

**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, 2017

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, 2017, 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, 2017, 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 on December 31, 2016. As of December 31, 2016, the Foundation has debt of \$8,305,000 that is in default. 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 has negative net position in the amount of \$1,899,997 as of September 30, 2017.

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 6 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 June 28, 2018, 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 Bekant LLP

Tampa, Florida
June 28, 2018

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

SEPTEMBER 30, 2017

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, 2017. 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, 2017

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>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 1,103,191	\$ 775,088
Capital assets, net of accumulated depreciation	5,729,589	5,918,476
Total Assets	<u>\$ 6,832,780</u>	<u>\$ 6,693,564</u>
Liabilities:		
Current liabilities	\$ 556,581	\$ 423,086
Bond payable current, net	8,176,196	8,170,859
Total Liabilities	<u>\$ 8,732,777</u>	<u>\$ 8,593,945</u>
Net Position:		
Net investment in capital assets	\$ (1,981,005)	\$ (2,202,600)
Unrestricted	81,008	302,219
Total Net Position	<u>\$ (1,899,997)</u>	<u>\$ (1,900,381)</u>

The total assets of the Foundation as of September 30, 2017 were \$6,832,780 of which most of the assets represent the student housing building and restricted cash. The current liabilities include accrued interest payable, accrued expenses, deposits, related party payable to the College, and the bond payable. The College advanced operating funds to the Foundation which will be repaid from surplus funds when available. Student receivables increased by \$192,224 compared to 2016 primarily due to the timing of receipts and a decrease 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, 2017

	2017	2016
Net operating income	\$ 581,082	\$ 555,377
Nonoperating expenses	(580,698)	(624,971)
Increase (decrease) in net position	384	(69,594)
Net position, beginning of year	(1,900,381)	(1,830,787)
Net position, end of year	\$ (1,899,997)	\$ (1,900,381)

The statement of revenues, expenses, and changes in net position reflects an increase in the net position of \$384 at the end of the year as a result of net operating income of \$581,082 which was offset by non-operating expenses of \$580,698.

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.

	2017	2016
Net cash provided by operating activities	\$ 749,702	\$ 609,433
Net cash provided by (used in) investing activities	3,402	(51,456)
Net cash used in capital and related financing activities	(498,300)	(1,038,126)
Net increase (decrease) in cash	254,804	(480,149)
Cash, beginning of period	410,871	891,020
Cash, end of period	\$ 665,675	\$ 410,871

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 \$188,887 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, 2017

Economic Outlook

The Foundation and College have forgone a fourth forbearance agreement. The previous forbearance agreement ended December 31, 2016. Most obligations written under the forbearance agreement are still in place for consistency and good faith purposes. Most notable achievements of the College and Foundation since the close of fiscal year 2016-2017 as related to the operations of Lagoon Landing is as followed.

- 1) The College has recently been granted level two status from the Southern Association of Colleges and Schools Commission on Colleges which allows the College to offer Accredited Baccalaureate Programs. It continues to work on expanding its Bachelor's programs in the Nursing, Hospitality and Ecotourism Management, and Marine Resource Management.
- 2) The College initiated an Intent to Negotiate bid process in December 2017. It has since selected an entity to negotiate a public private partnership. Negotiations include the purchase of existing bonds and construction of new building to include two-hundred (200) additional beds. Negotiations are still in process as of June 28, 2018.
- 3) The Foundation has eliminated two-term contracts as of academic year 2018-2019. By only offering annual contracts, the Foundation is able to increase summer occupancy, reduce check-in/check-out processing, reduce the management of contract term benefits i.e. holiday breaks (all will be afforded the same benefits whereas previously benefits varied based on two-term and annual rental agreements) and improve academic completion rates.
- 4) The Foundation has also initiated a new payment plan structure to include four options as followed;
 - a) Pay in full for the year.
 - b) Pay in full for the term.
 - c) Monthly installments on rent portion only. All other incidentals must be paid in advance.
 - d) Two monthly installments of \$120 (good faith payments) with final term payment in third month when financial aid funds are released to students. Installment plan is only available for rent portion. All other incidentals must be paid in advance.

The new payment plan structure has been developed to afford more viable payment terms for residents that were previously unable to make lump sum payments for the term whereby causing the Foundation to lose potential occupants.

Lease agreement now includes a guaranty agreement for the financial obligations where a third party (guarantor), parent, guardian or other, are held liable for the costs of the rental agreement in the event the resident defaults on payment plan agreement.

- 5) Annual rental rate structure has changed to include three tiers based on completion of signed contracts.
 - a. 0% Increase at annual rate of \$12,552; Monthly Installments of \$1,046
 - b. 3% Increase at annual rate of \$12,936; Monthly Installments of \$1,078
 - c. 6% Increase at annual rate of \$13,308; Monthly Installments of \$1,109

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

SEPTEMBER 30, 2017

ASSETS

Current Assets:

Cash	\$	2,427
Restricted cash		663,248
Student receivables, net of allowance for doubtful accounts of \$35,590		245,692
Related party receivable		142,712
Prepaid expenses and other current assets		49,112
Total Current Assets		<u>1,103,191</u>

Capital assets, net of accumulated depreciation 5,729,589

Total Assets 6,832,780

LIABILITIES

Accrued interest payable		242,229
Accrued expenses		76,030
Deposits		27,750
Related party payable		210,572
Bond payable, net		8,176,196
Total Liabilities		<u>8,732,777</u>

NET POSITION

Net investment in capital assets		(1,981,005)
Unrestricted		81,008
Total Net Position	\$	<u>(1,899,997)</u>

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

YEAR ENDED SEPTEMBER 30, 2017

Operating Revenues:	
Residence hall revenue	\$ 1,085,403
Other revenue	3,260
Total Operating Revenues	<u>1,088,663</u>
Operating Expenses:	
Operating expenses	313,357
Depreciation expense	188,887
Bond amortization expense	5,337
Total Operating Expenses	<u>507,581</u>
Net operating income	<u>581,082</u>
Nonoperating Revenues (Expenses):	
Interest income	652
Interest expense	(581,350)
Total Nonoperating Expenses	<u>(580,698)</u>
Change in net position	384
Net position, beginning of year	<u>(1,900,381)</u>
Net position, end of year	<u>\$ (1,899,997)</u>

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

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

YEAR ENDED SEPTEMBER 30, 2017

Cash flows from operating activities:

Receipts from students	\$ 896,439
Payments to vendors	(146,737)
Net cash provided by operating activities	<u>749,702</u>

Cash flows from investing activities:

Interest income	652
Decrease in deposits	2,750
Net cash provided by investing activities	<u>3,402</u>

Cash flows from capital and related financing activities:

Interest paid on bond	(498,300)
Net cash used in capital and related financing activities	<u>(498,300)</u>

Net increase in cash and cash equivalents	254,804
Cash, beginning of year	410,871
Cash, end of year	<u>\$ 665,675</u>

Cash:

Unrestricted	\$ 2,427
Restricted	663,248
	<u>\$ 665,675</u>

Reconciliation of net operating expenses to net cash provided by operating activities:

Operating income	\$ 581,082
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	188,887
Bond amortization expense	5,337
Bad debt expense	(4,943)
Increase in student receivables	(187,281)
Decrease in related party receivables	119,815
Increase in prepaid expenses	(890)
Increase in accrued expenses	47,695
Net cash provided by operating activities	<u>\$ 749,702</u>

FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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 \$465,602. Additionally, certain amount are restricted in a capitalize interest, operating, and maintenance fund of \$197,646.

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 \$35,590 for the year ended September 30, 2017.

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

SEPTEMBER 30, 2017

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 as 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, 2017, the book balance of deposits and the bank balance was \$665,675. 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, 2017.

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, 2017, 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, 2017, the Foundation had a receivable in the amount of \$142,712 due from the College.

Note 4—Capital assets

Capital asset activity for the year ended September 30, 2017 was as follows:

	<u>October 1,</u> <u>2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>September 30,</u> <u>2017</u>
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	819,972	158,726	-	978,698
Furnishings and equipment	155,832	30,161	-	185,993
Total accumulated depreciation	<u>975,804</u>	<u>188,887</u>	<u>-</u>	<u>1,164,691</u>
Total capital assets, net	<u>\$ 5,918,476</u>	<u>\$ (188,887)</u>	<u>\$ -</u>	<u>\$ 5,729,589</u>

Total depreciation expense was \$188,887 for the year ended September 30, 2017.

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

SEPTEMBER 30, 2017

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, 2017:

	October 1, 2016	Additions	Reductions	September 30, 2017	Due Within One Year
Bond payable	\$ 8,305,000	\$ -	\$ -	\$ 8,305,000	\$ 8,305,000
Less Unamortized Bond discount	(134,141)	-	5,337	(128,804)	(128,804)
Total Bond payable	<u>\$ 8,170,859</u>	<u>\$ -</u>	<u>\$ 5,337</u>	<u>\$ 8,176,196</u>	<u>\$ 8,176,196</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, 2017 was \$581,350.

Note 6—Commitments

The Foundation had contractual commitments for various projects that amounted to \$72,941 at September 30, 2017. Additionally, as a result of Hurricane Irma, the College has recorded \$477,145 of damages related to the Foundation that are intended to be repaired in fiscal year 2018.

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, 2017

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, 2017. Management has evaluated all other tax positions that could have a significant effect on the financial statements at September 30, 2017.

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, 2017, there was \$142,712 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 has incurred cumulative net losses of approximately \$1.9 million as of the year ended September 30, 2017. 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, 2017 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 and September 30, 2017, the Foundation has debt of \$8,305,000 that is in default. 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 has met with the bond holders and a developer in an attempt to sell and convey the Lagoon Landing Facility to the developer free and clear of the lien of the Foundation Mortgage. The College is the owner of the land upon which the building sits, and would lease the land to the developer. This deal would allow the Foundation to pay the bond payable; however, this has not been completed as of the date of this report.

Note 11—Subsequent events

Management has evaluated subsequent events through June 28, 2018, 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, 2017, and the related notes to the financial statements and have issued our report thereon dated June 28, 2018. 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 on December 31, 2016. As of December 31, 2016 and September 30, 2017, the Foundation has debt of \$8,305,000 that is in default. Additionally, the Foundation has negative net position in the amount of \$1,899,997 as of September 30, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, 2017-001 described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

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*.

The Foundation's Response to the Finding

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
June 28, 2018

FLORIDA KEYS COMMUNITY COLLEGE FOUNDATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2017

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and agreements, and abuse related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Finding 2017–001 Significant Deficiency in Internal Control over Student Housing Contracts

Criteria: The Foundation is responsible for establishing and maintaining internal controls over student housing contracts.

Condition: During our audit, we discovered that a signed student housing contract was not maintained.

Effect: Student revenue was not supported by a signed student housing contract.

Cause: The employee responsible for maintaining the student housing contracts, including the student housing application, did not ensure that signed contracts were obtained from students.

Recommendation: We recommend that the Foundation enhance its formal process to ensure that signed housing contracts are obtained from each student and maintained.

Management's Response: The Foundation agrees with this finding.

Florida Keys College Campus Foundation, Inc.
5901 College Road
Key West, FL 33040
(305) 296-9081



June 28, 2018

Cherry Bekaert LLP
401 East Jackson Street Suite 1200
Tampa, FL 33602

Planned Corrective Action on Finding

Finding 2017-001 - *Significant Deficiency in Internal Control over Student Housing Contacts*: Initiate dual control review process. The Campus Life Director position no longer exists in preparation of the refinance as of Fall 2018. However, designated staff assigned to the management of the operations and building maintenance shall both review scanned contract agreements to ensure they are fully executed.

Prepared by:
Title:


Heather Garcia, Controller