

FLORIDA KEYS COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2011



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Spencer C. Slate, Chair (1)
Kim Bassett, Vice Chair
Dr. Antoinette E. Martin
Anne M. O'Bannon
Ed Scales (1)

Dr. Lawrence Tyree, President

Note: (1) Board members served beyond the
end of their term, May 31, 2011.

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 audit team leader was James A. Bell, CPA, and the audit was supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA KEYS COMMUNITY COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements 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;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective actions for findings included in our report No. 2011-124.

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, 2011. 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. The results of our operational audit of the College are included in our report No. 2012-076.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent College records in connection with the application of procedures required by 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.



DAVID W. MARTIN, CPA
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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 FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Keys Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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 discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of 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 THE 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 results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS 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 required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
March 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. 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 fiscal years ended June 30, 2010, and June 30, 2011, and its component unit, Florida Keys Educational Foundation, Inc., for the fiscal years ended March 31, 2010, and March 31, 2011.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$29.1 million at June 30, 2011. This balance reflects a \$3.8 million, or 15 percent, increase from the 2009-10 fiscal year, resulting from Public Educational Capital Outlay allocations. While assets grew, liabilities decreased by an amount of \$0.4 million, or 25 percent, totaling \$1.1 million at June 30, 2011, compared to \$1.5 million at June 30, 2010. As a result, the College's net assets increased by \$4.2 million, reaching a year-end balance of \$28 million.

The College's operating revenues totaled \$4.5 million for the 2010-11 fiscal year, representing a 26 percent increase over the 2009-10 fiscal year due mainly to an increase in Federal Grants and Contracts. Operating expenses totaled \$14.2 million for the 2010-11 fiscal year, representing a minimal increase over the 2009-10 fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These 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. (Campus Foundation) – On May 10, 2010, the Campus Foundation was formed as a nonprofit corporation under the laws of the State of Florida for the purpose of receiving, investing, and administering real and personal property including, but not limited to, the construction of a 100-bed student housing building for the benefit of the College. The Campus Foundation is a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. There are no financial transactions reported in the College's financial statements for the 2010-11 fiscal year. The financial activities of the Campus Foundation will be reported as a discretely presented component unit in the College's 2011-12 fiscal year financial statements. (See note to financial statements No. 11).

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

One of the most important questions asked about the College’s finances is, “Is Florida Keys Community College as a whole, better or worse off as a result of the year’s activities?” The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Florida Keys Community College’s operating results.

These two statements report Florida Keys Community College’s net assets and changes in them. You can think of the College’s net assets, the difference between assets and liabilities, as one way to measure the College’s financial health, or financial position. Over time, increases or decreases in the College’s net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College’s overall financial health.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current fiscal year’s revenues and expenses are taken into account regardless of when cash is received or paid.

A condensed statement of assets, liabilities, and net assets of the College and its component unit for the respective fiscal years ended is shown in the following table:

**Condensed Statement of Net Assets at
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Assets				
Current Assets	\$ 7,686	\$ 3,959	\$ 3,869	\$ 56
Capital Assets, Net	20,053	20,540	44	
Other Noncurrent Assets	1,378	794	307	3,853
Total Assets	29,117	25,293	4,220	3,909
Liabilities				
Current Liabilities	534	790	36	24
Noncurrent Liabilities	607	735		
Total Liabilities	1,141	1,525	36	24
Net Assets				
Invested in Capital Assets, Net of Related Debt	19,907	20,369	2,424	
Restricted	8,207	3,698	1,747	3,933
Unrestricted	(138)	(299)	13	(48)
Total Net Assets	\$ 27,976	\$ 23,768	\$ 4,184	\$ 3,885
Increase in Net Assets	\$ 4,208	17.7%	\$ 299	7.70%

Revenues and expenses of the College and its component unit for the respective fiscal years ended are shown in the following table:

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended
(In Thousands)**

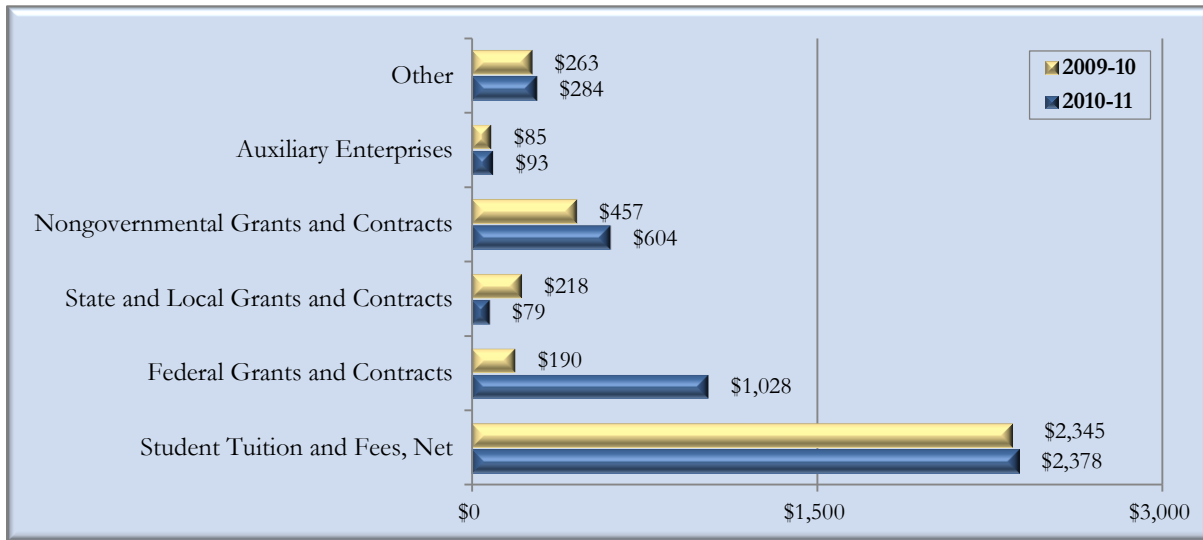
	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 2,378	\$ 2,345	\$	\$
Federal Grants and Contracts	1,028	190		
State and Local Grants and Contracts	79	218	9	9
Nongovernmental Grants and Contracts	604	457		
Auxiliary Enterprises	93	85		
Other Operating Revenues	284	263	170	217
Total Operating Revenues	4,466	3,558	179	226
Less, Operating Expenses	14,179	14,091	312	627
Operating Loss	(9,713)	(10,533)	(133)	(401)
Nonoperating Revenues				
State Noncapital Appropriations	5,740	5,489		
Gifts and Grants	2,232	2,678		
Investment Income	4	10	432	662
Other Nonoperating Revenues	48	17		
Interest on Capital Asset-Related Debt	(9)	(10)		
Net Nonoperating Revenues	8,015	8,184	432	662
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,698)	(2,349)	299	261
State Capital Appropriations	5,661	1,349		
Capital Grants, Contracts, Gifts, and Fees	245	241		
Increase (Decrease) in Net Assets	4,208	(759)	299	261
Net Assets, Beginning of Year	23,768	24,527	3,885	3,624
Net Assets, End of Year	\$ 27,976	\$ 23,768	\$ 4,184	\$ 3,885

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 chart presents the College’s operating revenues for the 2010-11 and 2009-10 fiscal years:

**Operating Revenues: College
(In Thousands)**



College operating revenue changes were the result of the following factors:

- Nongovernmental grants and contracts increased due to additional funding received from the Florida Keys Educational Foundation, Inc., totaling \$147 thousand, to offset financial constraints.
- State and local grants and contracts decreased due a \$137 thousand grant from South Florida Workforce for a summer program in the 2009-10 fiscal year that was not received for the 2010-11 fiscal year.
- Federal grants and contracts increased as a result of the receipt of State appropriated American Recovery and Reinvestment Act funds totaling \$470 thousand, grant funds from the Stanford Research Institute, totaling \$216 thousand, and a \$157 thousand grant received for an emergency notification system.
- Net student tuition and fees increased due to a slight increase in student fees.

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 assets and has displayed the functional classification in the notes to financial statements.

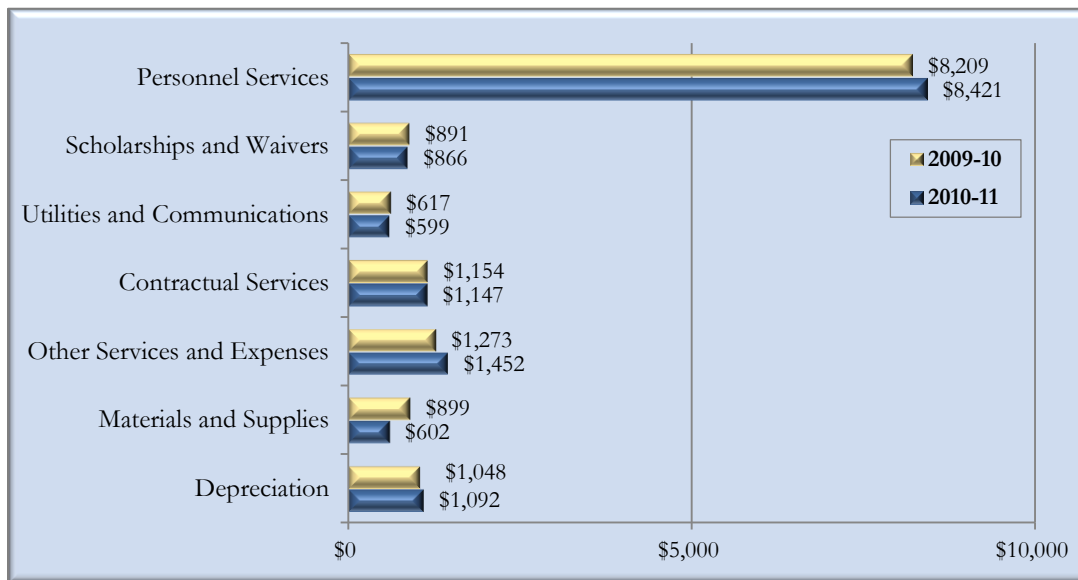
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Operating Expenses				
Personnel Services	\$ 8,421	\$ 8,209	\$	\$
Scholarships and Waivers	866	891	129	182
Utilities and Communications	599	617		
Contractual Services	1,147	1,154		
Other Services and Expenses	1,452	1,273	183	445
Materials and Supplies	602	899		
Depreciation	1,092	1,048		
Total Operating Expenses	\$ 14,179	\$ 14,091	\$ 312	\$ 627

The following chart presents the College’s operating expenses for the 2010-11 and 2009-10 fiscal years:

**Operating Expenses: College
(In Thousands)**



College operating expense changes were primarily the result of the following factors:

- Personnel services increased \$212 thousand, primarily as a result of additional instructional faculty for the nursing program.
- Other services and expenses increased, and materials and supplies decreased, primarily as a result of expenses for cleaning services.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, 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 2010-11 and 2009-10 fiscal years:

**Nonoperating Revenues (Expenses): College
(In Thousands)**

	2010-11	2009-10
State Noncapital Appropriations	\$ 5,740	\$ 5,489
Gifts and Grants	2,233	2,678
Investment Income	4	10
Other Nonoperating Revenues	47	17
Interest on Capital Asset-Related Debt	(9)	(10)
Net Nonoperating Revenues	\$ 8,015	\$ 8,184

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

**Other Revenues, Expenses, Gains, or Losses: College
(In Thousands)**

	2010-11	2009-10
State Capital Appropriations	\$ 5,661	\$ 1,349
Capital Grants, Contracts, Gifts, and Fees	245	241
Total	\$ 5,906	\$ 1,590

The increase in State capital appropriations resulted from additional Public Education Capital Outlay allocations received for the construction of College facilities.

The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its need for external financing.

A summary of the College's cash flows for the 2010-11 and 2009-10 fiscal years is presented in the following table:

**Condensed Statement of Cash Flows: College
(In Thousands)**

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	\$ (9,115)	\$ (9,607)
Noncapital Financing Activities	7,948	8,262
Capital and Related Financing Activities	1,433	1,413
Investing Activities	3	10
Net Increase in Cash and Cash Equivalents	269	78
Cash and Cash Equivalents, Beginning of Year	1,305	1,227
Cash and Cash Equivalents, End of Year	\$ 1,574	\$ 1,305

During the 2010-11 fiscal year, cash and cash equivalents increased by \$0.3 million.

Major sources of funds came from State noncapital appropriations (\$5.7 million), net student tuition and fees (\$2.3 million), gifts and grants (\$2.2 million), State capital appropriations (\$1.8 million), and grants and contracts (\$1.6 million). Major uses of funds were for payments to employees and employee benefits (\$8.6 million) and to providers of goods and services (\$3.7 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the College had \$38.4 million in capital assets, less accumulated depreciation of \$18.3 million, for net capital assets of \$20.1 million. Depreciation charges for the current fiscal year totaled \$1.1 million. The following table summarizes the College’s capital assets at June 30:

**Capital Assets, Net at June 30: College
(In Thousands)**

<u>Capital Assets</u>	<u>2011</u>	<u>2010</u>
Land	\$ 322	\$ 322
Buildings	33,326	33,326
Other Structures and Improvements	2,838	2,140
Furniture, Machinery, and Equipment	1,891	1,844
Construction in Progress		250
Total	38,377	37,882
Less, Accumulated Depreciation:		
Buildings	14,399	13,556
Other Structures and Improvements	2,211	2,141
Furniture, Machinery, and Equipment	1,714	1,645
Total Accumulated Depreciation	18,324	17,342
Capital Assets, Net	\$ 20,053	\$ 20,540

As of June 30, 2011, the College had no major construction contract commitments. However, the College did initiate planning for the construction of a new Marine Propulsion Building. The College depends on State appropriations coupled with local funds to finance this construction as well as any renovation projects. More information about the College’s capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$150 thousand in long-term debt outstanding versus \$175 thousand at the end of the prior year, a decrease of 14 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2010-11 fiscal year, there were no bond sales and debt repayments totaled \$25 thousand. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Florida Keys Community 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, a decrease in State funding is anticipated in the 2011-12 fiscal year. In response to the anticipated decrease in State appropriations, the Board of Trustees increased the tuition rate 8 percent to take effect beginning with the Fall 2011 term. The College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

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 for Business and Administrative Services, Florida Keys Community College, 5901 College Road, Key West, Florida 33040.

BASIC FINANCIAL STATEMENTS

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2011**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 12,322	\$ 42,785
Restricted Cash and Cash Equivalents	202,773	
Restricted Investments		3,823,911
Accounts Receivable, Net	294,798	2,500
Due from Other Governmental Agencies	7,046,091	
Due from Component Units	60,536	
Inventories	17,030	
Prepaid Expenses	52,038	
Total Current Assets	7,685,588	3,869,196
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,359,612	
Restricted Investments	18,402	
Depreciable Capital Assets, Net	19,731,473	
Nondepreciable Capital Assets	321,796	43,774
Prepaid Scholarships		267,371
Other Assets		40,300
Total Noncurrent Assets	21,431,283	351,445
TOTAL ASSETS	\$ 29,116,871	\$ 4,220,641
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 86,784	\$ 16,294
Salary and Payroll Taxes Payable	305,662	
Due to Other Governmental Agencies	39,704	
Deferred Revenue	16,408	20,000
Deposits Held for Others	33,422	
Long-Term Liabilities - Current Portion:		
Bonds Payable	30,000	
Compensated Absences Payable	21,727	
Total Current Liabilities	533,707	36,294
Noncurrent Liabilities:		
Bonds Payable	120,000	
Compensated Absences Payable	412,617	
Other Postemployment Benefits Payable	74,947	
Total Noncurrent Liabilities	607,564	
TOTAL LIABILITIES	1,141,271	36,294

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 19,907,389	\$
Restricted:		
Nonexpendable:		
Endowment		2,424,239
Expendable:		
Grants and Loans	44,675	1,747,543
Scholarships	147,701	
Capital Projects	8,009,315	
Debt Service	5,177	
Unrestricted	(138,657)	12,565
Total Net Assets	27,975,600	4,184,347
TOTAL LIABILITIES AND NET ASSETS	\$ 29,116,871	\$ 4,220,641

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 ASSETS
For the Fiscal Year Ended June 30, 2011**

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$1,662,160	\$ 2,378,122	\$
Federal Grants and Contracts	1,028,126	
State and Local Grants and Contracts	78,602	8,700
Nongovernmental Grants and Contracts	604,351	
Auxiliary Enterprises	92,597	
Other Operating Revenues	284,338	170,094
Total Operating Revenues	4,466,136	178,794
EXPENSES		
Operating Expenses:		
Personnel Services	8,420,976	
Scholarships and Waivers	866,087	128,531
Utilities and Communications	598,869	
Contractual Services	1,146,970	
Other Services and Expenses	1,452,982	183,138
Materials and Supplies	601,553	
Depreciation	1,091,576	
Total Operating Expenses	14,179,013	311,669
Operating Loss	(9,712,877)	(132,875)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	5,740,109	
Gifts and Grants	2,231,744	
Investment Income	4,206	431,852
Other Nonoperating Revenues	47,200	
Interest on Capital Asset-Related Debt	(8,750)	
Net Nonoperating Revenues	8,014,509	431,852
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,698,368)	298,977
State Capital Appropriations	5,660,610	
Capital Grants, Contracts, Gifts, and Fees	244,878	
Total Other Revenues	5,905,488	
Increase in Net Assets	4,207,120	298,977
Net Assets, Beginning of Year	23,768,480	3,885,370
Net Assets, End of Year	\$ 27,975,600	\$ 4,184,347

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 CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 2,287,789
Grants and Contracts	1,613,069
Payments to Suppliers	(3,136,068)
Payments for Utilities and Communications	(607,513)
Payments to Employees	(6,759,253)
Payments for Employee Benefits	(1,808,440)
Payments for Scholarships	(866,087)
Auxiliary Enterprises	96,251
Other Receipts	64,845
	Net Cash Used by Operating Activities
	(9,115,407)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	5,740,109
Gifts and Grants Received for Other Than Capital or Endowment Purposes	2,161,242
Direct Loan Program Receipts	1,980,770
Direct Loan Program Disbursements	(1,980,770)
Other Nonoperating Receipts	47,200
	Net Cash Provided by Noncapital Financing Activities
	7,948,551
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,810,050
Capital Grants and Gifts	261,286
Purchases of Capital Assets	(604,593)
Principal Paid on Capital Debt	(25,000)
Interest Paid on Capital Debt	(8,750)
	Net Cash Provided by Capital and Related Financing Activities
	1,432,993
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	4,206
Purchase of Investments	(1,348)
	Net Cash Provided by Investing Activities
	2,858
Net Increase in Cash and Cash Equivalents	268,995
Cash and Cash Equivalents, Beginning of Year	1,305,712
	Cash and Cash Equivalents, End of Year
	\$ 1,574,707

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (9,712,877)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,091,576
Changes in Assets and Liabilities:	
Receivables, Net	(184,690)
Inventories	3,312
Prepaid Expenses	62,127
Accounts Payable	(279,395)
Deposits Held for Others	5,235
Compensated Absences Payable	(130,562)
Other Postemployment Benefits Payable	29,867
	<u>29,867</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ (9,115,407)

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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 District Board of Trustees. The Board constitutes a corporation and is composed of five members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District 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 State Board of Education rules. Geographic boundaries of the District correspond with those of 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 District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading or incomplete. Based upon 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 Unit. Based on the application of the criteria for determining component units, the following component units are included within the Colleges reporting entity:

- The Florida Keys Educational Foundation, Inc. (Educational Foundation), is included within the College's reporting entity as a discretely presented component unit. This organization provides funding and services to support and foster the pursuit of higher education at the College.
- The Florida Keys College Campus Foundation, Inc. (Campus Foundation) – On May 10, 2010, the Campus Foundation was formed as a nonprofit corporation under the laws of the State of Florida for the purpose of receiving, investing, and administering real and personal property including, but not limited to, the construction of a 100-bed student housing building for the benefit of the College. Since the the first fiscal year of the Campus Foundation ends on September 30, 2011, no financial information is reported for this component unit in the College's financial statements for the 2010-11 fiscal year. The financial activities of the Campus Foundation for the fiscal year ended September 30, 2011, will be reported in the College's 2011-12 fiscal year financial statements (see note to financial statements No. 11).

The College's component units are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Educational Foundation's audited financial statements are available to the public at the College. 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, 2011. An audit of the Campus Foundation's financial statements for the fiscal year ended September 30, 2011, has not been completed.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The College's component units, as described above, 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.

Basis of Presentation. The College's accounting policies conform with 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 Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities 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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The College's component units, the Educational Foundation and the Campus Foundation use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow FASB standards of accounting and financial reporting for not-for-profit organizations.

The College follows GASB pronouncements and FASB pronouncements issued on or before November 30, 1989, unless the FASB pronouncements conflict with GASB pronouncements. Under GASB

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has the option to elect to apply all pronouncements of FASB issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

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, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net assets 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 assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences 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 tuition and fees for the total amount 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 funds 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 three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Board of Administration (SBA) 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.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Under an agreement with a local bank, funds in excess of \$250,000 are swept out of the College's deposit account at the end of each day and invested pursuant to the terms of a master repurchase agreement. The funds invested earn interest at the current Federal Funds rate plus 0.17 percent, and are secured with a perfected interest in United States Government Securities, Federal Agency Securities, Municipal Bonds, or Corporate Bonds.

At June 30, 2011, the College reported as cash equivalents \$85,389 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, as of June 30, 2011, 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 31 days as of June 30, 2011. 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 fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair 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

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

2. INVESTMENTS

The College's 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

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

investment pool administered by the State Board of Administration; 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; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College’s investments at June 30, 2011, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 9,105
State Board of Administration Debt Service Accounts	<u>9,297</u>
Total College Investments	<u>\$ 18,402</u>

State Board of Administration Fund B Surplus Funds Trust Fund. On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund to establish the Fund B Surplus Funds Trust Fund (Fund B). Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2011, the College reported investments at fair value of \$9,105 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. The weighted-average life (WAL) of Fund B at June 30, 2011, was 7.16 years. A portfolio’s WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2011. WAL measures the sensitivity of Fund B to interest rate changes. The College’s investment in Fund B is unrated.

State Board of Administration Debt Service Accounts. The College reported investments at fair value totaling \$9,297 at June 30, 2011, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for

**FLORIDA KEYS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

Investments Component Unit

Investments held by the Florida Keys Educational Foundation, Inc., at March 31, 2011, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Cash and Cash Equivalents	\$ 19,844
Mutual Funds - Equities	2,195,186
Mutual Funds - Fixed Income	<u>1,608,881</u>
Total Component Investments	<u>\$ 3,823,911</u>

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$29,548 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$ 6,655,017 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM AND TO COMPONENT UNITS/COLLEGE

The \$60,536 reported as due to component units consists of \$29,125 owed to the College by the Educational Foundation for scholarships and student aid programs and \$31,411 owed to the College by the Campus Foundation, to reimburse the College for startup operating expenses of the Campus Foundation’s student residence hall. The College’s financial statements are reported for the fiscal year ended June 30, 2011. The Educational Foundation fiscal year ends March 31, 2011. Accordingly, although the College reported an amount due from the component unit on the statement of the net assets, the component unit did not report an amount due to the College. Since the first fiscal year of the Campus Foundation ends on September 30, 2011, no financial information for this component unit is reported in the College’s financial statements.

6. INVENTORIES

Inventories consist of items for resale by the campus bookstore, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 321,796	\$	\$	\$ 321,796
Construction in Progress	250,000		250,000	
Total Nondepreciable Capital Assets	\$ 571,796	\$	\$ 250,000	\$ 321,796
Depreciable Capital Assets:				
Buildings	\$ 33,325,933	\$	\$	\$ 33,325,933
Other Structures and Improvements	2,140,675	697,000		2,837,675
Furniture, Machinery, and Equipment	1,843,983	157,593	110,465	1,891,111
Total Depreciable Capital Assets	37,310,591	854,593	110,465	38,054,719
Less, Accumulated Depreciation:				
Buildings	13,556,464	842,877		14,399,341
Other Structures and Improvements	2,140,675	69,700		2,210,375
Furniture, Machinery, and Equipment	1,644,996	178,999	110,465	1,713,530
Total Accumulated Depreciation	17,342,135	1,091,576	110,465	18,323,246
Total Depreciable Capital Assets, Net	\$ 19,968,456	\$ (236,983)	\$	\$ 19,731,473

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2011, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 175,000	\$	\$ 25,000	\$ 150,000	\$ 30,000
Compensated Absences Payable	564,906	12,483	143,045	434,344	21,727
Other Postemployment Benefits Payable	45,080	39,592	9,725	74,947	
Total Long-Term Liabilities	\$ 784,986	\$ 52,075	\$ 177,770	\$ 659,291	\$ 51,727

Bonds Payable. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2011:

**FLORIDA KEYS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds: Series 2005A	\$ 150,000	5	2016

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2012	\$ 30,000	\$ 7,500	\$ 37,500
2013	30,000	6,000	36,000
2014	30,000	4,500	34,500
2015	25,000	3,000	28,000
2016	35,000	1,750	36,750
Total	\$ 150,000	\$ 22,750	\$ 172,750

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, 2011, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$434,344. The current portion of the compensated absences liability is the amount to be paid in the coming fiscal year to employees who retired with an effective retirement date of June 30, 2011.

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 administered by the Consortium. 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 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 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 program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan is not included in the annual report of a public employees’ retirement system or another entity.

**FLORIDA KEYS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Funding Policy. Plan benefits are pursuant to provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend 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 Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 16 retirees received postemployment healthcare benefits, and 12 retirees received postemployment life insurance benefits. The College provided required contributions of \$9,725 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$143,381.

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 year, the amount actually contributed to the Plan, and changes in the College’s net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 27,777
Amortization of Unfunded Actuarial Accrued Liability	11,965
Annual Required Contribution	39,742
Interest on Net OPEB Obligation	1,353
Adjustment to Annual Required Contribution	(1,503)
Annual OPEB Cost (Expense)	39,592
Contribution Toward the OPEB Cost	(9,725)
Increase in Net OPEB Obligation	29,867
Net OPEB Obligation, Beginning of Year	45,080
Net OPEB Obligation, End of Year	\$ 74,947

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and for the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 17,326	9.9%	\$ 36,047
2009-10	39,585	77.2%	45,080
2010-11	39,592	24.6%	74,947

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$348,494, and the actuarial value of assets was \$0, resulting in an unfunded actuarial

FLORIDA KEYS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

accrued liability of \$348,494 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,651,848 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.2 percent.

Actuarial valuations of an ongoing 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. Amounts determined regarding the funded status of the 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 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 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 methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the College's 2010-11 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 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 percent per year, and an annual healthcare cost trend rate of 7.8 percent for the 2010-11 fiscal year, reduced by decrements to an ultimate rate of 4.5 percent after 16 years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over 30 years. The remaining amortization period at June 30, 2011, was 26 years.

9. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

**FLORIDA KEYS COMMUNITY COLLEGE
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JUNE 30, 2011**

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military 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.

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 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 State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$310,841, \$368,810, and \$417,727, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 32

**FLORIDA KEYS COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

College participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$265,067.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on 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, Division of Retirement.

10. 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 is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million. 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 coverage in any of the past three fiscal years.

Employee and dependent dental and supplemental health coverage and short-term disability insurance are available through purchased commercial insurance.

11. FLORIDA KEYS COLLEGE CAMPUS FOUNDATION, INC.

During the 2010-11 fiscal year the College's Board of Trustees approved the following agreements with the Florida Keys College Campus Foundation Inc. (Campus Foundation):

- Lease of College-owned land to the Campus Foundation for a period of 50 years commencing October 1, 2010, for a rental fee of \$1 annually, with the understanding that the Campus Foundation would construct, operate, and maintain a 100-bed student housing building on the land.
- Interlocal agreement for a period of 30 years commencing October 1, 2010, providing for the issuance of Senior Leasehold Industrial Development Revenue bonds by the Campus Foundation in an amount not to exceed \$10 million, to be used for the construction of a 100-bed student housing building. Services to be provided by the College include coordinating with the bond issuer the supervision of all plans necessary to construct and install the building, including preparation of budgets for various stages of development.
- Management agreement commencing October 1, 2010, and terminating on October 1, 2060, providing that, for an annual fee of \$100, the College shall supervise the management of the student housing facility, including but not limited to staffing, accounting, billing, collections, setting of lease rates and charges and general administration.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

12. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college’s apportionment considering the following components: base budget, which includes the State appropriation to the College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

The following is a summary of State revenue sources and amounts:

<u>Source</u>	<u>Amount</u>
Gross Receipts Tax (Public Education Capital Outlay)	\$ 5,612,205
College Program Fund	5,013,890
Education Enhancement Trust Fund (Lottery)	726,219
Florida Student Assistance Grants	199,930
Bright Futures Scholarship Program	112,294
Restricted Contracts and Grants	75,602
Motor Vehicle License Tax (Capital Outlay and Debt Service)	48,405
Other State Sources	3,839
Total	\$ 11,792,384

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 assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Functional Classification	Amount
Instruction	\$ 4,548,426
Public Services	209,706
Academic Support	1,489,904
Student Services	1,197,881
Institutional Support	2,741,313
Operation and Maintenance of Plant	2,064,632
Scholarships and Fellowships	741,012
Depreciation	1,091,576
Auxiliary Enterprises	94,563
Total Operating Expenses	\$ 14,179,013

14. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

Statement of Current Unrestricted Funds Net Assets

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 12,322
Accounts Receivable, Net	294,798
Due from Component Units	60,536
Inventories	17,030
Prepaid Expenses	52,038

TOTAL ASSETS

\$ 436,724

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 66,090
Compensated Absences Payable	21,727

Total Current Liabilities

87,817

Noncurrent Liabilities:

Compensated Absences Payable	412,617
Other Postemployment Benefits Payable	74,947

TOTAL LIABILITIES

575,381

TOTAL NET ASSETS

(138,657)

TOTAL LIABILITIES AND NET ASSETS

\$ 436,724

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Assets**

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship	\$ 2,051,228
Allowances of \$1,662,160	265,221
Nongovernmental Grants and Contracts	92,597
Auxiliary Enterprises	281,390
Other Operating Revenues	<u>281,390</u>
Total Operating Revenues	<u>2,690,436</u>

EXPENSES

Operating Expenses:

Personnel Services	7,794,372
Utilities and Communications	594,067
Contractual Services	842,174
Other Services and Expenses	880,080
Materials and Supplies	<u>310,248</u>
Total Operating Expenses	<u>10,420,941</u>

Operating Loss (7,730,505)

NONOPERATING REVENUES

State Noncapital Appropriations	5,740,109
Gifts and Grants	471,578
Investment Income	4,206
Other Nonoperating Revenues	<u>7,200</u>
Net Nonoperating Revenues	<u>6,223,093</u>

Loss Before Other Revenues, Expenses, Gains, or Losses	(1,507,412)
Transfers to Other Funds, Net	<u>1,667,767</u>

Increase in Net Assets	160,355
Net Assets, Beginning of Year	<u>(299,012)</u>
Net Assets, End of Year	<u><u>\$ (138,657)</u></u>

**FLORIDA KEYS COMMUNITY COLLEGE
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]
7/1/2007	\$	\$ 204,308	\$ 204,308	0%	\$ 4,308,946	4.7%
7/1/2009	\$	\$ 348,494	\$ 348,494	0%	\$ 5,270,286	6.6%

Note: (1) The college's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the unfunded actuarial liability.

**FLORIDA KEYS COMMUNITY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial accrued liability (AAL) of \$ 348,494 was significantly higher than the July 1, 2007, liability of \$ 204,308. Changes from expected claims cost and contributions increased the AAL by \$101,000. Updated assumptions (changes in participation, medical trend and mortality assumptions) increased AAL by \$ 32,000. The expected growth of liabilities over time and demographic changes increased the AAL by \$11,186.



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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 THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Florida Keys Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2011, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit 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, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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*.

We noted certain matters that we reported to College management in our operational audit report No. 2012-076.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 12, 2012

PRIOR AUDIT FOLLOW-UP

The College had taken corrective action for the finding included in our report No. 2011-124.