingly, is reported within the basic financial statements of the College.

Operating and Nonoperating Activities – Operating revenues consist of all the activity of the College except for certain items specifically considered to be of a nonoperating nature. Nonoperating activities include interest paid on bonds and interest received on cash.

Cash – Cash consists of bank checking and savings accounts.

Restricted Cash – As required by the trust indenture, proceeds from the bond were set aside for the purpose of setting up a bond service fund of \$49,783. Additionally, certain amount are restricted in a capitalize interest, operating, and maintenance fund of \$337,701.

Student Receivables – Student receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probably collectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based upon its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are generally written off through a charge to the allowance for doubtful accounts and a credit to the student receivables accounts after approval from the Board of Directors. The allowance for bad debt expense was \$40,533 for the year ended September 30, 2016.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 2—Significant accounting policies (continued)

Capital Assets – Purchased or constructed capital assets are reported at cost less accumulated depreciation. Minimum capitalization costs are \$5,000 and three years of useful life for all asset categories. Capital assets are depreciated on the straight-line basis over their estimate useful lives. The building is depreciated over 40 years and furnishings and equipment are depreciated over seven years.

Interest Capitalization – Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Net Position – The Foundation’s net position is classified net investment in capital assets and unrestricted.

Note 3—Concentration of credit and custodial risk

Cash and Restricted Cash – Concentration of credit risk is the risk of a loss attributed to the magnitude of an entity’s investment in a single issuer. At September 30, 2016, the book balance of deposits and the bank balance was \$410,871. Custodial credit risk is the risk that in the event of a bank failure, the Foundation’s deposits may not be returned to it. The Foundation’s bank balances are insured by federal depository insurance or fully collateralized at September 30, 2016.

Related Party Receivable – The Foundation’s daily operating cash is included within the College’s pooled cash and investment account. As allowed by the Memorandum of Understanding between the Foundation and the College, the College performs all cash receipts and cash disbursement functions on behalf of the Foundation, which is presented as a related party receivable in the statement of net position. Accordingly, as of September 30, 2016, there was \$0 held by the College available for use by the Foundation. The College deposits cash in qualified public depositories. Bank balances are fully insured in accordance with Florida Statute Chapter 280, which establishes the multiple financial institution collateral pool. Additionally, as of September 30, 2016, the Foundation had a receivable in the amount of \$262,527 due from the College.

Note 4—Capital assets

Capital asset activity for the year ended September 30, 2016 was as follows:

	October 1, 2015	Additions	Disposals	September 30, 2016
Capital assets, being depreciated:				
Building	\$ 6,683,150	\$ -	\$ -	\$ 6,683,150
Furnishings and equipment	211,130	-	-	211,130
Totals capital assets being depreciated	<u>6,894,280</u>	<u>-</u>	<u>-</u>	<u>6,894,280</u>
Less accumulated depreciation for:				
Building	661,248	158,724	-	819,972
Furnishings and equipment	125,671	30,161	-	155,832
Total accumulated depreciation	<u>786,919</u>	<u>188,885</u>	<u>-</u>	<u>975,804</u>
Total capital assets, net	<u>\$ 6,107,361</u>	<u>\$ (188,885)</u>	<u>\$ -</u>	<u>\$ 5,918,476</u>

Total depreciation expense was \$188,885 for the year ended September 30, 2016.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 5—Bond payable

On November 1, 2010, the Foundation issued \$8,305,000 of Senior Leasehold Industrial Development Revenue Bonds, Series 2010 (the “Bonds”). The Bonds were issued to pay for the construction of a new 100-bed college dormitory facility (the “Facility”) for the benefit of the College.

The following is a summary of debt transactions for the year ended September 30, 2016:

	<u>October 1,</u> <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30,</u> <u>2016</u>	<u>Due Within</u> <u>One Year</u>
Bond payable	\$ 8,305,000	\$ -	\$ -	\$ 8,305,000	\$ 8,305,000
Less Unamortized Bond discount	(139,478)	-	5,337	(134,141)	(134,141)
Total Bond payable	<u>\$ 8,165,522</u>	<u>\$ -</u>	<u>\$ 5,337</u>	<u>\$ 8,170,859</u>	<u>\$ 8,170,859</u>

The Bonds contain certain financial covenants, including a minimum debt service coverage ratio, revenue greater than debt ratio, and a day's cash on hand ratio. Based on the Supplemental Trust Indenture dated December 31, 2012, the Foundation is in default on the Trust Indenture and, as such, the Bonds are due and payable upon demand. On May 1, 2014, the Foundation entered into a forbearance agreement with the Trustee in which the Trustee will temporarily forbear exercising its rights and remedies. The forbearance agreement allowed the Foundation to make a partial interest payment of 5% with the remaining 2% deferred for one year, and one additional year upon consent of both parties. On July 6, 2016, a new forbearance agreement was signed extending terms through December 31, 2016. As of the date of this report, there has been no new forbearance agreement and no refinancing of the existing bond. As such, the Foundation is considered to be in default and all of the debt is considered payable at January 1, 2017. The Bonds are collateralized by the revenues of the Foundation and by the building constructed by the Foundation.

The unamortized Bond discount is amortized over the life of the debt and considered current. The total interest incurred for the year ended September 30, 2016 was \$625,195.

Note 6—Commitments

The Foundation had contractual commitments for various projects that amounted to \$26,190 at September 30, 2016.

Note 7—Risk management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; and natural disasters. These exposures to loss are handled through the College via a combination of methods, including participation in various risk pools administered by the state of Florida, purchase of commercial insurance, and self-retention of certain risks.

Additional details on the College's risk management programs are disclosed in the financial report of the College.

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Note 8—Income taxes

The Foundation is exempt from income tax under Section 501(c)(03) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by accounting principles generally accepted in the United States of America on Accounting for Uncertainty in Income Taxes. Management believes that the Foundation continues to satisfy the requirements of a tax-exempt organization at September 30, 2016. Management has evaluated all other tax positions that could have a significant effect on the financial statements at September 30, 2016.

Note 9—Related party transactions

Lease – Beginning October 1, 2010, the Foundation entered into a 50-year lease agreement with the College to lease the land on which the building was constructed at a cost of \$1 per year.

Related-Party Receivable and Payable – Under the Memorandum of Understanding, the Foundation relies on the College to receive all cash receipts and pay all expenses. At September 30, 2016, there was \$262,527 receivable from the College and the payable to the College was \$210,572.

Note 10—Liquidity and managements plans

As reflected in the accompanying financial statements, the Foundation incurred a net loss of \$69,594 for the year ended September 30, 2016. Further, the Foundation has incurred cumulative net losses of approximately \$1.9 million. Realization of the carrying value of the assets included in the statement of net position is dependent on the Foundation's successful future operations of the Facility. In addition, at September 30, 2016 the Foundation was in default on its Bonds.

In addition, as discussed in Note 5 to the financial statements, the Foundation's bond payable is subject to compliance with provisions of a Trust Indenture and forbearance agreement with the Trustee. This forbearance agreement expired, subsequent to year end, on December 31, 2016. As of December 31, 2016, the Foundation has debt of \$8,305,000 that is in default. Management has met with the bond holders in an attempt to refinance the bond payable; however, at the present time, future refinancing for the Foundation is not determinable. Since the bond holder asserts that the Foundations capital assets are pledged as collateral for the bond payable, foreclosure by the bank would seriously impair the Foundation's ability to continue as a going concern and to realize its investment in assets through future successful operations. Management is currently exploring options to refinance the existing Bonds; however, this has not been completed as of the date of this report.

Note 11—Subsequent event

Management has evaluated subsequent events through August 31, 2017, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

Report of Independent Auditor 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
Florida Keys College Campus Foundation, Inc.
Key West, Florida

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 the Florida Keys Community Campus Foundation, Inc. (the "Foundation"), a component unit of the Florida Keys Community College, as of and for the year ended September 30, 2016, and the related notes to the financial statements and have issued our report thereon dated August 31, 2017. Our report includes an emphasis of matter paragraph because the following conditions raise substantial doubt about its ability to continue as a going concern. The Foundation's bond payable is subject to compliance with provisions of a Trust Indenture and forbearance agreement with the Trustee. This forbearance agreement expired, subsequent to year end, on December 31, 2016. As of December 31, 2016, the Foundation has debt of \$8,305,000 that is in default. Additionally, the Foundation incurred a net loss of \$69,594 for the year ended September 30, 2016, which further decreased its net position to a negative balance of \$1,900,381.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Tampa, Florida
August 31, 2017

FLORIDA KEYS COMMUNITY COLLEGE FOUNDATION, INC.
SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED SEPTEMBER 30, 2016

Finding 2015–001 Significant Deficiency in Internal Control over Financial Reporting Process

Finding: The Foundation is responsible for establishing and maintaining internal controls over financial reporting. During our audit, we discovered that manual journal entries required for accurate financial reporting were not properly prepared and reviewed prior to the start of audit procedures.

Status: Implemented. Management included in the year-end processes a review of revenue transactions related to current year reporting terms in which a transaction is recorded after close of year. An accrual entry was recorded for any transactions that are deemed applicable for the period.