

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

FLORIDA KEYS COMMUNITY COLLEGE

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Jonathan Gueverra served as President of Florida Keys Community College and the following individuals served as Members of the Board of Trustees:

Stephanie S. Scuderi, Chair from 7-25-16
Kevin Madok, Vice Chair from 7-25-16^a
Robert C. Stoky, Chair through 7-24-16
Anne M. O'Bannon, Vice Chair through 7-1-16^{a, b}
John Domenech from 4-3-17
Michelle S. Maxwell through 4-2-17
Michael H. Puto
Elena G. Spottswood
Sheldon Suga from 4-3-17

^a Vice Chair position vacant 7-2-16, through 7-24-16.

^b Trustee position vacant from 7-2-16, through 4-2-17.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Barbara S. Coleman, CPA, and the audit was supervised by Hector J. Quevedo, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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FLORIDA KEYS COMMUNITY COLLEGE
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida Keys Community College (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether Florida Keys Community College and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Keys Community College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College'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 opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our 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 opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Keys Community College and of its aggregate discretely presented component units as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern – Discretely Presented Component Unit

The other auditor's report on the financial statements of the Florida Keys College Campus Foundation, Inc. (Campus Foundation) for the fiscal year ended September 30, 2016, included an emphasis-of-matter paragraph that indicated the financial statements were prepared assuming that the Campus Foundation will continue as a going concern; however, the following conditions raise substantial doubt about its ability to continue as a going concern. As indicated in Note 8. to the financial statements, the Campus Foundation had debt of \$8,305,000 in default as of December 31, 2016. As indicated in Note 15. to the financial statements, future refinancing for the Campus Foundation was not determinable. Additionally, the Campus Foundation incurred a net loss of \$69,594 for the fiscal year ended September 30, 2016, which further increased the Campus Foundation net deficit to \$1,900,381. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, 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 and other auditors 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 a report dated March 26, 2018, on our consideration of the Florida Keys Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **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 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 the effectiveness of the 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 Florida Keys Community College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016, and its component units: the Florida Keys Educational Foundation, Inc. for the fiscal years ended March 31, 2017, and March 31, 2016; and the Florida Keys College Campus Foundation, Inc. for the fiscal years ended September 30, 2016, and September 30, 2015.

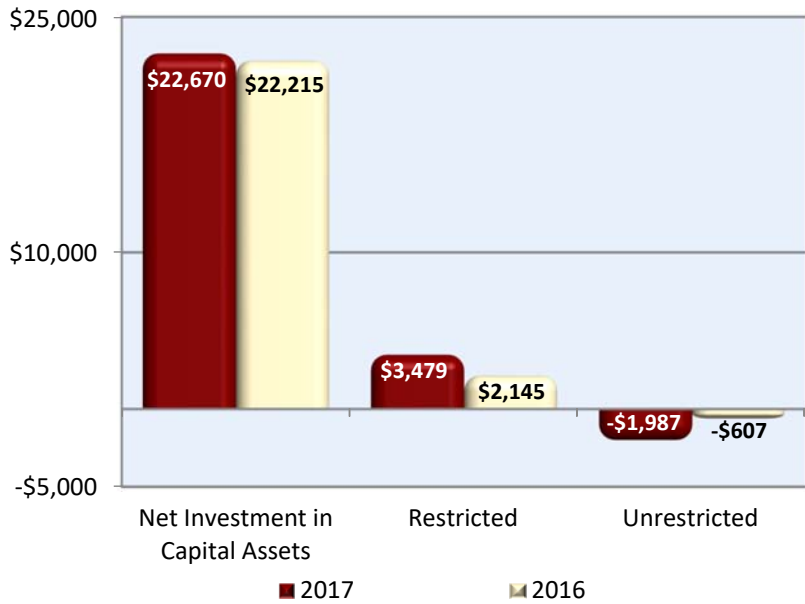
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$31.5 million at June 30, 2017. This balance reflects a \$2.3 million, or 8.1 percent, increase as compared to the 2015-16 fiscal year, resulting from increases in nondepreciable capital assets and deferred outflows of resources offset by a decrease in cash and cash equivalents. While assets and deferred outflows of resources increased, liabilities and deferred inflows of resources also increased by \$1.9 million, or 36.2 percent, totaling \$7.3 million at June 30, 2017, compared to \$5.4 million at June 30, 2016, resulting primarily from an increase in pension liabilities offset by a decrease in deferred inflows of resources. As a result, the College's net position increased by \$0.4 million, resulting in a year-end balance of \$24.2 million.

The College's operating revenues totaled \$3.6 million for the 2016-17 fiscal year, representing a 5 percent increase compared to the 2015-16 fiscal year due mainly to increases in student tuition and fees, and auxiliary services offset by a decrease in Federal grants and contracts and other operating revenues. Operating expenses totaled \$14.5 million for the 2016-17 fiscal year, representing an increase of \$1.5 million, or 11.5 percent as compared to the 2015-16 fiscal year due mainly to increases in personnel expenses, contractual services, and other services and expenses offset by a decrease in scholarships and waivers.

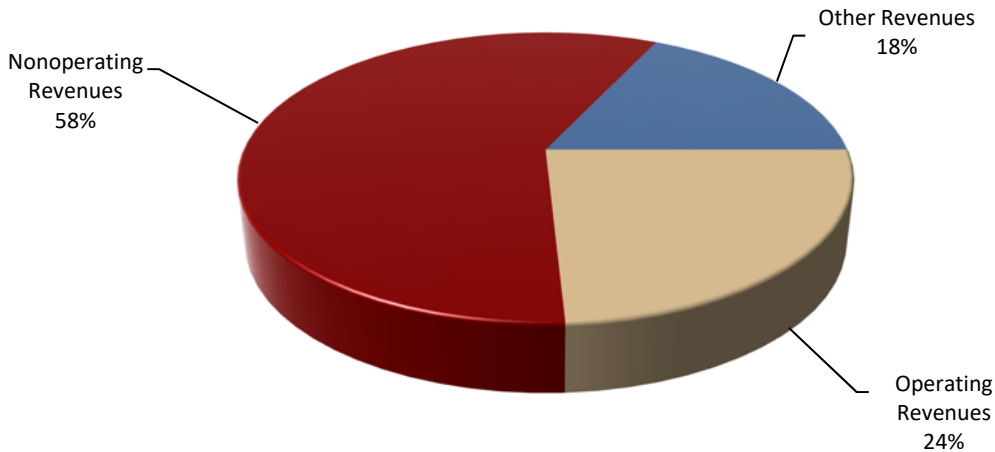
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2016-17 fiscal year:

**Total Revenues
2016-17 Fiscal Year**



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 35, the College'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 financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

- Florida Keys Community College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Florida Keys Educational Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.
- Florida Keys College Campus Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

Information regarding these component units, is presented in the MD&A and the notes to financial statements.

The Statement of Net Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the College's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College's financial condition.

The following summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its component units for the respective fiscal years ended:

Condensed Statement of Net Position at

(In Thousands)

	College		Component Units (1)	
	06-30-17	06-30-16	2017	2016
Assets				
Current Assets	\$ 4,502	\$ 4,086	\$ 6,398	\$ 6,076
Capital Assets, Net	22,712	22,275	5,978	6,170
Other Noncurrent Assets	1,693	1,552	43	43
Total Assets	28,907	27,913	12,419	12,289
Deferred Outflows of Resources	2,549	1,194	-	-
Liabilities				
Current Liabilities	1,187	941	8,657	9,178
Noncurrent Liabilities	5,987	3,853	-	-
Total Liabilities	7,174	4,794	8,657	9,178
Deferred Inflows of Resources	120	560	-	-
Net Position				
Net Investment in Capital Assets	22,670	22,215	(2,203)	(1,635)
Restricted	3,479	2,145	3,505	3,223
Unrestricted	(1,987)	(607)	2,460	1,523
Total Net Position	\$ 24,162	\$ 23,753	\$ 3,762	\$ 3,111

Note: (1) For the 2017 year, the amounts reported are for the fiscal years ended March 31, 2017, for the Florida Keys Educational Foundation, Inc. and September 30, 2016, for the Florida Keys College Campus Foundation, Inc. For the 2016 year, the amounts reported are for the fiscal years ended March 31, 2016, for the Florida Keys Educational Foundation, Inc. and September 30, 2015, for the Florida Keys College Campus Foundation, Inc.

Significant events include the following:

- Current assets increased by \$0.4 million due primarily to increases of \$1.2 million in due from other governmental agencies, and \$0.3 million in prepaid expenses offset by a decrease of \$0.9 million in cash and cash equivalents.
- Net capital assets increased by \$0.4 million primarily due to an increase of \$1 million in construction in progress related to chiller plant upgrades offset by a decrease of \$0.6 million in depreciable capital assets due to an increase in accumulated depreciation, and disposal of depreciable capital assets.
- Noncurrent liabilities increased by \$2.1 million due to an increase of \$2.1 million in pension liabilities, noncurrent portion.

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the College's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the activities of the College and its component units for the respective fiscal years:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years**

(In Thousands)

	College		Component Units (1)	
	2016-17	2015-16	2017	2016
Operating Revenues	\$ 3,599	\$ 3,428	\$ 1,843	\$ 1,613
Less, Operating Expenses	14,491	13,001	1,152	941
Operating Income (Loss)	(10,892)	(9,573)	691	672
Net Nonoperating Revenues (Expenses)	8,629	8,478	(40)	(779)
Income (Loss) Before Other Revenues,	(2,263)	(1,095)	651	(107)
Other Revenues	2,672	605	-	-
Net Increase (Decrease) in Net Position	409	(490)	651	(107)
Net Position, Beginning of Year	23,753	24,243	3,111	3,218
Net Position, End of Year	\$ 24,162	\$ 23,753	\$ 3,762	\$ 3,111

Note: (1) For the 2017 year, the amounts reported are for the fiscal years ended March 31, 2017, for the Florida Keys Educational Foundation, Inc. and September 30, 2016, for the Florida Keys College Campus Foundation, Inc. For the 2016 year, the amounts reported are for the fiscal years ended March 31, 2016, for the Florida Keys Educational Foundation, Inc. and September 30, 2015, for the Florida Keys College Campus Foundation, Inc.

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

The following summarizes the operating revenues by source for the College and its component units that were used to fund operating activities for the respective fiscal years:

Operating Revenues For the Fiscal Years

(In Thousands)

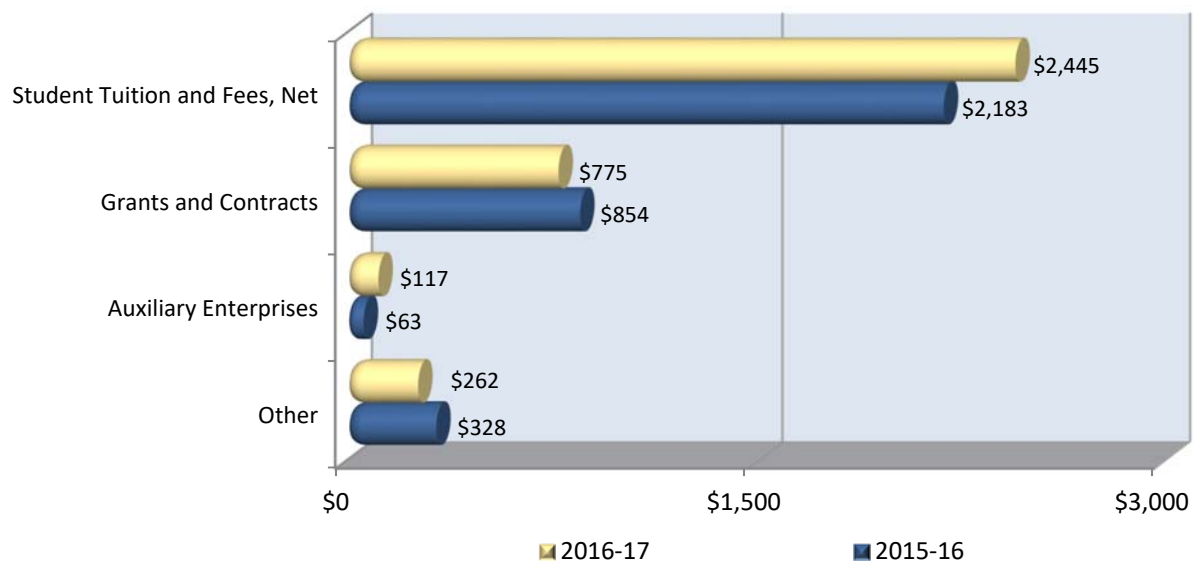
	College		Component Units (1)	
	2016-17	2015-16	2017	2016
Student Tuition and Fees, Net	\$ 2,445	\$ 2,183	\$ -	\$ -
Grants and Contracts	775	854	-	-
Auxiliary Enterprises	117	63	-	-
Other	262	328	1,843	1,613
Total Operating Revenues	\$ 3,599	\$ 3,428	\$ 1,843	\$ 1,613

Note: (1) For the 2017 year, the amounts reported are for the fiscal years ended March 31, 2017, for the Florida Keys Educational Foundation, Inc. and September 30, 2016, for the Florida Keys College Campus Foundation, Inc. For the 2016 year, the amounts reported are for the fiscal years ended March 31, 2016, for the Florida Keys Educational Foundation, Inc. and September 30, 2015, for the Florida Keys College Campus Foundation, Inc.

The following chart presents the College's operating revenues for the 2016-17 and 2015-16 fiscal years:

Operating Revenues

(In Thousands)



College operating revenue increased primarily due to an increase in student tuition and fees over the prior year. Tuition and fees for non-Florida resident related charges increased by \$0.1 million and tuition and fees charged for the baccalaureate program, which began in fall of 2016, totaled \$0.03 million.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the College and its component units for the respective fiscal years:

**Operating Expenses
For the Fiscal Years**

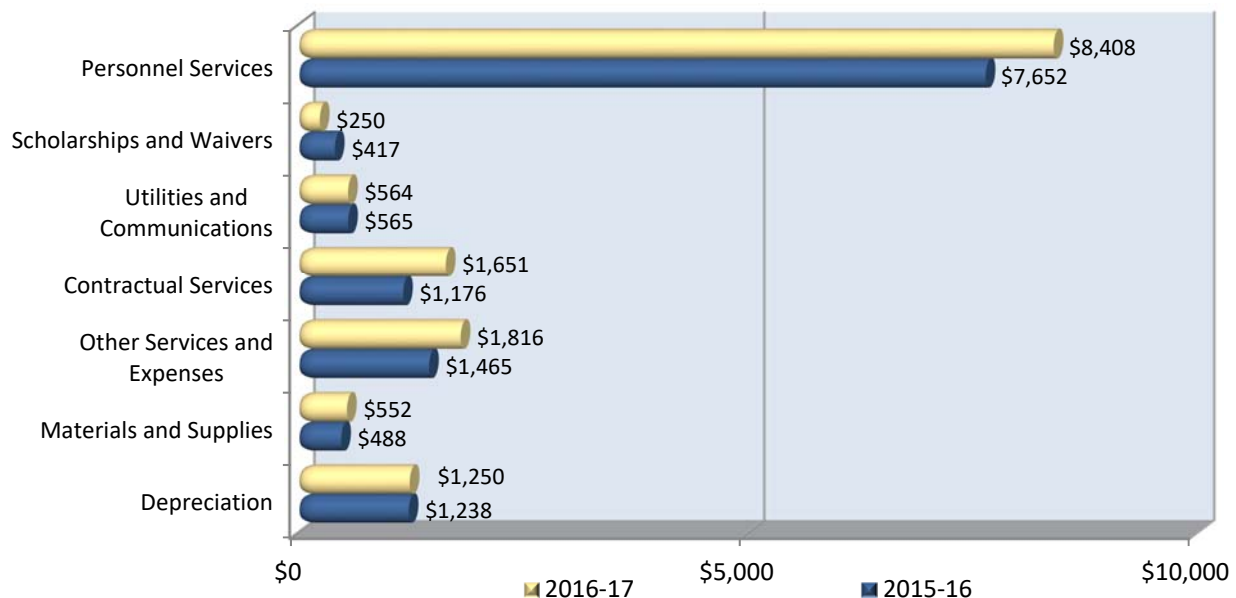
(In Thousands)

	College		Component Units (1)	
	2016-17	2015-16	2017	2016
Personnel Services	\$ 8,408	\$ 7,652	\$ -	\$ -
Scholarships and Waivers	250	417	197	163
Utilities and Communications	564	565	-	-
Contractual Services	1,651	1,176	-	-
Other Services and Expenses	1,816	1,465	763	586
Materials and Supplies	552	488	-	-
Depreciation	1,250	1,238	192	192
Total Operating Expenses	\$ 14,491	\$ 13,001	\$ 1,152	\$ 941

Note: (1) For the 2017 year, the amounts reported are for the fiscal years ended March 31, 2017, for the Florida Keys Educational Foundation, Inc. and September 30, 2016, for the Florida Keys College Campus Foundation, Inc. For the 2016 year, the amounts reported are for the fiscal years ended March 31, 2016, for the Florida Keys Educational Foundation, Inc. and September 30, 2015, for the Florida Keys College Campus Foundation, Inc.

The following chart presents the College's operating expenses for the 2016-17 and 2015-16 fiscal years:

**Operating Expenses
(In Thousands)**



College operating expenses increased primarily due to the following factors:

- Personnel services increased by \$0.8 million as a result of program expansions, including the new baccalaureate program, and increases in pension expense.
- Contractual services increased by \$0.5 million as a result of one-time expenses for the development of the new website, the remodeling of the College's culinary lab and other technology upgrades.
- Other services and expenses increased by \$0.4 million primarily due to an increase in bad debt expense.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)		
For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
State Noncapital Appropriations	\$ 7,264	\$ 7,035
Federal and State Student Financial Aid	1,110	1,237
Gifts and Grants	230	199
Investment Income	27	27
Other Nonoperating Revenues	-	6
Loss on Disposal of Capital Assets	-	(23)
Interest on Capital Asset-Related Debt	(2)	(3)
Net Nonoperating Revenues	\$ 8,629	\$ 8,478

College nonoperating revenues increased primarily due to increases in Florida College System Program funding, including a \$0.2 million increase in Performance Based funding, and a \$0.2 million increase in Lottery Program funding offset by a decrease of \$0.1 million in Community College funding.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2016-17 and 2015-16 fiscal years:

Other Revenues		
For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
State Capital Appropriations	\$ 2,252	\$ 124
Capital Grants, Contracts, Gifts, and Fees	420	481
Total	\$ 2,672	\$ 605

Total other revenues increased by \$2.1 million due to an increase in appropriations for Public Education Capital Outlay which has been primarily used for upgrades to the chiller plant system on the Key West Campus.

The Statement of Cash Flows

The statement of cash flows provides information about the College’s financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College’s ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes the College’s cash flows for the 2016-17 and 2015-16 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years
(In Thousands)**

	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	\$ (9,253)	\$ (8,911)
Noncapital Financing Activities	8,594	8,585
Capital and Related Financing Activities	(270)	107
Investing Activities	27	29
Net Decrease in Cash and Cash Equivalents	(902)	(190)
Cash and Cash Equivalents, Beginning of Year	4,944	5,134
Cash and Cash Equivalents, End of Year	\$ 4,042	\$ 4,944

Major sources of funds came from State noncapital appropriations (\$7.3 million), net student tuition and fees (\$2.4 million), Federal Direct Student Loan program receipts (\$1.5 million), Federal and State student financial aid (\$1.1 million), and State capital appropriations (\$1 million). Major uses of funds were for payments to employees and employee benefits (\$8 million), payments to suppliers of goods and services (\$4.7 million), purchases of capital assets (\$1.7 million), and disbursements to students for the Federal Direct Student Loan program (\$1.5 million).

Changes in cash and cash equivalents were the result of the following factors:

- Cash used by operating activities increased by \$0.3 million, or 3.8 percent, primarily due to an increase in payments to suppliers of \$0.7 million as a result of one-time improvements to information technology infrastructure, web design and other repairs and maintenance to existing buildings and equipment offset by an increase of \$0.4 million in student tuition and fees as a result of an increase of non-resident fees and the start of the new baccalaureate program.
- Cash used for capital and related financing activities increased by \$0.4 million, or 352 percent, primarily due to purchases of capital assets, including \$1.1 million for chiller plant upgrades offset by an increase of \$0.8 million in State capital appropriations.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
--

Capital Assets

At June 30, 2017, the College had \$47.1 million in capital assets, less accumulated depreciation of \$24.4 million, for net capital assets of \$22.7 million. Depreciation charges for the current fiscal year totaled \$1.2 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30		
(In Thousands)		
	2017	2016
Land	\$ 322	\$ 322
Construction in Progress	1,034	-
Buildings	19,987	20,899
Other Structures and Improvements	209	279
Furniture, Machinery, and Equipment	1,118	725
Assets Under Capital Lease	42	50
Capital Assets, Net	\$ 22,712	\$ 22,275

Additional information about the College's capital assets is presented in the notes to the financial statements.

Capital Expenses and Commitments

Major capital expenses through June 30, 2017, were incurred for the upgrades to the chiller plant system. The College's construction commitments at June 30, 2017, are as follows:

	Amount
	(In Thousands)
Total Committed	\$ 1,802
Completed to Date	(1,035)
Balance Committed	\$ 767

Additional information about the College's construction commitments is presented in the notes to financial statements.

Debt Administration

As of June 30, 2017, the College had \$0.04 million in outstanding capital lease payable, representing a decrease of \$0.018 million, or 30 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2017 and June 30, 2016:

Long-Term Debt at June 30

(In Thousands)

	<u>2017</u>	<u>2016</u>
SBE Capital Outlay Bonds	\$ -	\$ 9
Capital Lease	<u>42</u>	<u>51</u>
Total	<u>\$ 42</u>	<u>\$ 60</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales and debt repayments totaled \$0.009 million.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2017-18 fiscal year. The Board of Trustees has forgone the option of increasing the tuition rate for the 2017-18 fiscal year. The College's current financial and capital plans indicate that the College will be able to maintain its present level of services at the existing tuition rate.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President of Business and Financial Services, Florida Keys Community College, 5901 College Road, Key West, Florida 33040.

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BASIC FINANCIAL STATEMENTS

FLORIDA KEYS COMMUNITY COLLEGE A Component Unit of the State of Florida Statement of Net Position

June 30, 2017

	<u>College</u>	<u>Component Units</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,428,007	\$ 220,832
Restricted Cash and Cash Equivalents	921,069	387,484
Investments	-	5,217,450
Accounts Receivable, Net	113,315	221,463
Due from Other Governmental Agencies	1,600,999	-
Due from College	-	262,527
Inventories	1,765	-
Prepaid Expenses	436,774	88,222
Total Current Assets	4,501,929	6,397,978
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,692,859	-
Other Noncurrent Assets	-	42,850
Depreciable Capital Assets, Net	21,356,107	5,934,791
Nondepreciable Capital Assets	1,356,222	43,774
Total Noncurrent Assets	24,405,188	6,021,415
TOTAL ASSETS	28,907,117	12,419,393
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	2,548,992	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	392,549	91,133
Salary and Payroll Taxes Payable	521,017	-
Accrued Interest Payable	-	159,179
Due to College	-	210,572
Unearned Revenue	10,515	-
Deposits Held for Others	178,770	25,000
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	8,170,859
Capital Lease Payable	17,287	-
Compensated Absences Payable	8,634	-
Net Pension Liability	57,750	-
Total Current Liabilities	1,186,522	8,656,743

FLORIDA KEYS COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	College	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Lease Payable	25,085	-
Compensated Absences Payable	472,028	-
Other Postemployment Benefits Payable	101,726	-
Net Pension Liability	5,388,261	-
Total Noncurrent Liabilities	5,987,100	-
TOTAL LIABILITIES	7,173,622	8,656,743
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	120,264	-
NET POSITION		
Net Investment in Capital Assets	22,669,957	(2,202,600)
Restricted:		
Nonexpendable:		
Endowment	-	2,125,642
Expendable:		
Grants and Loans	349,138	1,380,013
Scholarships	66,415	-
Capital Projects	3,063,735	-
Unrestricted	(1,987,022)	2,459,595
TOTAL NET POSITION	\$ 24,162,223	\$ 3,762,650

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

FLORIDA KEYS COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>College</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$975,555	\$ 2,444,592	\$ -
Federal Grants and Contracts	606,055	-
State and Local Grants and Contracts	13,690	-
Nongovernmental Grants and Contracts	156,025	-
Auxiliary Enterprises	116,872	-
Other Operating Revenues	261,789	1,843,577
Total Operating Revenues	3,599,023	1,843,577
EXPENSES		
Operating Expenses:		
Personnel Services	8,408,312	-
Scholarships and Waivers	250,186	197,458
Utilities and Communications	564,003	-
Contractual Services	1,650,519	-
Other Services and Expenses	1,816,160	762,865
Materials and Supplies	552,023	-
Depreciation	1,249,830	191,605
Total Operating Expenses	14,491,033	1,151,928
Operating Income (Loss)	(10,892,010)	691,649
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	7,264,312	-
Federal and State Student Financial Aid	1,110,201	-
Gifts and Grants Received for Other Than Capital or Endowment Purposes	229,921	-
Investment Income	26,940	590,439
Interest on Capital Asset-Related Debt	(2,117)	(630,532)
Net Nonoperating Revenues (Expenses)	8,629,257	(40,093)
Income (Loss) Before Other Revenues,	(2,262,753)	651,556
State Capital Appropriations	2,251,757	-
Capital Grants, Contracts, Gifts, and Fees	419,839	-
Total Other Revenues	2,671,596	-
Increase in Net Position	408,843	651,556
Net Position, Beginning of Year	23,753,380	3,111,094
Net Position, End of Year	\$ 24,162,223	\$ 3,762,650

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

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FLORIDA KEYS COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 2,445,970
Grants and Contracts	870,163
Payments to Suppliers	(4,146,348)
Payments for Utilities and Communications	(564,003)
Payments to Employees	(6,331,523)
Payments for Employee Benefits	(1,711,871)
Payments for Scholarships	(250,186)
Auxiliary Enterprises	100,860
Other Receipts	334,013
	(9,252,925)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	7,264,312
Federal and State Student Financial Aid	1,099,513
Federal Direct Loan Program Receipts	1,465,121
Federal Direct Loan Program Disbursements	(1,465,121)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	229,921
	8,593,746
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,008,060
Capital Grants and Gifts	429,103
Purchases of Capital Assets	(1,695,986)
Principal Paid on Capital Debt	(9,000)
Interest Paid on Capital Debt	(2,117)
	(269,940)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturity of Investments	238
Investment Income	26,940
	27,178
Net Decrease in Cash and Cash Equivalents	(901,941)
Cash and Cash Equivalents, Beginning of Year	4,943,876
Cash and Cash Equivalents, End of Year	\$ 4,041,935

FLORIDA KEYS COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2017

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (10,892,010)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,249,830
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows or Resources:	
Receivables, Net	68,406
Inventories	750
Prepaid Expenses	(273,271)
Accounts Payable	150,558
Salary and Payroll Taxes Payable	22,114
Unearned Revenue	1,140
Deposits Held for Others	72,224
Compensated Absences Payable	52,298
Other Postemployment Benefits Payable	48
Net Pension Liability	2,090,098
Deferred Outflows of Resources Related to Pensions	(1,355,064)
Deferred Inflows of Resources Related to Pensions	(440,046)
NET CASH USED BY OPERATING ACTIVITIES	\$ (9,252,925)

**SUPPLEMENTAL DISCLOSURE OF NONCASH
CAPITAL FINANCING ACTIVITIES**

The College entered into a new capital lease, which was recognized on the statement of net position, but is not a cash transaction for the statement of cash flows.	\$ 7,439
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The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Florida Keys Community College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of seven members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education (SBE) rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and SBE rules. The College serves Monroe County.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based on the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following component units are included within the College's reporting entity:

- Florida Keys Educational Foundation, Inc. (Educational Foundation): This legally separate organization provides funding and services to support and foster the pursuit of higher education at the College and is governed by a separate board. The purpose of the Educational Foundation is to assist in the achievement of the College's mission by soliciting, administering, and optimizing resources through matching programs, private gifts, bequests, and donations to support the College's students and to enhance teaching and learning at the College.
- Florida Keys College Campus Foundation, Inc. (Campus Foundation): This legally separate organization provides funding and services to support and foster the pursuit of higher education at the College and is governed by a separate board. The purpose of the Campus Foundation is to assist in the achievement of the College's mission by receiving, investing, and administering real and personal property including, but not limited to, the construction and management of College dormitories for the benefit of the College.

The component units are also direct-support organizations, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, are financially accountable to the College. The component units are managed independently, outside the College's budgeting process, and their powers generally are vested in a governing board pursuant to various State statutes. The component units receive, hold, invest, and administer property, and make expenditures to or for the benefit of the College.

The component units are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The audited financial statements are available to the public and can be obtained from the Office of the Controller at Florida Keys Community College, 5901 College Road, Key West, Florida 33040. The financial data reported on the accompanying financial statements was derived from the Educational

Foundation's audited financial statements for the fiscal year ended March 31, 2017 and the Campus Foundation's audited financial statements for the fiscal year ended September 30, 2016. Additional condensed financial statements for the College's component units are included in a subsequent note.

Basis of Presentation. The College's accounting policies conform to accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

Measurement Focus and Basis of Accounting. Basis of accounting refers to when revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The College's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The College follows GASB standards of accounting and financial reporting.

The College's component units use the economic resources measurement focus and the accrual basis of accounting. The Educational Foundation follows FASB standards of accounting and financial reporting for not-for-profit organizations and the Campus Foundation follows GASB standards of accounting and financial reporting.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income

(net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College identified, within its accounting system, amounts paid for tuition and fees by financial aid. The College records a scholarship allowance against student tuition and fees for the total paid by financial aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash invested with the State Board of Administration (SBA) Florida PRIME investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less, that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the Florida PRIME investment pool to be cash equivalents.

College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

Under an agreement with a local bank, all funds are held in a checking account and earn interest at the monthly average Federal Funds rate with a floor of 0.5 percent and ceiling of 2 percent, and are secured with a perfected interest in United States Government Securities, Federal Agency Securities, Municipal Bonds, or Corporate Bonds.

At June 30, 2017, the College reported as cash equivalents \$97,337 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are

reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that “the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.” As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

Capital Assets. College capital assets consist of land, construction in progress, buildings, other structures and improvements, furniture, machinery, and equipment, and assets under capital leases. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years
- Assets Under Capital Leases – Life of Lease

Noncurrent Liabilities. Noncurrent liabilities include capital leases payable, compensated absences payable, other postemployment benefits payable, and net pension liabilities that are not scheduled to be paid within the next fiscal year.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net

positions have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

The College reported an unrestricted net position which included a deficit in the current funds - unrestricted, as shown below. This deficit can be attributed to the full recognition of long-term liabilities (i.e., compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (2,052,567)
Auxiliary Funds	65,545
Total	\$ (1,987,022)

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

Fair Value Measurement. The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

As of June 30, 2017, the College no longer holds investment accounts.

Component Unit Investments.

Investments held by the Educational Foundation at March 31, 2017 are reported at fair value (level 1 inputs) as follows:

<u>Investment Type</u>	<u>Amount</u>
Short-Term Investments	\$ 285,299
Mutual Funds - Equities	4,865,839
Mutual Funds - Fixed Income	<u>66,312</u>
Total Component Unit Investments	<u><u>\$ 5,217,450</u></u>

The Campus Foundation had no investments as of September 30, 2016.

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. The accounts receivable are reported net of a \$40,754 allowance for doubtful accounts.

5. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$ 1,360,624 of Public Education Capital Outlay allocations due from the State for remodeling, renovation, maintenance, and site improvement of College facilities, \$60,561 for the Federal student loan programs, and \$108,103 for various grant programs.

6. Due From and To Component Units/College

The \$262,527 reported as due from College consists of amounts owed by the College to the Campus Foundation pursuant to an agreement whereby the Campus Foundation relies on the College to receive all cash receipts for the Campus Foundation's rental receivables. The \$210,572 reported as due to College consists of amounts owed by the Campus Foundation to the College pursuant to an agreement prior to July 1, 2015, whereby the College paid expenses of the student housing building on behalf of the Campus Foundation. The College's financial statements are reported for the fiscal year ended June 30, 2017. The Campus Foundation's financial statements are reported for the fiscal year ended September 30, 2016. Accordingly, amounts reported by the College as due from and to component units on the statement of net position do not agree with amounts reported by the component units as due from and to the College.

7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 321,796	\$ -	\$ -	\$ 321,796
Construction in Progress	-	1,034,426	-	1,034,426
Total Nondepreciable Capital Assets	\$ 321,796	\$ 1,034,426	\$ -	\$ 1,356,222
Depreciable Capital Assets:				
Buildings	\$ 39,562,270	\$ -	\$ -	\$ 39,562,270
Other Structures and Improvements	2,837,675	-	-	2,837,675
Furniture, Machinery, and Equipment	2,651,741	645,543	40,830	3,256,454
Assets Under Capital Leases	59,146	7,439	-	66,585
Total Depreciable Capital Assets	45,110,832	652,982	40,830	45,722,984
Less, Accumulated Depreciation:				
Buildings	18,662,887	912,454	-	19,575,341
Other Structures and Improvements	2,558,875	69,700	-	2,628,575
Furniture, Machinery, and Equipment	1,926,957	252,621	40,830	2,138,748
Assets Under Capital Leases	9,158	15,055	-	24,213
Total Accumulated Depreciation	23,157,877	1,249,830	40,830	24,366,877
Total Depreciable Capital Assets, Net	\$ 21,952,955	\$ (596,848)	\$ -	\$ 21,356,107

Capital assets activity of the Campus Foundation for the fiscal year ended September 30, 2016 and the Educational Foundation for fiscal year ended March 31, 2017, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 43,774	\$ -	\$ -	\$ 43,774
Depreciable Capital Assets:				
Buildings	\$ 6,683,150	\$ -	\$ -	\$ 6,683,150
Furniture, Machinery, and Equipment	238,325	-	-	238,325
Total Depreciable Capital Assets	6,921,475	-	-	6,921,475
Less, Accumulated Depreciation:				
Buildings	661,248	158,724	-	819,972
Furniture, Machinery, and Equipment	133,831	32,881	-	166,712
Total Accumulated Depreciation	795,079	191,605	-	986,684
Total Depreciable Capital Assets, Net	\$ 6,126,396	\$ (191,605)	\$ -	\$ 5,934,791

8. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown in the following:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 9,000	\$ -	\$ 9,000	\$ -	\$ -
Capital Leases Payable	50,951	7,439	16,018	42,372	17,287
Compensated Absences Payable	428,363	95,170	42,871	480,662	8,634
Other Postemployment Benefits Payable	101,678	27,996	27,948	101,726	-
Net Pension Liability	3,355,913	4,740,684	2,650,586	5,446,011	57,750
Total Long-Term Liabilities	\$ 3,945,905	\$ 4,871,289	\$ 2,746,423	\$ 6,070,771	\$ 83,671

Bonds Payable – Component Unit. On November 1, 2010, the Campus Foundation, issued \$8,305,000 of Senior Leasehold Industrial Development Revenue Bonds, Series 2010 (Bonds). The Bonds were issued to pay for the construction of a new 100-bed college dormitory facility (student residence hall) for the benefit of the College.

The Bonds mature on November 1, 2044, and bear interest at a rate of 7 percent per annum, payable May 1, 2012, and semiannually thereafter on May 1 and November 1 in each year. The unamortized bond discount is being amortized over 31 years. The following is a summary of debt transactions for the fiscal year ended September 30, 2016:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds Payable	\$ 8,305,000	\$ -	\$ -	\$ 8,305,000
Less: Unamortized Bonds Discount	(139,478)	-	5,337	(134,141)
Total Long-Term Liabilities	\$ 8,165,522	\$ -	\$ 5,337	\$ 8,170,859

The Bonds contain certain financial covenants, including a minimum debt service 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 Campus Foundation is in default on the Trust Indenture and, as such, the Bonds are due and payable upon demand. On February 26, 2013, the Trustee for the Bonds issued a notice of default indicating that the Campus Foundation was in violation of provisions of the Trust Indenture. On May 1, 2014, the Campus 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 Campus Foundation to make a partial payment of 5 percent with the remaining 2 percent deferred for 1 year, and 1 additional year upon consent of both parties. On July 6, 2016, the Campus Foundation and Trustee signed a new Forbearance Agreement, effective May 1, 2016, extending the debt 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 Bonds. As such, the Campus Foundation is considered to be in default and all of the debt was considered payable at January 1, 2017. The Bonds are collateralized by the revenues of the Campus Foundation and by the building constructed by the Campus Foundation. The unamortized Bonds 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.

Capital Leases Payable. Printer equipment in the amount of \$66,585 is being acquired under two capital lease agreements. The imputed interest rates are 2.97 percent on a \$59,146 lease and 0.876 percent on a \$7,439 lease. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 18,213
2019	18,213
2020	<u>7,380</u>
Total Minimum Payments	43,806
Less, Amount Representing Interest	<u>1,434</u>
Present Value of Minimum Payments	<u>\$ 42,372</u>

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$480,662. The current portion of the compensated absences liability, \$8,634, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent multiple-employer defined benefit plan (Plan) administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB Plan) at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary healthcare coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 19 retirees received postemployment healthcare and life insurance benefits. The College provided required contributions of \$27,948 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$74,169, which represents 1.4 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the College's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the College's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 17,679
Amortization of Unfunded Actuarial Accrued Liability	10,007
Annual Required Contribution	27,686
Interest on Net OPEB Obligation	4,067
Adjustment to Annual Required Contribution	(3,757)
Annual OPEB Cost (Expense)	27,996
Contribution Toward the OPEB Cost	27,948
Increase in Net OPEB Obligation	48
Net OPEB Obligation, Beginning of Year	101,678
Net OPEB Obligation, End of Year	<u>\$ 101,726</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 30,803	103.7%	\$ 96,023
2015-16	27,063	79.1%	101,678
2016-17	27,996	99.8%	101,726

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$264,413, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$264,413 and a funded ratio of 0 percent. The covered payroll

(annual payroll of active participating employees) was \$5,395,351 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.9 percent.

Actuarial valuations for an OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Actuarially determined amounts regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 6.25 percent pre-Medicare and 5 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and in 2017 for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2017 was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled \$5,446,011. Note 9. includes a complete discussion of defined benefit pension plans.

9. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS).

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established

the HIS Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the College are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The College's FRS and HIS pension expense totaled \$774,915 for the fiscal year ended June 30, 2017.

FRS Pension Plan.

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially

enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<u>Senior Management Service Class</u>	2.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The College's contributions to the Plan totaled \$358,530 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of \$3,442,880 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.013635125 percent, which was an increase of 0.000163936 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$610,656. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 263,613	\$ 32,056
Change of assumptions	208,284	-
Net difference between projected and actual earnings on FRS Plan investments	889,942	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	311,723	-
College FRS contributions subsequent to the measurement date	358,530	-
Total	<u>\$ 2,032,092</u>	<u>\$ 32,056</u>

The deferred outflows of resources related to pensions totaling \$358,530, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 268,860
2019	268,860
2020	615,815
2021	406,006
2022	63,384
Thereafter	18,581
Total	<u>\$ 1,641,506</u>

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	<u>100%</u>			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
College's proportionate share of the net pension liability	\$6,338,588	\$3,442,880	\$1,032,598

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan.

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$91,782 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of \$2,003,131 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.017187491 percent, which was an increase of 0.00134262 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$164,259. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ -	\$ 4,562
Change of assumptions	314,342	-
Net difference between projected and actual earnings on HIS Plan investments	1,013	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	109,763	83,646
College contributions subsequent to the measurement date	91,782	-
Total	\$ 516,900	\$ 88,208

The deferred outflows of resources totaling \$91,782, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 53,476
2019	53,476
2020	53,284
2021	53,191
2022	61,658
Thereafter	61,825
Total	\$ 336,910

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was

adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
College's proportionate share of the net pension liability	\$2,298,046	\$2,003,131	\$1,758,367

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

10. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The College's Investment Plan pension expense totaled \$199,832 for the fiscal year ended June 30, 2017.

11. Construction Commitments

The College's major construction commitments at June 30, 2017, were as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Chiller Plant Upgrade	\$ 1,801,508	\$ (1,034,426)	\$ 767,082

12. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to \$200 million for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

Dental, supplemental health, and short-term disability coverage are provided through purchased commercial insurance.

13. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 4,811,089
Public Services	9,757
Academic Support	1,309,559
Student Services	963,373
Institutional Support	3,109,478
Operation and Maintenance of Plant	2,603,214
Scholarships and Waivers	292,931
Depreciation	1,249,830
Auxiliary Enterprises	141,802
Total Operating Expenses	\$ 14,491,033

14. Discretely Presented Component Units

The College has two discretely presented component units as discussed in Note 1. These component units represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

Condensed Statement of Net Position

	Direct-Support Organizations		Total
	Florida Keys College Campus Foundation, Inc.	Florida Keys Educational Foundation, Inc.	
	(1)	(2)	
Assets:			
Current Assets	\$ 775,088	\$ 5,622,890	\$ 6,397,978
Capital Assets, Net	5,918,476	60,089	5,978,565
Other Noncurrent Assets	-	42,850	42,850
Total Assets	6,693,564	5,725,829	12,419,393
Liabilities:			
Current Liabilities	8,593,945	62,798	8,656,743
Net Position:			
Net Investment in Capital Assets	(2,202,600)	-	(2,202,600)
Restricted Nonexpendable	-	2,125,642	2,125,642
Restricted Expendable	-	1,380,013	1,380,013
Unrestricted	302,219	2,157,376	2,459,595
Total Net Position	\$ (1,900,381)	\$ 5,663,031	\$ 3,762,650

Notes: (1) Amounts are for the fiscal year ended September 30, 2016.

(2) Amounts are for the fiscal year ended March 31, 2017.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Direct-Support Organizations		Total
	Florida Keys College Campus Foundation, Inc.	Florida Keys Educational Foundation, Inc.	
	(1)	(2)	
Operating Revenues	\$ 1,098,583	\$ 744,994	\$ 1,843,577
Depreciation Expense	(188,885)	(2,720)	(191,605)
Operating Expenses	(348,984)	(611,339)	(960,323)
Operating Income	560,714	130,935	691,649
Net Nonoperating Revenues (Expenses):			
Investment Income	224	590,215	590,439
Interest Expense	(630,532)	-	(630,532)
Net Nonoperating Revenues (Expenses)	(630,308)	590,215	(40,093)
Increase (Decrease) in Net Position	(69,594)	721,150	651,556
Net Position, Beginning of Year	(1,830,787)	4,941,881	3,111,094
Net Position, End of Year	\$ (1,900,381)	\$ 5,663,031	\$ 3,762,650

Notes: (1) Amounts are for the fiscal year ended September 30, 2016.

(2) Amounts are for the fiscal year ended March 31, 2017.

15. Liquidity and Management Plans

As reflected in Note 14., the Campus Foundation incurred a net loss of \$69,594 for the year ended September 30, 2016. Further, the Campus 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 Campus Foundation's successful future operations of the student housing facility. In addition, at September 30, 2016, the Campus Foundation was in default on its bonds.

As discussed in Note 8. to the financial statements, the Campus Foundation's bonds 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 Campus Foundation has debt of \$8,305,000 that is in default. Campus Foundation Management has met with the bond holders in an attempt to refinance the bonds payable; however, at the present time, future refinancing for the Campus Foundation is not determinable. Since the bond holders assert that the Campus Foundation's capital assets are pledged as collateral for the bonds payable, foreclosure by the bank would seriously impair the Campus 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.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 412,087	\$ 412,087	0%	\$ 5,517,620	7.5%
7/1/2013	-	300,627	300,627	0%	4,448,984	6.8%
7/1/2015	-	264,413	264,413	0%	4,718,592	5.6%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit method for the 7/1/2011, and 7/1/2013, valuations and the entry age normal actuarial cost method for the 7/1/2015, valuation to estimate the actuarial accrued liability.

Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.013635125%	0.013471189%	0.012608178%	0.010386350%
College's proportionate share of the FRS net pension liability	\$ 3,442,880	\$ 1,739,985	\$ 769,284	\$ 1,787,952
College's covered payroll (2)	\$ 5,308,969	\$ 4,807,070	\$ 4,703,422	\$ 5,559,097
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	64.85%	36.20%	16.36%	32.16%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of College Contributions –
Florida Retirement System Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 358,530	\$ 330,000	\$ 328,439	\$ 276,173
FRS contributions in relation to the contractually required contribution	<u>(358,530)</u>	<u>(330,000)</u>	<u>(328,439)</u>	<u>(276,173)</u>
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 5,556,683	\$ 5,308,969	\$ 4,807,070	\$ 4,703,422
FRS contributions as a percentage of covered payroll	6.45%	6.22%	6.83%	5.87%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of the College's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan**

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.017187491%	0.015844871%	0.015826542%	0.017473573%
College's proportionate share of the HIS net pension liability	\$ 2,003,131	\$ 1,615,928	\$ 1,479,820	\$ 1,521,304
College's covered payroll (2)	\$ 5,308,969	\$ 4,807,070	\$ 4,703,422	\$ 5,559,097
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.73%	33.62%	31.46%	27.37%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of College Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 91,782	\$ 61,000	\$ 60,569	\$ 54,216
HIS contributions in relation to the contractually required HIS contribution	<u>(91,782)</u>	<u>(61,000)</u>	<u>(60,569)</u>	<u>(54,216)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 5,556,683	\$ 5,308,969	\$ 4,807,070	\$ 4,703,422
HIS contributions as a percentage of covered payroll	1.65%	1.15%	1.26%	1.15%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$264,413 was lower than the July 1, 2013, liability of \$300,627 as a result of the following factors:

- Demographic assumptions (rates of withdrawal, retirement disability and mortality) were revised to be consistent with those used for the valuation of pension liabilities of the Florida Retirement System (FRS).
- The assumed rates of participation in the Plan were adjusted to reflect current experience.
- The assumed per capita costs of health care were updated.
- The assumed rates of healthcare inflation used to project the per capita healthcare costs were revised to reflect recent experience.
- The general payroll growth rate and salary scale assumptions were revised to be consistent with the rates used by the FRS.
- The actuarial cost method was changed from projected unit credit to entry age normal in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board.

2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

We have audited, in accordance with the 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 College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 26, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 College'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 College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 College'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 College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2018