

# FLORIDA KEYS COMMUNITY COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2012



STATE OF FLORIDA  
AUDITOR GENERAL  
DAVID W. MARTIN, CPA

**BOARD OF TRUSTEES AND PRESIDENT**

Members of the Board of Trustees and President who served during the 2011-12 fiscal year are listed below:

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Brian C. Schmitt, Vice Chair from 10-24-11 (1)  
Spencer C. Slate, Chair to 10-13-11 (2)  
Kim Bassett, Vice Chair to 10-13-11 (2)  
Dr. Antoinette E. Martin  
Anne M. O' Bannon  
Robert C. Stoky from 10-14-11

Dr. Lawrence Tyree, President

Notes: (1) Chair and Vice Chair positions remained vacant  
from October 14, 2011, through October 23, 2011.  
(2) Board member served beyond the end of 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 Allen Jova, 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](mailto: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](http://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

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### 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

We noted certain matters involving the College's internal control over financial reporting and its operation that we consider to be a significant deficiency as summarized below. However, this significant deficiency is not considered to be a material weakness.

#### SIGNIFICANT DEFICIENCY (Combination of Control Deficiencies in Finding Nos. 1 through 4)

Finding No. 1: The College needed to improve its controls to ensure that financial statement transactions are properly reported.

Finding No. 2: The College paid the operating costs for one of its direct-support organizations without specific legal authority.

Finding No. 3: The College used Public Education Capital Outlay funds for purposes not specifically authorized by law, resulting in \$800,000 of questioned costs.

Finding No. 4: The College's current funds-unrestricted fund balance had declined to a level that may leave the College with no resources available for emergencies and unforeseen situations.

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, 2012. 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

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  
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 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 aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, 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 aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon 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 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 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 reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports 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 aggregate discretely presented component units as of June 30, 2012, 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 21, 2013

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2012, 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 the fiscal years ended June 30, 2012, and June 30, 2011, and its component units the Florida Keys Educational Foundation, Inc., for the fiscal years ended March 31, 2012, and March 31, 2011, and for the Florida Keys College Campus Foundation, Inc., for the 17-month period ended September 30, 2011.

**FINANCIAL HIGHLIGHTS**

The College's assets totaled \$28.9 million at June 30, 2012. This balance reflects a \$0.2 million, or 0.6 percent, decrease as compared to the 2010-11 fiscal year, resulting from declines in restricted cash and cash equivalents and in net depreciable capital assets, at June 30, 2012. While assets declined, liabilities increased by the amount of \$0.6 million, or 52.5 percent, totaling \$1.7 million at June 30, 2012, as compared to \$1.1 million at June 30, 2011. As a result, the College's net assets decreased by \$0.8 million, resulting in a year-end balance of \$27.2 million.

The College's operating revenues totaled \$4.1 million for the 2011-12 fiscal year, representing a 8.9 percent decrease as compared to the 2010-11 fiscal year due mainly to less revenue received from student tuition and fees, Federal grants and contracts, and nongovernmental grants and contracts. Operating expenses totaled \$13.2 million for the 2011-12 fiscal year, representing a decrease of 6.7 percent as compared to the 2010-11 fiscal year due mainly to lower contractual services costs as a result of the consolidation of staff positions during the year, and a reduction in the required employer contribution to the Florida Retirement System.

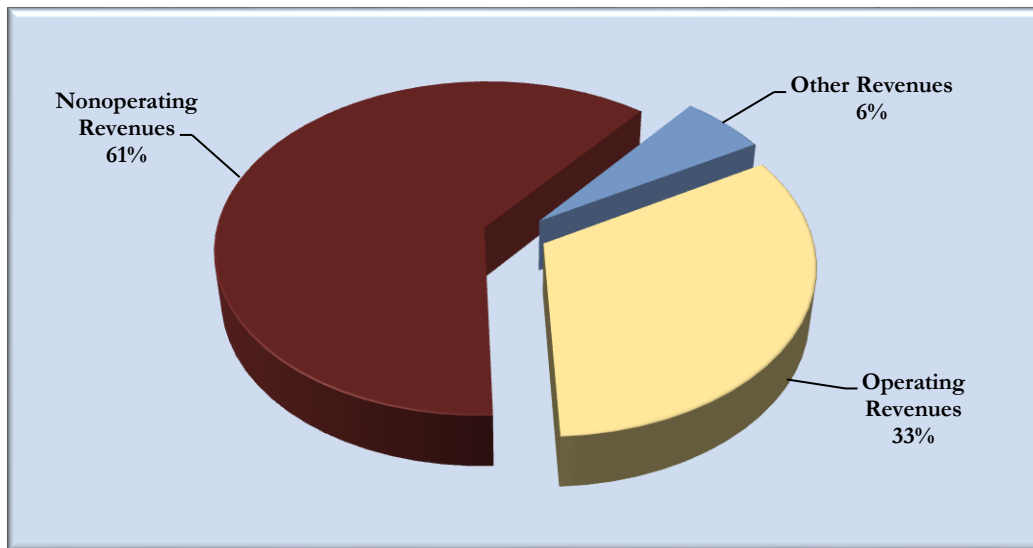
Net assets represent the residual interest in the College's assets after deducting liabilities. The College's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

**Net Assets: College  
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2011-12 fiscal year:

**Total Revenues: College**



**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. This component unit provides funding and services to support and foster the pursuit of higher education at the College.
- 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. This organization was formed for the purpose of receiving, investing, and administering real and personal property including, but not limited to, the student housing building for the benefit of the College. Activities reported are for the 17-month period ended September 30, 2011.

#### **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 units for the respective periods ended are shown in the following table:

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

	College		Component Units (1)	
	6-30-12	6-30-11	2012 (2)	2011
<b>Assets</b>				
Current Assets	\$ 9,036	\$ 7,686	\$ 4,909	\$ 3,869
Capital Assets, Net	19,380	20,053	6,907	44
Other Noncurrent Assets	515	1,378	260	307
<b>Total Assets</b>	<b>28,931</b>	<b>29,117</b>	<b>12,076</b>	<b>4,220</b>
<b>Liabilities</b>				
Current Liabilities	1,134	534	634	36
Noncurrent Liabilities	606	607	8,144	
<b>Total Liabilities</b>	<b>1,740</b>	<b>1,141</b>	<b>8,778</b>	<b>36</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	19,264	19,907	325	2,424
Restricted	7,910	8,207	3,887	1,747
Unrestricted	17	(138)	(914)	13
<b>Total Net Assets</b>	<b>\$ 27,191</b>	<b>\$ 27,976</b>	<b>\$ 3,298</b>	<b>\$ 4,184</b>
<b>Decrease in Net Assets</b>	<b>\$ (785)</b>	<b>-2.8%</b>	<b>\$ (886)</b>	<b>-21.2%</b>

Note: (1) Amounts are for the fiscal years ended March 31, for the Florida Keys Educational Foundation, Inc.

(2) Amounts are for the 17-month period ended September 30, 2011, for the Florida Keys College Campus Foundation, Inc.

Revenues and expenses of the College and its component units for the respective periods ended are shown in the following table:

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

	College		Component Units (1)	
	6-30-12	6-30-11	2012 (2)	2011
<b>Operating Revenues</b>				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 2,087	\$ 2,378	\$	\$
Federal Grants and Contracts	895	1,028		
State and Local Grants and Contracts	77	79	9	9
Nongovernmental Grants and Contracts	298	604		
Auxiliary Enterprises	97	93		
Other Operating Revenues	613	284	525	170
<b>Total Operating Revenues</b>	<b>4,067</b>	<b>4,466</b>	<b>534</b>	<b>179</b>
Less, Operating Expenses	13,236	14,179	1,418	312
<b>Operating Loss</b>	<b>(9,169)</b>	<b>(9,713)</b>	<b>(884)</b>	<b>(133)</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Noncapital Appropriations	5,779	5,740		
Federal and State Student Financial Aid	1,907	2,231		
Gifts and Grants	3	1		
Investment Income (Loss)	7	4	(2)	432
Other Nonoperating Revenues		48		
Interest on Capital Asset-Related Debt	(7)			
Other Nonoperating Expenses	(27)	(9)		
<b>Net Nonoperating Revenues (Expenses)</b>	<b>7,662</b>	<b>8,015</b>	<b>(2)</b>	<b>432</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>				
	(1,507)	(1,698)	(886)	299
State Capital Appropriations	370	5,661		
Capital Grants, Contracts, Gifts, and Fees	352	245		
<b>Increase (Decrease) in Net Assets</b>	<b>(785)</b>	<b>4,208</b>	<b>(886)</b>	<b>299</b>
Net Assets, Beginning of Year	27,976	23,768	4,184	3,885
<b>Net Assets, End of Year</b>	<b>\$ 27,191</b>	<b>\$ 27,976</b>	<b>\$ 3,298</b>	<b>\$ 4,184</b>

Note: (1) Amounts are for the fiscal years ended March 31, for the Florida Keys Educational Foundation, Inc.

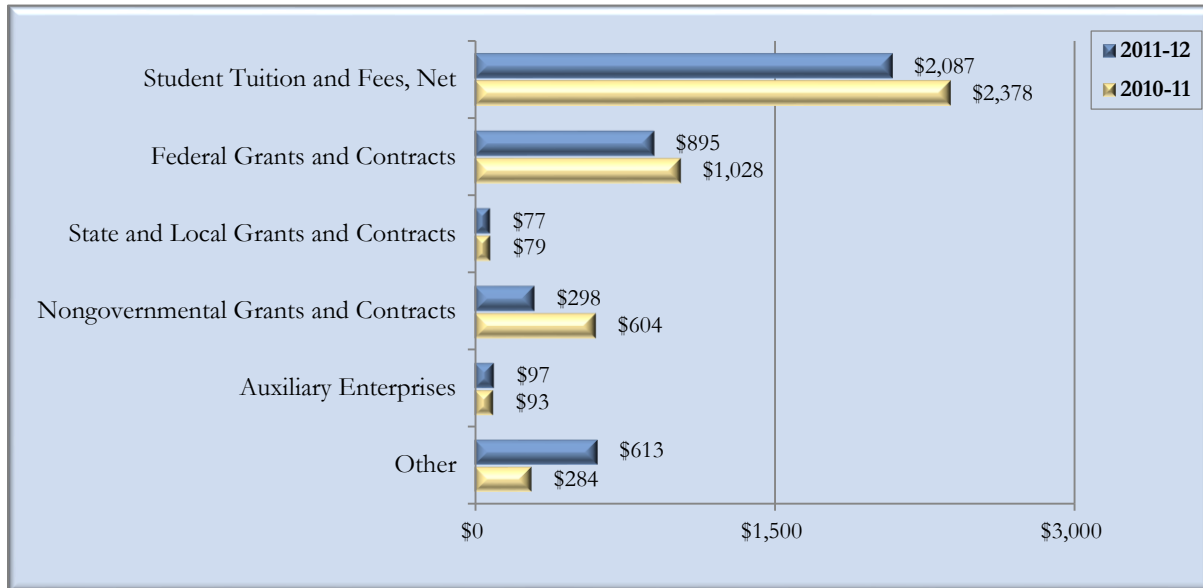
(2) Amounts are for the 17-month period ended September 30, 2011, for the Florida Keys College Campus Foundation, Inc.

### 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 chart presents the College’s operating revenues for the 2011-12 and 2010-11 fiscal years:

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



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

- Student tuition and fees decreased 12.2 percent primarily as a result of a decrease in enrollment.
- Federal grants and contracts funding decreases were offset by an increase of \$504,000 in other Federal contract revenue for funding received for the College’s Instrumented Underwater Training System program. Additionally, contractual services decreased from lower enrollment and a decrease in contractual services for educational purposes.
- Nongovernmental grants and contracts decreased due to funding from the Florida Keys Education Foundation, Inc., received in the prior year that was not received for the 2011-12 fiscal year.
- Other revenue increased primarily from the settlement of the City of Key West Stormwater lawsuit (\$160,530), the receipt of \$88,410 from the Joint Interagency Task Force for educational services, and small increases of other revenue categories.

**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 units for the respective periods ended are presented in the following table:

**Operating Expenses  
For the Periods Ended  
(In Thousands)**

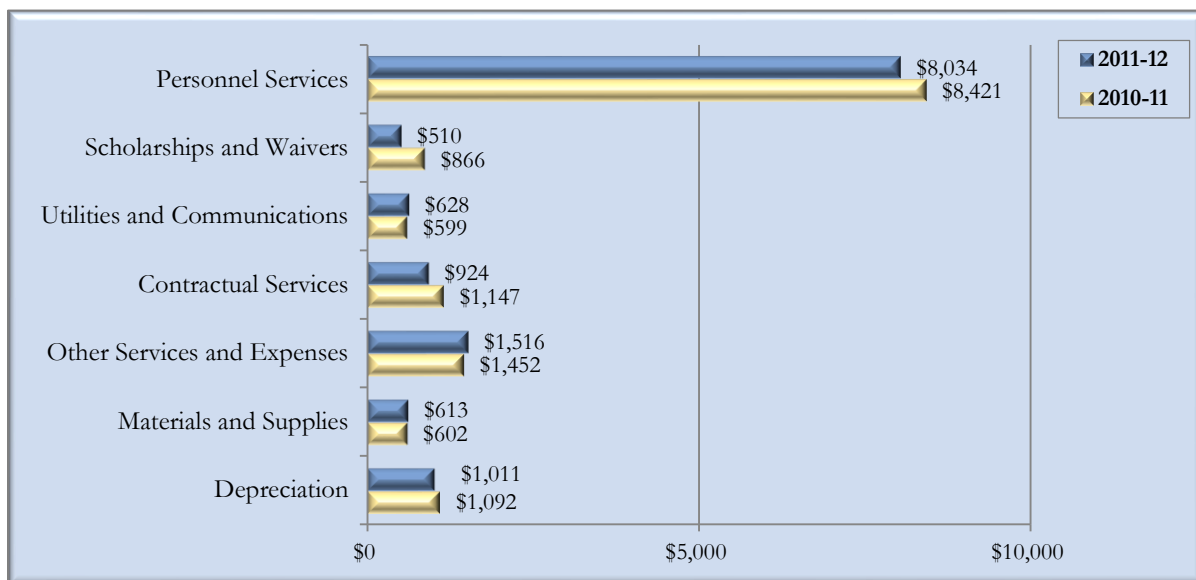
	College		Component Units (1)	
	6-30-12	6-30-11	2012 (2)	2011
<b>Operating Expenses</b>				
Personnel Services	\$ 8,034	\$ 8,421	\$	\$
Scholarships and Waivers	510	866	139	129
Utilities and Communications	628	599		
Contractual Services	924	1,147		
Other Services and Expenses	1,516	1,452	1,248	183
Materials and Supplies	613	602		
Depreciation	1,011	1,092	31	
<b>Total Operating Expenses</b>	<b>\$ 13,236</b>	<b>\$ 14,179</b>	<b>\$ 1,418</b>	<b>\$ 312</b>

Note: (1) Amounts are for the fiscal years ended March 31, for the Florida Keys Educational Foundation, Inc.

(2) Amounts are for the 17-month period ended September 30, 2011, for the Florida Keys College Campus Foundation, Inc.

The following chart presents the College’s operating expenses for the 2011-12 and 2010-11 fiscal years:

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



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

- Personnel costs decreased due to labor cost savings from combining positions, decreases in College paid retirement benefits resulting from statutory changes in the Florida Retirement System, a 50 percent reduction in the president’s salary, and delays in the hiring of open positions.
- Scholarship and waivers expenses decreased due to reductions in Federal Pell grants (\$288,000), and scholarships funded by the Florida Keys Educational Foundation, for Nursing scholarships, which resulted in lower scholarship expenses.
- Contractual services decreased from lower enrollment and a decrease in contractual services for educational purposes.

### Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital 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 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Noncapital Appropriations	\$ 5,779	\$ 5,740
Federal and State Student Financial Aid	1,907	2,231
Gifts and Grants	3	1
Investment Income	7	4
Other Nonoperating Revenues		48
Interest on Capital Asset-Related Debt	(7)	
Other Nonoperating Expenses	<u>(27)</u>	<u>(9)</u>
<b>Net Nonoperating Revenues</b>	<b><u>\$ 7,662</u></b>	<b><u>\$ 8,015</u></b>

### 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 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 370	\$ 5,661
Capital Grants, Contracts, Gifts, and Fees	<u>352</u>	<u>245</u>
<b>Total</b>	<b><u>\$ 722</u></b>	<b><u>\$ 5,906</u></b>

The College received \$321,925 from Public Education Capital Outlay appropriations for general maintenance and renovation projects during the 2011-12 fiscal year.

### 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 2011-12 and 2010-11 fiscal years is presented in the following table:

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

	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (8,040)	\$ (9,115)
Noncapital Financing Activities	7,174	7,948
Capital and Related Financing Activities	603	1,433
Investing Activities	<u>11</u>	<u>3</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(252)</b>	<b>269</b>
Cash and Cash Equivalents, Beginning of Year	<u>1,574</u>	<u>1,305</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 1,322</u></b>	<b><u>\$ 1,574</u></b>

Major sources of funds came from State noncapital appropriations (\$5.8 million), Federal and State student financial aid (\$1.9 million), Federal direct student loans (\$1.8 million), net student tuition and fees (\$2.1 million), grants and contracts (\$0.9 million), and State capital appropriations (\$0.6 million). Major uses of funds were for payments to employees (\$6.3 million), payments to suppliers (\$2.7 million), and Federal direct student loan disbursements (\$1.8 million).

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

- Operating activities used \$1.1 million less cash compared to the prior fiscal year primarily as a result of a \$0.8 million decrease in salaries and benefits and \$0.5 million decrease in payments to suppliers.
- Noncapital and related financing cash flows decreased by \$0.8 million primarily as a result of the discontinuance of ARRA funding and other student financial aid funding.
- Cash flows from capital and related financing activities decreased \$0.8 million as a result of decreased Public Education Capital Outlay appropriations from the State. The decreases were offset by reduced cash outflows for the purchase of capital assets.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

At June 30, 2012, the College had \$38.7 million in capital assets, less accumulated depreciation of \$19.3 million, for net capital assets of \$19.4 million. Depreciation charges for the current fiscal year totaled \$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>2012</u>	<u>2011</u>
Land	\$ 322	\$ 322
Construction in Progress	87	
Buildings	33,326	33,326
Other Structures and Improvements	2,838	2,838
Furniture, Machinery, and Equipment	<u>2,123</u>	<u>1,891</u>
<b>Total</b>	<u>38,696</u>	<u>38,377</u>
Less, Accumulated Depreciation:		
Buildings	15,242	14,399
Other Structures and Improvements	2,280	2,211
Furniture, Machinery, and Equipment	<u>1,794</u>	<u>1,714</u>
<b>Total Accumulated Depreciation</b>	<u>19,316</u>	<u>18,324</u>
<b>Capital Assets, Net</b>	<u>\$ 19,380</u>	<u>\$ 20,053</u>

The College had no major construction commitments at June 30, 2012.

#### **DEBT ADMINISTRATION**

At fiscal year-end, the College had \$120 thousand in long-term debt outstanding versus \$150 thousand at the end of the prior fiscal year, a decrease of 20 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, there were no bond sales and debt repayments totaled \$30 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, only a decrease in State funding is anticipated in the 2012-13 fiscal year. In response to the anticipated decrease in State appropriations, the Board of Trustees increased the tuition rate 7 percent for in-State and 14 percent for out-of-State students to take effect beginning with the Fall 2012 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 Financial 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, 2012**

	<u>College</u>	<u>Component Units</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 184,211	\$ 54,409
Restricted Cash and Cash Equivalents	637,462	1,031,429
Restricted Investments		3,621,659
Accounts Receivable, Net	276,109	201,747
Due from Other Governmental Agencies	7,157,555	
Due from Component Units	684,141	
Inventories	13,344	
Prepaid Expenses	83,268	
<b>Total Current Assets</b>	<u>9,036,090</u>	<u>4,909,244</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	501,037	
Restricted Investments	14,229	
Depreciable Capital Assets, Net	18,970,334	6,862,907
Nondepreciable Capital Assets	409,275	43,774
Prepaid Scholarships		220,502
Other Assets		40,300
<b>Total Noncurrent Assets</b>	<u>19,894,875</u>	<u>7,167,483</u>
<b>TOTAL ASSETS</b>	<u>\$ 28,930,965</u>	<u>\$ 12,076,727</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 511,347	\$ 93,978
Salary and Payroll Taxes Payable	468,855	
Accrued Interest		242,229
Due to College		278,131
Deferred Revenue	741	
Deposits Held for Others	41,286	20,000
Long-Term Liabilities - Current Portion:		
Bonds Payable	30,000	
Compensated Absences Payable	81,271	
<b>Total Current Liabilities</b>	<u>1,133,500</u>	<u>634,338</u>
Noncurrent Liabilities:		
Bonds Payable	90,000	8,143,975
Compensated Absences Payable	425,992	
Other Postemployment Benefits Payable	90,283	
<b>Total Noncurrent Liabilities</b>	<u>606,275</u>	<u>8,143,975</u>
<b>TOTAL LIABILITIES</b>	<u>1,739,775</u>	<u>8,778,313</u>

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS (CONTINUED)  
June 30, 2012**

	<b>College</b>	<b>Component Units</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 19,263,729	\$ 324,623
Restricted:		
Nonexpendable:		
Endowment		2,424,239
Expendable:		
Grants and Loans	106,776	1,463,692
Scholarships	124,925	
Capital Projects	7,675,281	
Debt Service	3,790	
Unrestricted	16,689	(914,140)
<b>Total Net Assets</b>	27,191,190	3,298,414
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 28,930,965</b>	<b>\$ 12,076,727</b>

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, 2012**

	<u>College</u>	<u>Component Units</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$1,691,704	\$ 2,087,224	\$
Federal Grants and Contracts	895,299	
State and Local Grants and Contracts	77,265	9,106
Nongovernmental Grants and Contracts	298,219	
Auxiliary Enterprises	96,976	
Other Operating Revenues	613,192	524,941
<b>Total Operating Revenues</b>	<u>4,068,175</u>	<u>534,047</u>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	8,034,383	
Scholarships and Waivers	509,536	138,682
Utilities and Communications	628,014	
Contractual Services	924,375	
Other Services and Expenses	1,516,184	1,247,679
Materials and Supplies	613,118	
Depreciation	1,010,617	31,373
<b>Total Operating Expenses</b>	<u>13,236,227</u>	<u>1,417,734</u>
<b>Operating Loss</b>	<u>(9,168,052)</u>	<u>(883,687)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	5,778,779	
Federal and State Student Financial Aid	1,906,812	
Gifts and Grants	3,000	
Investment Income (Loss)	7,069	(2,246)
Interest on Capital Asset-Related Debt	(7,500)	
Other Nonoperating Expenses	(27,363)	
<b>Net Nonoperating Revenues (Expenses)</b>	<u>7,660,797</u>	<u>(2,246)</u>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<u>(1,507,255)</u>	<u>(885,933)</u>
State Capital Appropriations	370,249	
Capital Grants, Contracts, Gifts, and Fees	352,596	
<b>Total Other Revenues</b>	<u>722,845</u>	
<b>Decrease in Net Assets</b>	(784,410)	(885,933)
Net Assets, Beginning of Year	27,975,600	4,184,347
<b>Net Assets, End of Year</b>	<u>\$ 27,191,190</u>	<u>\$ 3,298,414</u>

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, 2012**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 2,105,913
Grants and Contracts	913,446
Payments to Suppliers	(2,669,225)
Payments for Utilities and Communications	(615,447)
Payments to Employees	(6,349,938)
Payments for Employee Benefits	(1,472,703)
Payments for Scholarships	(509,536)
Auxiliary Enterprises	96,976
Other Operating Receipts	460,528
	<b>(8,039,986)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	5,778,779
Federal and State Student Financial Aid	1,906,812
Gifts and Grants Received for Other Than Capital or Endowment Purposes	47,224
Federal Direct Loan Program Receipts	1,824,921
Federal Direct Loan Program Disbursements	(1,824,921)
Other Nonoperating Disbursements	(558,522)
	<b>7,174,293</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	639,983
Capital Grants and Gifts	336,928
Purchases of Capital Assets	(336,957)
Principal Paid on Capital Debt	(30,000)
Interest Paid on Capital Debt	(7,500)
	<b>602,454</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	4,173
Investment Income	7,069
	<b>11,242</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(251,997)</b>
Cash and Cash Equivalents, Beginning of Year	1,574,707
	<b>\$ 1,322,710</b>

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (CONTINUED)  
For the Fiscal Year Ended June 30, 2012**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (9,168,052)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,010,617
Changes in Assets and Liabilities:	
Receivables, Net	(499,177)
Inventories	3,686
Prepaid Expenses	(31,230)
Accounts Payable	548,051
Deposits Held for Others	7,864
Compensated Absences Payable	72,919
Other Postemployment Benefits Payable	15,336
	15,336
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (8,039,986)</b>

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, 2012**

**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 Units.** Based on the application of the criteria for determining component units, the following component units are included within the College's 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), is included within the College's reported entity as a discretely presented component unit. This organization was formed for the purpose of receiving, investing, and administering real and personal property including, but not limited to, a student housing building for the benefit of the College.

The College's component units are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The audited financial statements of the component units 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, 2012, and from the Campus Foundation's audited financial statements for the 17-month period ended September 30, 2011. Additional condensed financial statements for the College's component units are included in a subsequent note.

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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 makes 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. 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.

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

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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 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, 2012**

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, 2012, the College reported as cash equivalents \$87,169 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, 2012, 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 38 days as of June 30, 2012. 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; construction in progress; 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 investment pool administered by the State Board of Administration (SBA); 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

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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 (SBE) 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, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 6,320
State Board of Administration Debt Service Accounts	<u>7,909</u>
<b>Total College Investments</b>	<b><u><u>\$ 14,229</u></u></b>

**State Board of Administration Fund B Surplus Funds Trust Fund**

The SBA Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and 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 on December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2012, the College reported investments at fair value of \$6,320 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 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 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, 2012. 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 totaling \$7,909 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for 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 SBA 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.

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**Component Units Investments**

Investments held by the Florida Keys Educational Foundation, Inc., at March 31, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Cash and Cash Equivalents	\$ 9,982
Mutual Funds - Equities	2,307,279
Mutual Funds - Fixed Income	<u>1,304,398</u>
<b>Total Component Unit Investments</b>	<b><u>\$ 3,621,659</u></b>

The Florida Keys College Campus Foundation, Inc., had no investments at September 30, 2011.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for vending machine and book sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$14,074 allowance for doubtful accounts.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$6,385,283 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

**5. DUE FROM AND TO COMPONENT UNITS/COLLEGE**

The \$684,141 reported as due from component units consists of \$120,635 owed to the College from the Florida Keys Educational Foundation, Inc., for scholarships and student aid programs and \$563,506 owed to the College by the Florida Keys College Campus Foundation, Inc., to reimburse the College for operating expenses of the Campus Foundation’s student residence hall. The College’s financial statements are reported for the fiscal year ended June 30, 2012. The Florida Keys Educational Foundation, Inc., financial statements are reported for the fiscal year ended March 31, 2012, and the Florida Keys College Campus Foundation, Inc., financial statements are reported for the 17-month period ended September 30, 2011. Accordingly, amounts reported by the College as due from and to component units on the statement of net assets do not agree with amounts reported by the component units as due from and to the College.

**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, 2012**

**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 321,796	\$	\$	\$ 321,796
Construction in Progress		87,479		87,479
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 321,796</b>	<b>\$ 87,479</b>	<b>\$</b>	<b>\$ 409,275</b>
Depreciable Capital Assets:				
Buildings	\$ 33,325,933	\$	\$	\$ 33,325,933
Other Structures and Improvements	2,837,675			2,837,675
Furniture, Machinery, and Equipment	1,891,111	249,478	17,934	2,122,655
<b>Total Depreciable Capital Assets</b>	<b>38,054,719</b>	<b>249,478</b>	<b>17,934</b>	<b>38,286,263</b>
Less, Accumulated Depreciation:				
Buildings	14,399,341	842,877		15,242,218
Other Structures and Improvements	2,210,375	69,700		2,280,075
Furniture, Machinery, and Equipment	1,713,530	98,040	17,934	1,793,636
<b>Total Accumulated Depreciation</b>	<b>18,323,246</b>	<b>1,010,617</b>	<b>17,934</b>	<b>19,315,929</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 19,731,473</b>	<b>\$ (761,139)</b>	<b>\$</b>	<b>\$ 18,970,334</b>

**Capital Assets – Component Unit**

The Florida Keys College Campus Foundation Inc., capital asset activity for the 17-month period ended September 30, 2011, is shown below:

	Inception 4-26-10	Additions	Disposals	Period Ended 9-30-11
Capital Assets, Being Depreciated:				
Building	\$	\$ 6,683,150	\$	\$ 6,683,150
Furnishings and equipment		211,130		211,130
<b>Total Capital Assets Being Depreciated</b>	<b>\$</b>	<b>6,894,280</b>	<b>\$</b>	<b>6,894,280</b>
Less, Accumulated Depreciation:				
Building	\$	\$ 26,346	\$	\$ 26,346
Furnishings and equipment		5,027		5,027
<b>Total Accumulated Depreciation</b>		<b>31,373</b>		<b>31,373</b>
<b>Total Capital Assets, Net</b>	<b>\$</b>	<b>\$ 6,862,907</b>	<b>\$</b>	<b>\$ 6,862,907</b>

Total depreciation was \$31,373 for the 17-month period ended September 30, 2011.

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**8. LONG-TERM LIABILITIES**

Long-term liabilities of the College at June 30, 2012, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 150,000	\$	\$ 30,000	\$ 120,000	\$ 30,000
Compensated Absences Payable	434,344	112,768	39,849	507,263	81,271
Other Postemployment Benefits Payable	74,947	47,644	32,308	90,283	
<b>Total Long-Term Liabilities</b>	<b>\$ 659,291</b>	<b>\$ 160,412</b>	<b>\$ 102,157</b>	<b>\$ 717,546</b>	<b>\$ 111,271</b>

**Bonds Payable.** The State Board of Education (SBE) 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 SBE and the State Board of Administration (SBA) 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, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds: Series 2005A	<u>\$ 120,000</u>	5	2016

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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
<b>Total</b>	<b>\$ 120,000</b>	<b>\$ 15,250</b>	<b>\$ 135,250</b>

**Bond Payable – Component Unit**

On November 1, 2010, the Florida Keys College Campus Foundation, Inc., 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 for the benefit of the College.

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The Bonds mature on November 1, 2042, 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 following is a summary of debt transactions for the 17-month period ended September 30, 2011:

	Inception 4-26-10	Additions	Reductions	Period Ended 9-30-11
Bond Payable	\$	\$ 8,305,000	\$	\$ 8,305,000
Less: Unamortized Bond Discount		(166,100)	5,075	(161,025)
<b>Total Bond Payable</b>	<b>\$</b>	<b>\$ 8,138,900</b>	<b>\$ 5,075</b>	<b>\$ 8,143,975</b>

The Bond contains certain financial covenants, including a minimum debt service coverage ratio, revenue greater than debt ratio, and a days' cash-on-hand ratio. Based on the Supplemental Trust Indenture dated December 31, 2012, the Foundation has met all covenants. The Bond is collateralized by the revenues of the Foundation and by the building constructed by the Foundation. The unamortized bond discount is amortized over 31 years.

Future maturities of the Bond payable are as follows:

Year Ending September 30	Principal	Interest	Total Debt Service
2012	\$	\$ 581,350	\$ 581,350
2013		581,350	581,350
2014	90,000	575,575	665,575
2015	95,000	568,954	663,954
2016	100,000	561,983	661,983
2017-2021	620,000	2,685,667	3,305,667
2022-2026	870,000	2,421,125	3,291,125
2027-2031	1,220,000	2,048,667	3,268,667
2032-2036	1,710,000	1,525,825	3,235,825
2037-2041	2,390,000	794,792	3,184,792
2042-2043	1,210,000	50,808	1,260,808
<b>Total</b>	<b>\$ 8,305,000</b>	<b>\$ 12,396,096</b>	<b>\$ 20,701,096</b>

The total interest incurred for the 17-month period ended September 30, 2011, was \$515,141. Of this amount, \$400,737 was capitalized as a component of the cost of capital assets constructed during the period, and \$114,404 was charged to expense.

**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, 2012, the estimated liability for compensated

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$507,263. The current portion of the compensated absences liability, \$81,271, is the amount expected to be paid in the coming fiscal year to employees who retired with an effective retirement date of June 30, 2012.

**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 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 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 employee retirement system or another entity.

*Funding Policy.* Plan benefits are pursuant to the 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 2011-12 fiscal year, 14 retirees received postemployment healthcare benefits, and 11 retirees received postemployment life insurance benefits. The College provided required contributions of \$32,308 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$88,333.

*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:

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 33,408
Amortization of Unfunded Actuarial Accrued Liability	13,736
<b>Annual Required Contribution</b>	47,144
Interest on Net OPEB Obligation	2,998
Adjustment to Annual Required Contribution	(2,498)
<b>Annual OPEB Cost (Expense)</b>	47,644
Contribution Toward the OPEB Cost	(32,308)
<b>Increase in Net OPEB Obligation</b>	15,336
Net OPEB Obligation, Beginning of Year	74,947
<b>Net OPEB Obligation, End of Year</b>	\$ 90,283

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, 2012, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 39,585	77.2%	\$ 45,080
2010-11	39,592	24.6%	74,947
2011-12	47,644	67.8%	90,283

*Funded Status and Funding Progress.* As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$412,087 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$412,087 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,517,620 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.5 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.

**FLORIDA KEYS COMMUNITY COLLEGE  
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JUNE 30, 2012**

*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, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 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 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent pre-Medicare and 8.5 percent Medicare, for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years for pre-Medicare and 6 years 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, 2012, was 25 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 the 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. The 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 Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight 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. Members of both Plans 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.

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JUNE 30, 2012**

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.

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. The Investment Plan is funded by employer and employee 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 the Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 Investment Plan.

(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 including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$368,810, \$417,727, and \$253,151, respectively, which were equal to the required contributions for each fiscal year.

There were 31 College participants in the Investment Plan during the 2011-12 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$193,705, which was equal to the required contribution for the 2011-12 fiscal year.

**FLORIDA KEYS COMMUNITY COLLEGE  
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JUNE 30, 2012**

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 to February 29, 2012, and up to \$90 million from March 1, 2012. 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 three fiscal years.

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

**11. 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:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 4,433,927
Public Services	191,667
Academic Support	1,373,622
Student Services	1,068,809
Institutional Support	2,710,907
Operation and Maintenance of Plant	1,838,889
Scholarships and Waivers	509,536
Depreciation	1,010,617
Auxiliary Enterprises	<u>98,253</u>
<b>Total Operating Expenses</b>	<b><u>\$ 13,236,227</u></b>

## 12. COMPONENT UNITS

The College has two 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:

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

	Direct-Support Organizations		Total
	The Florida Keys Educational Foundation, Inc. (1)	The Florida Keys College Campus Foundation, Inc. (2)	
<b>Condensed Statement of Net Assets</b>			
Assets:			
Current Assets	\$ 3,671,142	\$ 1,238,102	\$ 4,909,244
Capital Assets, Net	43,774	6,862,907	6,906,681
Other Noncurrent Assets	260,802		260,802
<b>Total Assets</b>	<b>3,975,718</b>	<b>8,101,009</b>	<b>12,076,727</b>
Liabilities:			
Current Liabilities	82,732	551,606	634,338
Noncurrent Liabilities		8,143,975	8,143,975
<b>Total Liabilities</b>	<b>82,732</b>	<b>8,695,581</b>	<b>8,778,313</b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt		324,623	324,623
Restricted	3,887,931		3,887,931
Unrestricted	5,055	(919,195)	(914,140)
<b>Total Net Assets</b>	<b>\$ 3,892,986</b>	<b>\$ (594,572)</b>	<b>\$ 3,298,414</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>			
Operating Revenues	\$ 218,647	\$ 315,400	\$ 534,047
Operating Expenses	(621,273)	(796,461)	(1,417,734)
<b>Operating Loss</b>	(402,626)	(481,061)	(883,687)
Net Nonoperating Revenues (Expenses)	111,265	(113,511)	(2,246)
<b>Decrease in Net Assets</b>	(291,361)	(594,572)	(885,933)
Net Assets, Beginning of Year	4,184,347		4,184,347
<b>Net Assets, End of Year</b>	<b>\$ 3,892,986</b>	<b>\$ (594,572)</b>	<b>\$ 3,298,414</b>

Notes: (1) Amounts are for the fiscal year ended March 31, 2012.

(2) Amounts are for the 17-month period ended September 30, 2011.

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**13. 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**

<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 184,211
Accounts Receivable, Net	268,051
Due from Other Governmental Agencies	440,219
Inventories	13,344
Prepaid Expenses	<u>83,268</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 989,093</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 374,858
Compensated Absences Payable	<u>81,271</u>
<b>Total Current Liabilities</b>	<u>456,129</u>
Noncurrent Liabilities:	
Compensated Absences Payable	425,992
Other Postemployment Benefits Payable	<u>90,283</u>
<b>TOTAL LIABILITIES</b>	<u>972,404</u>
<b>TOTAL NET ASSETS</b>	<u>16,689</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 989,093</u></u>

**FLORIDA KEYS COMMUNITY COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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

**REVENUES**

## Operating Revenues:

Student Tuition and Fees, Net of Scholarship	
Allowances of \$1,691,704	\$ 1,775,442
Auxiliary Enterprises	96,976
Other Operating Revenues	<u>611,747</u>
<b>Total Operating Revenues</b>	<u>2,484,165</u>

**EXPENSES**

## Operating Expenses:

Personnel Services	7,375,012
Utilities and Communications	623,963
Contractual Services	873,203
Other Services and Expenses	757,980
Materials and Supplies	<u>461,339</u>
<b>Total Operating Expenses</b>	<u>10,091,497</u>
<b>Operating Loss</b>	<u>(7,607,332)</u>

**NONOPERATING REVENUES**

State Noncapital Appropriations	5,778,779
Investment Income	<u>6,193</u>
<b>Nonoperating Revenues</b>	<u>5,784,972</u>

**Loss Before Other Revenues,  
Expenses, Gains, or Losses**

Transfers from Other Funds, Net	<u>1,977,706</u>
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**Increase in Net Assets**

Net Assets, Beginning of Year	<u>(138,657)</u>
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**Net Assets, End of Year**

	<u>\$ 16,689</u>
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**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%
7/1/2011		412,087	412,087	0%	5,517,620	7.5%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the actuarial accrued 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, 2011, unfunded actuarial accrued liability of \$412,087 was significantly higher than the July 1, 2009, liability of \$348,494 as a result of the following:

- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate health care costs between ages.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.



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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 aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, 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 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, 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. However, as described in the **FINDINGS AND RECOMMENDATIONS** section of this report, we identified certain deficiencies in internal control over financial reporting that we consider, in combination, to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

### **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*.

Management's response to the findings discussed in the **FINDINGS AND RECOMMENDATIONS** section is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Our **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*** 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 21, 2013

## FINDINGS AND RECOMMENDATIONS

### SIGNIFICANT DEFICIENCY

(Combination of Control Deficiencies in Finding Nos. 1 through 4)

#### **Finding No. 1: Financial Accounting and Reporting**

One of the principal methods that a college uses to provide accountability for its public resources is to report its financial position and activities in its annual financial statements. As such, College personnel should ensure that the financial statements are accurate and include all required disclosures so users, such as the Board of Trustees (Board), the President, College management, and other interested parties, can appropriately evaluate, among other things, the College's operations and financial condition. To promote understanding and consistency in presentation, the College is required to prepare annual financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Our review of the College's 2011-12 financial statements, as presented for audit, disclosed that financial accounting and reporting procedures could be improved as discussed below.

#### **Statement of Revenues, Expenses, and Changes in Net Assets**

State Board of Education Rule 6A-14.072, Florida Administrative Code, requires the College to keep financial records according to the Florida Department of Education publication, *Accounting Manual for Florida's Public Community Colleges* (Accounting Manual). Further, Florida colleges utilize the Financial Accounting and Reporting Manual (FARM), published by the National Association of College and University Business Officers for further technical assistance. The Accounting Manual, Section 4, provides that the agency fund is "used to account for resources held by a college as custodian or fiscal agent for others." FARM, Section 302.06, provides that in an agency fund "...resources are held by an institution acting as a custodian or fiscal agent. The resources are deposited with the institution for safekeeping, to be used or withdrawn by the depositor at will. These funds may be held on behalf of students, faculty, staff organizations, or some other third party."

During the 2011-12 fiscal year, Florida Keys College Campus Foundation, Inc. (Campus Foundation), a College direct-support organization, completed the construction of a 100-bed student residence hall (Facility) on the College's Key West campus. Construction costs of the Facility were financed by the Campus Foundation through the issuance of Senior Leasehold Industrial Development Revenue Bonds totaling \$8,305,000. The Bonds are secured solely by an assignment and pledge of the rents and any other revenues generated by the Facility. The Facility was opened for students on August 20, 2011.

Under the terms of a management agreement with the Campus Foundation, the College supervises the management of the Facility, including but not limited to staffing, accounting, billing, collecting, setting lease rates and charges, and general administration. These Campus Foundation activities were not College activities and, therefore, in accordance with GAAP, should have been recorded in the College's agency fund. In addition, the management agreement, Section 1.01, Management of Facility, indicates the College was the fiscal agent for the Campus Foundation and all Facility financial activities should have been recorded and reported in the College's agency fund. However, our review disclosed that revenues and expenses relating to the Campus Foundation were mistakenly recorded in the College's current funds-restricted and included in College revenues and expenses reported in the statement of revenues, expenses, and changes in net assets. As a result of recording Campus Foundation-related transactions in the College's

current funds-restricted, the College's 2011-12 fiscal year financial statements incorrectly included revenues and expenses, in the amount of \$569,000 each, related to Campus Foundation activities.

### **Statement of Cash Flows**

College personnel inadvertently misstated several amounts in the College's statement of cash flows. For example:

- Cash received totaling \$1,824,921 and subsequently disbursed to students for the Federal Direct Loan Program was not reported as a source or use of cash.
- Cash flows from operating activities, for grants and contracts were overstated and cash flows from noncapital financing activities, for other nonoperating disbursements were understated by \$531,158, each, due to the cash loaned to the Campus Foundation, as discussed in finding No. 2.
- Cash flows from capital and related financing activities, for purchases of capital assets totaling \$336,957 were inadvertently reported as proceeds from sales of capital assets.

Reporting errors such as the above may cause financial statement users to misunderstand the College's financial activity. We extended our audit procedures to determine the adjustments necessary to properly report transactions, and College personnel accepted these adjustments. However, our extended procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

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**Recommendation:** The College should improve its financial reporting procedures to ensure that financial statement transactions are properly reported.

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### **Finding No. 2: College Loans to its Direct-Support Organization**

As discussed in finding No.1, the College served as manager and fiscal agent for the Campus Foundation. During the 2011-12 fiscal year, College restricted funds were used to pay operating expenses of the Facility owned by the Campus Foundation and at June 30, 2012, a total of \$563,506 was due from the Campus Foundation to the College for unreimbursed operating expenses. Subsequent to fiscal year end, additional College restricted funds were loaned to the Campus Foundation and as of December 31, 2012, the Campus Foundation owed the College a total of \$766,998.

The Trust Indenture between the Campus Foundation and the Trustee for the Campus Foundation's outstanding revenue bonds provides that all revenues collected by the Campus Foundation must be deposited with the Trustee into a revenue fund. On the last business day of each month, moneys in the revenue fund were required to be applied in an order of priority to the rebate fund (if required), taxes and insurance premiums account, operating account, repair and replacement reserve account, interest account, and to the principal account. During the 2011-12 fiscal year, the College received only one reimbursement from the taxes and insurance premiums account totaling \$37,240. No reimbursements were received from the operating account for other Facility operating expenses paid by the College, which totaled \$563,506 at June 30, 2012, as no money in the revenue fund had been applied to the operating account.

College personnel indicated that funds were not available in the operating account due to: 1) a declining occupancy rate in the Facility and decrease in related revenues, as discussed further in finding No. 4; 2) the need to apply moneys in the revenue fund to the bond principal and interest account to avoid default on the Campus Foundation's outstanding revenue bonds; and 3) the Trust Indenture provided that expenditures for the cost of operation were only eligible for reimbursement during the 30 days preceding and 30 days following the request for reimbursement date. Effective December 31, 2012, the Trust Indenture's 30-day eligibility limitation on reimbursement of operating expenses was revised to allow reimbursement for operating expenses for the period from November 12, 2010, through the request for reimbursement date. Additionally, College personnel indicated that the College, as the fiscal

agent, has been negotiating with the Trustee for the Campus Foundation's outstanding revenue bonds to collect the outstanding amounts owed to the College by the Campus Foundation.

Section 1004.70(1)(a)2., Florida Statutes, provides that a direct-support organization is organized and operated exclusively to receive, hold, and invest and administer property and make expenditures to and for the benefit of a Florida College System institution. Section 1004.70(3), Florida Statutes, in part, provides that the board of trustees is authorized to permit use of property, facilities, and personal services at any Florida College System institution by any college direct-support organization. However, we are unaware of any specific authority in Florida Statutes permitting use of College funds to finance the activities of its College direct-support organization.

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**Recommendation:** The College should discontinue loaning funds to the Campus Foundation and continue its efforts to recover amounts owed to it by the Campus Foundation.

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**Finding No. 3: Public Education Capital Outlay Funds**

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Pursuant to Section 1013.65, Florida Statutes, the State allocates Public Education Capital Outlay (PECO) funds to the College and the allocations consist of specific State-defined project categories and appropriation amounts, each of which has its own restrictions governing use. The College received a State appropriation of \$5,612,205 in PECO funds during the 2010-11 fiscal year for the purposes of constructing a Marine Propulsion Building and for general maintenance and renovation projects. During the 2010-11 and 2011-12 fiscal years the College was advanced a total of \$1,280,312 for its PECO projects and as of June 30, 2012, the College had PECO funds on hand totaling \$865,031 that remained unspent.

State Board of Education Rule 6A-14.0716(3)(c), Florida Administrative Code, provides that overdrafts shall not be created in any fund or depository account. As discussed in finding No. 1 the College mistakenly used its current funds-restricted to account for the financial activities of the Campus Foundation, a direct-support organization and, as discussed in finding No. 2, used College funds to pay operating expenses of the Facility owned by the Campus Foundation. As a result, the College's accounting records included a \$789,216 deficit cash balance in the current funds-restricted at June 30, 2012. To eliminate this deficit in cash resources, the College made a post-closing adjustment to transfer \$800,000 from the unexpended plant funds to the current funds-restricted. College records indicated that the \$800,000 transferred from the unexpended plant funds were restricted PECO funds appropriated by the State Legislature for specific educational capital outlay purposes. As we are unaware of any specific authority in Florida Statutes permitting the College to use restricted PECO funds to benefit the College's direct-support organization, the \$800,000 of PECO funds transferred to the current funds-restricted represents questioned costs. By using PECO funds, in this manner, and considering the College's financial condition difficulties as discussed in finding No. 4, there is an increased risk that the College may not have sufficient cash needed to complete the College's Marine Propulsion Building for which the State has appropriated PECO funds.

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**Recommendation:** The College should ensure that PECO funds are used only for authorized purposes. The College should also document the allowability of the \$800,000 of questioned costs or restore this amount to the unexpended plant fund.

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**Finding No. 4: Financial Condition**

The Florida Department of Education’s publication, *Accounting Manual for Florida’s Public Community Colleges* (Accounting Manual), provides that current funds-unrestricted resources are used to account for those economic resources that may be used to accomplish the primary and supporting objectives of a college. The current funds-unrestricted is used to account for resources for which there are no restrictions as to use imposed by external entities (i.e., resources that can be used for general College operating purposes), and the only restrictions on the resources reported as current funds-unrestricted fund balance are those imposed by law, rule, regulation, or the Board’s budget. At June 30, 2012, the College’s current funds-unrestricted fund balance<sup>1</sup> totaled \$115,819.

The College’s current funds-unrestricted fund balance may be further reduced, as follows:

- As discussed in finding No. 2, as of June 30, 2012, the College had loaned the Campus Foundation a total of \$563,506, which increased to \$766,998 as of December 31, 2012. Also, as discussed in finding No. 3, the College used \$800,000 of PECO funds to eliminate a \$789,216 deficit cash balance in the current funds-restricted caused by the College incorrectly accounting for the Campus Foundation’s financial activities. Our review of the minutes of Board meetings and inquiry of College personnel disclosed that as a result of the Campus Foundation’s declining occupancy rate in its Facility and the decrease in related revenues, it is questionable whether the Campus Foundation will be able to timely repay, if at all, the funds owed to the College. Consequently, during the 2012-13 fiscal year, as funds are needed in the College’s unexpended plant funds to pay for College capital outlay project commitments, it may be necessary for the College to restore PECO funds to the unexpended plant funds from resources of its current funds-unrestricted.
- State Board of Education Rule 6A-14.077, Florida Administrative Code, provides that college boards of trustees may operate or contract for auxiliary services and enterprises, and may use funds generated from auxiliary operations and contracts and from undesignated gifts according to rules of the board of trustees for the benefit of a college. The Accounting Manual provides that college auxiliary enterprises are established primarily to provide noninstructional services for sale to students, faculty, and staff, and are intended to be self-supporting.

Our review of the financial results of the College’s auxiliary enterprises disclosed that the auxiliary enterprises operations did not produce sufficient revenues to be self-supporting and resulted in a significant decline of the auxiliary funds fund balance. The College’s auxiliary funds deficit fund balance has increased the last two fiscal years as shown in the table below:

Fiscal Year Ended June 30	Fund Balance (Deficit)
2010	\$ (63,285)
2011	(91,280)
2012	(99,130)

If the College is unable to collect amounts owed to it by the Campus Foundation, is unable to reduce or eliminate the auxiliary funds deficit fund balance, and continues to use College resources to finance the Campus Foundation’s operations, the College may not have resources available for emergencies and unforeseen situations.

<sup>1</sup> Unrestricted net assets reported on the statement of net assets totaled \$16,689, which is comprised of the current funds-unrestricted fund balance of \$115,819 less the auxiliary funds deficit fund balance of \$99,130.

**Recommendation:** The College should develop a formal plan to increase the College's current funds-unrestricted fund balance. The plan should also address how to reduce or eliminate the auxiliary funds deficit fund balance and collect amounts due from the Campus Foundation.

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EXHIBIT A  
MANAGEMENT'S RESPONSE



March 21, 2013

Mr. David W. Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Re: Florida Keys Community College Financial Audit For the Fiscal Year Ended June 30, 2012

Dear Mr. Martin:

Florida Keys Community College has reviewed the preliminary and tentative findings and recommendations in the financial audit for the fiscal year ended June 30, 2012. The findings are as follows:

**Finding No. 1: The College needed to improve its controls to ensure that financial statement transactions are properly reported.**

**Finding No. 2: The College paid the operating costs for one of its direct-support organizations without specific legal authority.**

**Finding No. 3: The College used Public Education Capital Outlay funds for purposes not specifically authorized by law, resulting in \$800,000 of questioned costs.**

**Finding No. 4: The College's current funds-unrestricted fund balance had declined to a level that may leave the College with no resources available for emergencies and unforeseen situations.**

Finding #1

The College initially recorded the expenses and the receivable for amounts advanced to the Florida Keys College Foundation, Inc. (the "Foundation") expenses in a restricted account as it had done for the College's other Direct Support Organization (DSO) which has been in operation for many years. As explained further herein, at the time the amounts were advanced to the Foundation the College had a reasonable expectation of repayment of such amounts and did not anticipate the expenditure balance and monies owed to remain on the College's books for any extended amount of time.

The revenues of the Foundation, the which operates the College's new residence hall, were maintained in a separate enterprise fund and were never combined with the College's revenues. The revenues in

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**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

the restricted account only represented funds due from the Foundation and were combined with other college revenues reported in the Annual Financial Report.

The College has established an agency account to record expenses and the collection of the amounts owed to the College from the Foundation.

The College has noted the financial statement errors and will correct these items in future reporting. In addition the College plans to hire a director for the FOUNDATION who will report to the FOUNDATION board and liaison with the College for all matters concerning the FOUNDATION and its operation of the residence hall. While this hire in itself may seem routine, the College and the FOUNDATION had agreed to allow the Chief Financial Officer of the college to also occupy the position of director of the FOUNDATION. Although the FOUNDATION functions solely to support the College, clearly supporting these job functions better maintains the distinctive line that must occur between the College and this FOUNDATION. Thus a director will be hired at the earliest possible date. The CFO will then be able to focus entirely on the College's business operations, including, but not limited to ensuring that financial statement transactions are properly reported.

Findings # 2 & 3

In 2008, the Florida Legislature enacted § 1013.40(4) F.S., expressly authorizing the College—which is located in an area of critical state concern--- to construct a 100-bed residence hall building. In November the Foundation, on behalf of the College issued its Senior Leasehold Industrial Development Revenue Bonds the proceeds of which were used to finance the cost to acquire, construct and equip the residence hall. At the time of completion the College was presented with an urgent request to advance funds to the Foundation to pay certain capital costs of the project of approximately \$200,000 and certain start up costs related to the residence hall. Based on representations of the underwriter for the bonds which assured the College that based on the proforma prepared in anticipation of the sale of the bonds, the College would quickly be reimbursed such amounts. Based on the information available to the College at the time of the request, the College had a reasonable expectation that amounts advanced would be repaid. In addition, had the College not advanced the amounts to the Foundation, the residence halls would not have been completed and not opened for the fall semester jeopardizing the receipt of revenues for the entire year which far exceeded the amounts advanced by the College. Given the specific legal authority granted by the Florida legislature to construct the residence hall, the College made the decision that it was in the best interest of the College and its students to temporarily advance the funds to assure the timely completion of the residence halls for the project.

As it turns out, the initial advance of funds was the first of several challenges that the College faced associated with the building and operation of the residence hall. Apparently the management consultant working with the financing team for the bonds underestimated the operating costs and overstated the anticipated revenues.

College funds advanced to the Foundation and ultimately the residence hall were meant to allow for a timely opening and for continuing operations of the residence hall. Although these actions resulted in funds being used in support of the Foundation and its residence hall, the College acted in good faith, for

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

the benefit of the students, and in the best interest of maintaining both its enrollment and its responsibility to its students.

Over the course of more than the last twelve months, the College has sought to resolve the problems identified in the audit and continues to make reasonable progress in its resolutions. The following changes and actions are underway and/or will be underway shortly:

1. The College has hired new and competent staff who are being trained to assure that transactions are properly reported. Additionally, the backlog of improperly recorded transactions is being addressed. The College is also searching for a capable controller to reduce the burden of having a CFO who is also the acting controller.
  
2. The College has retained the services of expert legal counsel and has opened a dialogue with the holders of the bonds to develop a plan to correct the deficiencies that have been discovered in the terms of the financing documents. The College and the bondholders have agreed to hire a student housing consultant to review the rates fees and charges of the residence hall and make recommendations to both the College and bondholders regarding the operation of the residence hall and methods that might be employed to increase occupancy. The bondholders have directed the Trustee to once again release project revenues to pay the operating expenses of the project. As a result, the College is being reimbursed for recently incurred expenses, and there are plans to assure that the operating account for the residence hall has sufficient cash that allows the Foundation to draw down monthly operating expenses without the use of any college funds. New protocols will add stability to the entire process. Such protocols should ensure that the Foundation has enough cash on hand to pay operating expenses and should negate any need for the College to expend funds to pay Foundation operating expenses. Additionally, the College can now look to recover funds advanced to the Foundation during the residence hall start up phase. The monies owed to the college by the Foundation may be classified as a collectible receivable since there is a good possibility that the project will generate the revenues to meet the obligations due the bondholders and the amounts advanced by the College.
  
3. The College has been working to effect changes to the trust indenture pursuant to which the bonds were issued and with the relationship that currently exists between the College, the Foundation and the bondholders. Consequently, the College is now represented by the law firm of Bryant Miller Olive in all matters pertaining to the restructuring of the initial bond documents. In the last six weeks, the College has received \$92,598 as a result of the steps it has taken through the bond counsel.
  
4. Regarding the loan of monies to the Foundation, it was never the overt or the tacit desire of the College to loan funds to the FOUNDATION for its operating and start-up expenses on a long term basis. The funds expended on behalf of the Foundation were expended in good faith, with an expectation for repayment and in order that the residence halls could be operational and opened in time for the start of classes. The business model presented in the bond document suggested that the Foundation would generate enough revenue to realize a positive cash flow after all expenses. Therefore, it was a

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**

reasonable assumption on the College's part that any funds expended on behalf of the Foundation would be recovered in the short term and during the fiscal period they were expended.

Finding #4

The unrestricted fund balance at June 30, 2012 was \$115,820 plus the reserves of \$597,545 for Compensated Absences and OPEB represents 6.59% of funds available. The 6.59% is well in line with statutory requirements of a minimum of 5%.

Auxiliary enterprises are still under review and the college has already taken specific steps to reduce and eventually eliminate the deficiency in the auxiliary operation.

Please advise if you have any questions regarding the response.

Sincerely,



Dr. Jonathan Gueverra, President

Cc: Board of Trustees, Florida Keys Community College