

FLORIDA KEYS COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

Dr. Antoinette E. Martin, Chair from 9-24-12
Ed Scales, Chair to 9-23-12,
Vice Chair from 9-24-12
Brian C. Schmitt, Vice Chair to 9-23-12
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Dr. Jonathan Gueverra, President

Note: (1) Board member served beyond the end of term, May 31, 2013.

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 or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA KEYS COMMUNITY COLLEGE
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	13
Statement of Revenues, Expenses, and Changes in Net Position.....	15
Statement of Cash Flows	16
Notes to Financial Statements	18
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	35
Notes to Required Supplementary Information	36
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 <i>GOVERNMENT AUDITING STANDARDS</i>	37
Report on the Financial Statements	37
Internal Control Over Financial Reporting.....	37
Compliance and Other Matters.....	38
Purpose of this Report.....	38
FINDINGS AND RECOMMENDATIONS.....	39
PRIOR AUDIT FOLLOW-UP.....	43
EXHIBIT A MANAGEMENT'S RESPONSE.....	44

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards, except that, we are unable, based on the work of the other auditors, to express an opinion on the amounts reported in the aggregate discretely presented component units' columns. Accordingly, we do not express an opinion on the aggregate discretely presented component units.

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's current funds-unrestricted fund balance may be significantly reduced to a level that may leave the College with no resources available for emergencies and unforeseen situations.

Finding No. 2: The College loaned cash resources to the Florida Keys College Campus Foundation, Inc. (Campus Foundation), one of its direct-support organizations, without specific legal authority.

Finding No. 3: Agency fund cash totaling \$582,782, being held by the College as a custodian or fiscal agent for others, was used to reimburse the current funds-restricted for operating expenses of the Campus Foundation's student housing facility. This is an inappropriate use of agency fund resources and resulted in the agency fund having a cash balance deficit of \$89,993 at June 30, 2013.

Finding No. 4: The College needed to improve its controls to ensure that financial statement account balances and transactions are properly reported.

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

Audit Objectives and Scope

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

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective actions for findings included in our report No. 2013-151.

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, 2013. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2014-065.

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.



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Keys Community College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, 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 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 from material misstatement. Because of the matter described in the ***Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units*** paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The Florida Keys College Campus Foundation, Inc. (Campus Foundation), represents 65 percent of the assets, 99 percent of the liabilities, 54 percent of the revenues, 83 percent of the expenses, and had a deficit net position representing 33 percent of the total net position of the aggregate discretely presented component units. The Campus Foundation's independent auditor's report dated October 24, 2013, on the Campus Foundation's financial statements for the fiscal year ended September 30, 2012, stated that there was substantial doubt about the Campus Foundation's ability to continue as a going concern. As a result of the significance of the uncertainties described in the other auditor's report, the other auditor was unable to express, and did not express, an opinion on the Campus Foundation's financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the ***Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units*** paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the amounts reported for the aggregate discretely presented component units of Florida Keys Community College. Accordingly we do not express an opinion on the amounts reported for the aggregate discretely presented component units.

Unmodified Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Keys Community College as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

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* in considering Florida Keys Community College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 19, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

The management’s discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2013, 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, 2013, and June 30, 2012, and its component units the Florida Keys Educational Foundation, Inc., for the fiscal years ended March 31, 2013, and March 31, 2012, and for the Florida Keys College Campus Foundation, Inc., for the fiscal year ended September 30, 2012, and for the 17-month period ended September 30, 2011.

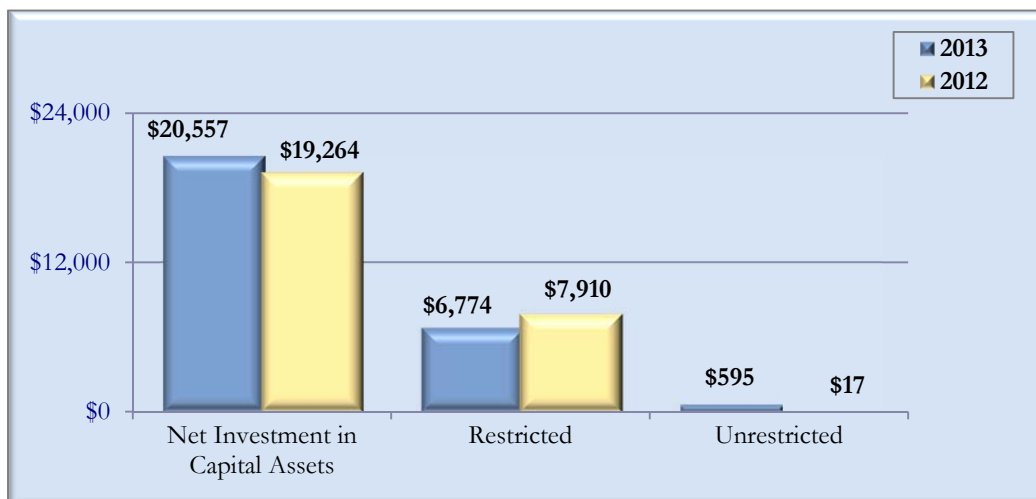
FINANCIAL HIGHLIGHTS

The College’s assets totaled \$29.9 million at June 30, 2013. This balance reflects a \$0.9 million, or 3.2 percent, increase as compared to the 2011-12 fiscal year, resulting from increases in cash and cash equivalents and net capital assets offset by a reduction in due from other governmental agencies for capital projects, as of June 30, 2013. Liabilities also increased by a lesser amount of \$0.2 million, or 12 percent, totaling \$1.9 million at June 30, 2013, compared to \$1.7 million at June 30, 2012. As a result, the College’s net position increased by \$0.7 million, resulting in a year-end balance of \$27.9 million.

The College’s operating revenues totaled \$3.2 million for the 2012-13 fiscal year, representing a 20.5 percent decrease as compared to the 2011-12 fiscal year due mainly to less revenue received from Federal grants and contracts and settlement of a lawsuit that was recorded as other revenues in the 2011-12 fiscal year. Operating expenses totaled \$12.4 million for the 2012-13 fiscal year, representing a decrease of 7 percent as compared to the 2011-12 fiscal year due mainly to lower personnel costs of \$0.7 million.

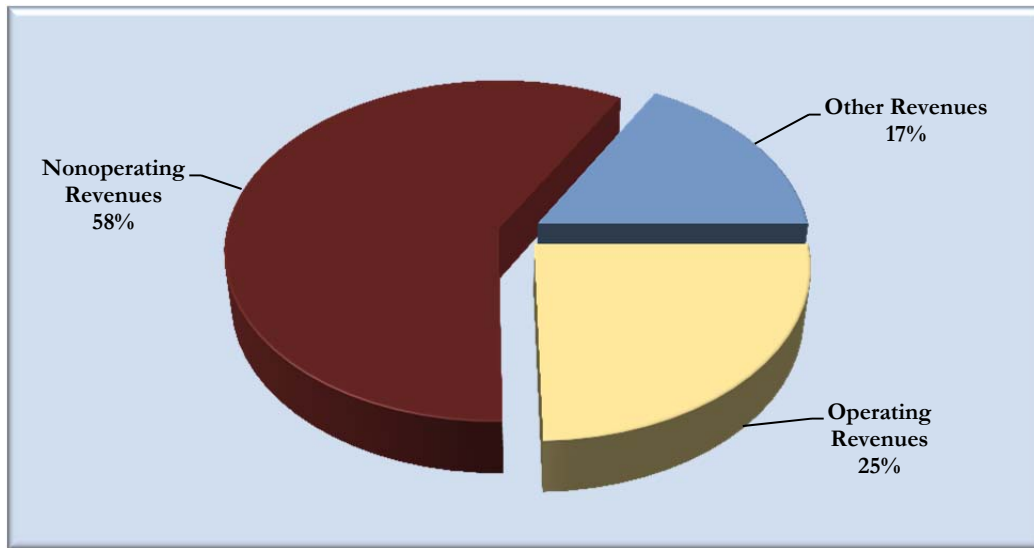
Net position represents the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2012-13 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 position; the statement of revenues, expenses, and changes in net position; 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.

THE STATEMENT OF NET POSITION

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

A condensed statement of assets, liabilities, and net position of the College and its component units for the respective periods ended are shown in the following table:

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

	College		Component Units	
	6-30-13	6-30-12	2013 (1)	2012 (2)
Assets				
Current Assets	\$ 5,528	\$ 9,036	\$ 5,449	\$ 4,909
Capital Assets, Net	20,643	19,380	6,718	6,907
Other Noncurrent Assets	3,689	515	222	260
Total Assets	<u>29,860</u>	<u>28,931</u>	<u>12,389</u>	<u>12,076</u>
Liabilities				
Current Liabilities	1,334	1,134	9,166	634
Noncurrent Liabilities	600	606		8,144
Total Liabilities	<u>1,934</u>	<u>1,740</u>	<u>9,166</u>	<u>8,778</u>
Net Position				
Net Investment in Capital Assets	20,557	19,264		325
Restricted	6,774	7,910	4,265	3,887
Unrestricted	595	17	(1,042)	(914)
Total Net Position	<u>\$ 27,926</u>	<u>\$ 27,191</u>	<u>\$ 3,223</u>	<u>\$ 3,298</u>

Notes: (1) Amounts are for the fiscal year ended March 31, 2013, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2012, for the Florida Keys College Campus Foundation, Inc.

(2) Amounts are for the fiscal year ended March 31, 2012, for the Florida Keys Educational Foundation, Inc., and for the 17-month period ended September 30, 2011, for the Florida Keys College Campus Foundation, Inc.

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

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

The following summarizes the activities of the College and its component units for the respective periods ended:

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

	College		Component Units	
	6-30-13	6-30-12	2013 (1)	2012 (2)
Operating Revenues	\$ 3,233	\$ 4,067	\$ 966	\$ 534
Less, Operating Expenses	12,366	13,236	874	1,418
Operating Income (Loss)	(9,133)	(9,169)	92	(884)
Net Nonoperating Revenues (Expenses)	7,665	7,662	(167)	(2)
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,468)	(1,507)	(75)	(886)
Other Revenues	2,203	722		
Net Increase (Decrease) in Net Position	735	(785)	(75)	(886)
Net Position, Beginning of Year	27,191	27,976	3,298	4,184
Net Position, End of Year	<u>\$ 27,926</u>	<u>\$ 27,191</u>	<u>\$ 3,223</u>	<u>\$ 3,298</u>

Notes: (1) Amounts are for the fiscal year ended March 31, 2013, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2012, for the Florida Keys College Campus Foundation, Inc.

(2) Amounts are for the fiscal year ended March 31, 2012, for the Florida Keys Educational Foundation, Inc., and 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 summarizes the operating revenues for the College and its component units by source that were used to fund operating activities for the respective periods ended:

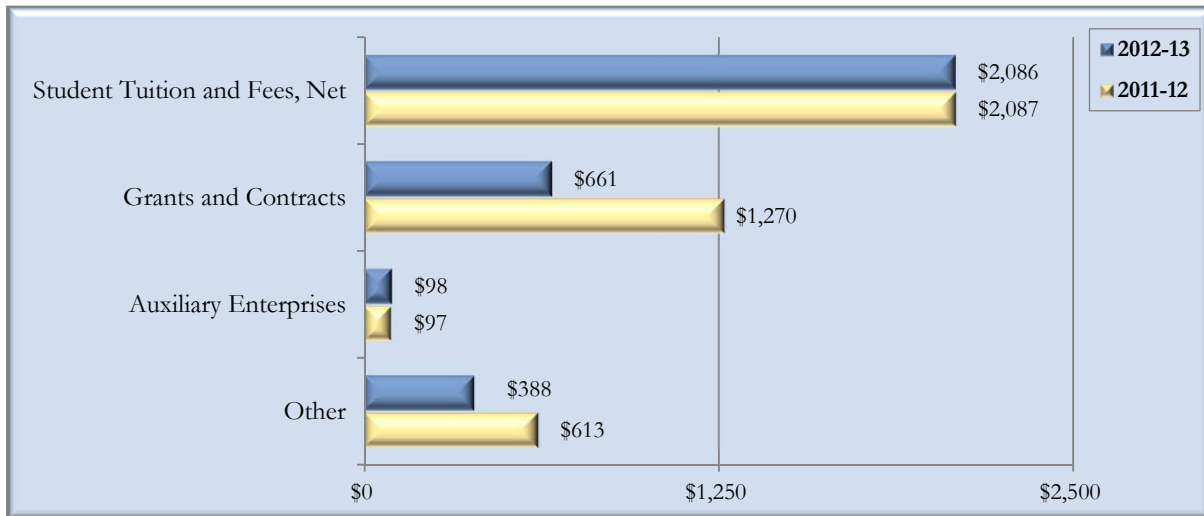
	College		Component Units	
	6-30-13	6-30-12	2013 (1)	2012 (2)
Net Tuition and Fees	\$ 2,086	\$ 2,087	\$	\$
Grants and Contracts	661	1,270	8	9
Auxiliary Enterprises	98	97		
Other	388	613	958	525
Total Operating Revenues	<u>\$ 3,233</u>	<u>\$ 4,067</u>	<u>\$ 966</u>	<u>\$ 534</u>

Notes: (1) Amounts are for the fiscal year ended March 31, 2013, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2012, for the Florida Keys College Campus Foundation, Inc.

(2) Amounts are for the fiscal year ended March 31, 2012, for the Florida Keys Educational Foundation, Inc., and 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 revenues for the 2012-13 and 2011-12 fiscal years:

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



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

- Grants and Contracts decreased primarily due to the end of the contract for the College’s Instrumented Underwater Training System program reducing Federal funding by \$500,000.
- Other revenue decreased primarily from the settlement of the City of Key West Stormwater lawsuit for \$160,530 that was reported as other revenues during the 2011-12 fiscal year.

Operating Expenses

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

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

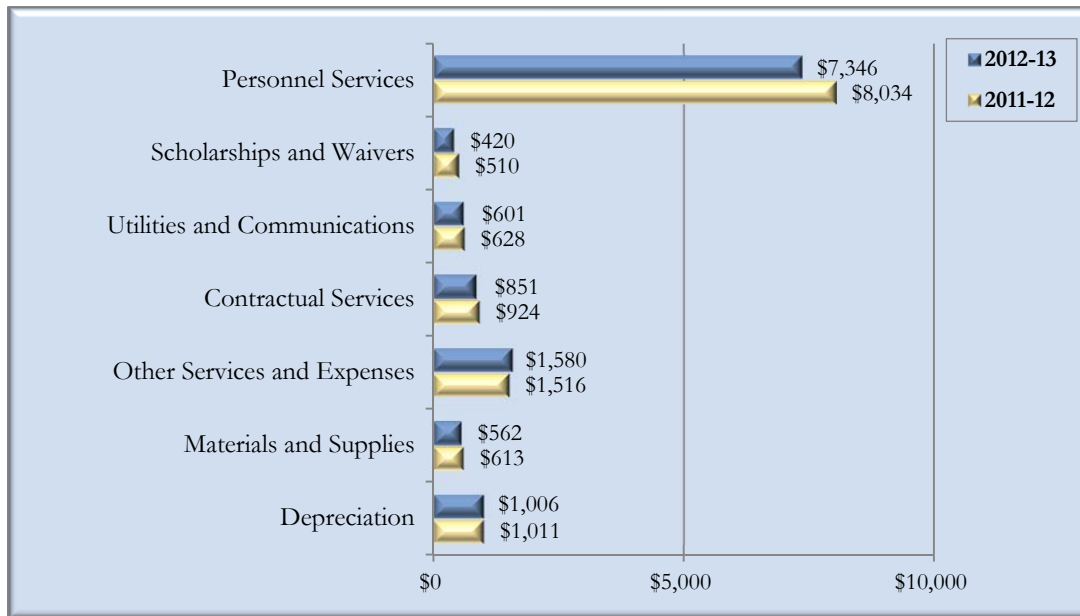
**Operating Expenses
For the Periods Ended
(In Thousands)**

	College		Component Units	
	6-30-13	6-30-12	2013 (1)	2012 (2)
Personnel Services	\$ 7,346	\$ 8,034	\$	\$
Scholarships and Waivers	420	510	98	139
Utilities and Communications	601	628		
Contractual Services	851	924		
Other Services and Expenses	1,580	1,516	587	1,248
Materials and Supplies	562	613		
Depreciation	1,006	1,011	189	31
Total Operating Expenses	\$ 12,366	\$ 13,236	\$ 874	\$ 1,418

Notes: (1) Amounts are for the fiscal year ended March 31, 2013, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2012, for the Florida Keys College Campus Foundation, Inc.
 (2) Amounts are for the fiscal year ended March 31, 2012, for the Florida Keys Educational Foundation, Inc., and 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 2012-13 and 2011-12 fiscal years:

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



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

- Personnel services expenses decreased due to the elimination of positions resulting from the College’s reorganization of staff and delays in filling open positions.
- Scholarship and waivers expense decreased primarily due to a decline in private donations for scholarships.
- Utilities and communications expense decreased due to renegotiated rates for communication services.
- Contractual services expense decreased as a result of a reduction in custodial and other services due to cost savings efforts of the College.

- Other services and expenses increased primarily as a result of special renovation projects at the Tennessee Williams Fine Arts Theatre located on the Key West Campus.
- Materials and supplies expense decreased as a result of cost savings efforts of the College.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Noncapital Appropriations	\$ 5,781	\$ 5,779
Federal and State Student Financial Aid	1,751	1,907
Gifts and Grants	65	3
Investment Income	6	7
Interest on Capital Asset-Related Debt	(6)	(7)
Other Nonoperating Expenses	68	(27)
Net Nonoperating Revenues	\$ 7,665	\$ 7,662

There were no significant changes in nonoperating revenues or expenses.

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 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Capital Appropriations	\$ 1,607	\$ 370
Capital Grants, Contracts, Gifts, and Fees	596	352
Total	\$ 2,203	\$ 722

The College received \$834 thousand for general maintenance and renovation projects as well as \$773 thousand for construction of the Marine Propulsion Building from Public Education Capital Outlay appropriations during the 2012-13 fiscal year.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the College’s financial results by reporting the major sources and uses of cash and cash equivalents. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling

investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The 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.

The following summarizes the College's cash flows for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	\$ (7,472)	\$ (8,040)
Noncapital Financing Activities	7,459	7,174
Capital and Related Financing Activities	3,919	603
Investing Activities	13	11
Net Increase (Decrease) in Cash and Cash Equivalents	3,919	(252)
Cash and Cash Equivalents, Beginning of Year	1,322	1,574
Cash and Cash Equivalents, End of Year	\$ 5,241	\$ 1,322

Major sources of funds came from State noncapital appropriations (\$5.8 million), State capital appropriations (\$5.6 million), tuition and fees, net (\$2.1 million), Federal and State student financial aid (\$1.8 million), Federal Direct student loan program receipts (\$1.5 million), and grants and contracts (\$1 million). Major uses of funds were for payments to employees (\$6.1 million), payment for employee benefits (\$1.3 million), payments to suppliers (\$2.8 million), purchases of capital assets (\$2.3 million), and disbursements to students for Federal direct student loans program disbursements (\$1.5 million).

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

- Operating activities used \$0.6 million less cash compared to the prior fiscal year primarily as a result of a \$0.4 million decrease in salaries and benefits and increases of grants and contracts of \$0.1 million.
- Cash flows from capital and related financing activities increased \$3.3 million as a result of the receipt of \$5.6 million in cash for capital projects, primarily for the construction of the Marine Propulsion Building. The increases were offset by purchases of capital assets of \$2.3 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$40.9 million in capital assets, less accumulated depreciation of \$20.3 million, for net capital assets of \$20.6 million. Depreciation charges for the current fiscal year totaled \$1 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2013</u>	<u>2012</u>
Land	\$ 322	\$ 322
Construction in Progress	2,344	87
Buildings	17,241	18,084
Other Structures and Improvements	488	558
Furniture, Machinery, and Equipment	<u>248</u>	<u>329</u>
Capital Assets, Net	<u>\$20,643</u>	<u>\$19,380</u>

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2013, were incurred for the construction of the Marine Propulsion Building which replaces an aging facility. The College's construction commitments for this project at June 30, 2013, are as follows:

	<u>Amount (In Thousands)</u>
Total Committed	\$ 4,179
Completed to Date	<u>(2,344)</u>
Balance Committed	<u>\$ 1,835</u>

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

DEBT ADMINISTRATION

At fiscal year-end, the College had \$90 thousand in long-term debt outstanding versus \$120 thousand at the end of the prior fiscal year representing a decrease of \$30 thousand, or 25 percent, from the prior fiscal year.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2012-13 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. The State funding represents approximately 59 percent of the College's unrestricted revenues. This funding increased from \$5.8 million in the 2012-13 fiscal year to \$6.4 million in the 2013-14 fiscal year, an increase of 10.3 percent. This coupled with the increase in current fund-unrestricted fund balance of \$456 thousand, an increase of 394 percent, strengthens the College's financial health significantly. The College will continue the efforts it used in the 2012-13 fiscal year to further improve its financial position in the coming years.

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 POSITION
June 30, 2013**

	<u>College</u>	<u>Component Units</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,235,872	\$ 79,105
Restricted Cash and Cash Equivalents	323,414	1,212,362
Restricted Investments		3,991,220
Accounts Receivable, Net	228,565	166,056
Due from Other Governmental Agencies	2,751,172	
Due from Component Units	925,394	
Inventories	9,972	
Prepaid Expenses	53,375	
	<hr/>	<hr/>
Total Current Assets	5,527,764	5,448,743
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,682,171	
Restricted Investments	7,609	
Depreciable Capital Assets, Net	17,976,752	6,674,021
Nondepreciable Capital Assets	2,665,915	43,774
Prepaid Scholarships		194,395
Other Assets		27,800
	<hr/>	<hr/>
Total Noncurrent Assets	24,332,447	6,939,990
TOTAL ASSETS	29,860,211	12,388,733
LIABILITIES		
Current Liabilities:		
Accounts Payable	624,684	62,074
Salary and Payroll Taxes Payable	440,838	
Accrued Interest		242,229
Retainage Payable	167,011	
Due to College		691,972
Deposits Held for Others	51,951	20,000
Long-Term Liabilities - Current Portion:		
Bonds Payable	30,000	8,149,312
Compensated Absences Payable	20,000	
	<hr/>	<hr/>
Total Current Liabilities	1,334,484	9,165,587
Noncurrent Liabilities:		
Bonds Payable	60,000	
Compensated Absences Payable	444,978	
Other Postemployment Benefits Payable	94,641	
	<hr/>	<hr/>
Total Noncurrent Liabilities	599,619	
TOTAL LIABILITIES	1,934,103	9,165,587

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013**

	College	Component Units
NET POSITION		
Net Investment in Capital Assets	\$ 20,556,787	\$
Restricted:		
Nonexpendable:		
Endowment		2,464,362
Expendable:		
Grants and Loans	284,037	1,801,031
Scholarships	64,451	
Capital Projects	6,424,935	
Debt Service	712	
Unrestricted	595,186	(1,042,247)
TOTAL NET POSITION	\$ 27,926,108	\$ 3,223,146

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

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	College	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$1,623,810	\$ 2,085,976	\$
Federal Grants and Contracts	478,669	
State and Local Grants and Contracts	24,181	8,358
Nongovernmental Grants and Contracts	158,631	
Auxiliary Enterprises	97,608	
Other Operating Revenues	387,678	957,388
Total Operating Revenues	3,232,743	965,746
EXPENSES		
Operating Expenses:		
Personnel Services	7,346,105	
Scholarships and Waivers	419,853	98,055
Utilities and Communications	601,363	
Contractual Services	850,930	
Other Services and Expenses	1,579,974	587,014
Materials and Supplies	562,040	
Depreciation	1,005,753	188,886
Total Operating Expenses	12,366,018	873,955
Operating Income (Loss)	(9,133,275)	91,791
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	5,780,527	
Federal and State Student Financial Aid	1,750,991	
Gifts and Grants	64,757	
Investment Income	6,414	419,628
Other Nonoperating Revenues	68,219	
Interest on Capital Asset-Related Debt	(6,000)	(586,687)
Net Nonoperating Revenues (Expenses)	7,664,908	(167,059)
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,468,367)	(75,268)
State Capital Appropriations	1,606,746	
Capital Grants, Contracts, Gifts, and Fees	596,539	
Total Other Revenues	2,203,285	
Increase (Decrease) in Net Position	734,918	(75,268)
Net Position, Beginning of Year	27,191,190	3,298,414
Net Position, End of Year	\$ 27,926,108	\$ 3,223,146

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, 2013

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 2,133,521
Grants and Contracts	1,017,509
Payments to Suppliers	(2,837,834)
Payments for Utilities and Communications	(609,871)
Payments to Employees	(6,084,008)
Payments for Employee Benefits	(1,328,041)
Payments for Scholarships	(419,853)
Auxiliary Enterprises	97,608
Other Receipts	<u>558,873</u>
Net Cash Used by Operating Activities	<u>(7,472,096)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	5,780,527
Federal and State Student Financial Aid	1,750,991
Federal Direct Loan Program Receipts	1,547,997
Federal Direct Loan Program Disbursements	(1,547,997)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	90,358
Other Nonoperating Disbursements	<u>(162,566)</u>
Net Cash Provided by Noncapital Financing Activities	<u>7,459,310</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	5,627,513
Capital Grants and Gifts	595,797
Purchases of Capital Assets	(2,268,811)
Principal Paid on Capital Debt	(30,000)
Interest Paid on Capital Debt	<u>(6,000)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>3,918,499</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	6,620
Investment Income	<u>6,414</u>
Net Cash Provided by Investing Activities	<u>13,034</u>
Net Increase in Cash and Cash Equivalents	3,918,747
Cash and Cash Equivalents, Beginning of Year	<u>1,322,710</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,241,457</u></u>

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (9,133,275)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,005,753
Changes in Assets and Liabilities:	
Receivables, Net	564,102
Inventories	3,372
Prepaid Expenses	29,893
Accounts Payable	85,321
Deposits Held for Others	10,665
Compensated Absences Payable	(42,285)
Other Postemployment Benefits Payable	4,358
NET CASH USED BY OPERATING ACTIVITIES	\$ (7,472,096)

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, 2013

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. 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 and is governed by a separate board.
- The Florida Keys College Campus Foundation, Inc. (Campus Foundation), is included within the College's reporting 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, 2013, and from the Campus Foundation's audited financial statements for the fiscal year ended September 30, 2012. Additional condensed financial statements for the College's component units are included in a subsequent note.

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

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - 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 follows GASB standards of accounting and financial reporting.

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.

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, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the 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 student 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.

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, 2013, the College reported as cash equivalents \$91,361 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, 2013, 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 40 days as of June 30, 2013. 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.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 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. 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, 2013, are reported at fair value, as follows:

Investment Type	Amount
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 2,778
State Board of Administration Debt Service Accounts	4,831
Total College Investments	\$ 7,609

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

State Board of Administration Fund B Surplus Funds Trust Fund

The 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, 2013, the College reported investments at fair value of \$2,778 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 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, 2013. 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 \$4,831 at June 30, 2013, 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.

Component Units Investments

Investments held by the Florida Keys Educational Foundation, Inc., at March 31, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Cash and Cash Equivalents	\$ 31,400
Mutual Funds - Equities	3,329,551
Mutual Funds - Fixed Income	<u>630,269</u>
Total Component Unit Investments	<u>\$ 3,991,220</u>

The Florida Keys College Campus Foundation, Inc., had no investments at September 30, 2012.

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 \$16,720 allowance for doubtful accounts.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$2,430,132 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM AND TO COMPONENT UNITS/COLLEGE

The \$925,394 reported as due from component units consists of \$132,040 owed to the College from the Florida Keys Educational Foundation, Inc., for scholarships and student aid programs and \$793,354 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, 2013. The Florida Keys Educational Foundation, Inc., financial statements are reported for the fiscal year ended March 31, 2013, and the Florida Keys College Campus Foundation, Inc., financial statements are reported for the fiscal year ended September 30, 2012. Accordingly, amounts reported by the College as due from and to component units on the statement of net position do not agree with amounts reported by the component units as due from and to the College.

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.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 321,796	\$	\$	\$ 321,796
Construction in Progress	87,479	2,256,640		2,344,119
Total Nondepreciable Capital Assets	\$ 409,275	\$ 2,256,640	\$	\$ 2,665,915
Depreciable Capital Assets:				
Buildings	\$ 33,325,933	\$	\$	\$ 33,325,933
Other Structures and Improvements	2,837,675			2,837,675
Furniture, Machinery, and Equipment	2,122,655	12,171		2,134,826
Total Depreciable Capital Assets	38,286,263	12,171		38,298,434
Less, Accumulated Depreciation:				
Buildings	15,242,218	842,876		16,085,094
Other Structures and Improvements	2,280,075	69,700		2,349,775
Furniture, Machinery, and Equipment	1,793,636	93,177		1,886,813
Total Accumulated Depreciation	19,315,929	1,005,753		20,321,682
Total Depreciable Capital Assets, Net	\$ 18,970,334	\$ (993,582)	\$	\$ 17,976,752

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Capital Assets – Component Unit

The Florida Keys College Campus Foundation Inc. capital asset activity for the fiscal year ended September 30, 2012 is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Building	\$ 6,683,150	\$	\$	\$ 6,683,150
Furnishings and Equipment	211,130			211,130
Total Depreciable Capital Assets	6,894,280			6,894,280
Less Accumulated Depreciation:				
Building	26,346	158,725		185,071
Furnishings and Equipment	5,027	30,161		35,188
Total Accumulated Depreciation	31,373	188,886		220,259
Total Depreciable Capital Assets, Net	\$ 6,862,907	\$ (188,886)	\$	\$ 6,674,021

Total depreciation was \$188,886 for the year ended September 30, 2012.

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 120,000	\$	\$ 30,000	\$ 90,000	\$ 30,000
Compensated Absences Payable	507,263	66,698	108,983	464,978	20,000
Other Postemployment Benefits Payable	90,283	47,746	43,388	94,641	
Total Long-Term Liabilities	\$ 717,546	\$ 114,444	\$ 182,371	\$ 649,619	\$ 50,000

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, 2013:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2005A	\$ 90,000	5	2016

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

SBE Capital Outlay Bonds		
Principal	Interest	Total
\$ 30,000	\$ 4,500	\$ 34,500
25,000	3,000	28,000
35,000	1,750	36,750
\$ 90,000	\$ 9,250	\$ 99,250

Bonds Payable – Component Unit

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

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 fiscal year ended September 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable	\$ 8,305,000	\$	\$	\$ 8,305,000
Less: Unamortized Bond Discount	(161,025)		5,337	(155,688)
Total Bonds Payable	\$ 8,143,975	\$	\$ 5,337	\$ 8,149,312

The Bonds are subject to 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 Campus Foundation has not met all covenants, and as such the bonds are due and payable upon demand. The Bonds are collateralized by the revenues of the Campus Foundation and by the building constructed by the Campus Foundation. The unamortized bond discount is amortized over 31 years.

On February 26, 2013, the bond trustee issued a notice of default indicating that the Campus Foundation was in violation of certain provisions of the trust indenture. As the Campus Foundation is in default, the total bonds payable balance is shown as current liabilities in the statement of net position. If the Campus Foundation was not in default, the future maturities of the Bonds payable would be as follows:

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Year Ending September 30	Principal	Interest	Total Debt Service
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	110,000	554,342	664,342
2018-2022	660,000	2,639,700	3,299,700
2023-2027	930,000	2,356,375	3,286,375
2028-2032	1,305,000	1,957,813	3,262,813
2033-2037	1,830,000	1,398,425	3,228,425
2038-2042	2,560,000	616,583	3,176,583
2043	625,000	3,646	628,646
Total	\$ 8,305,000	\$ 11,814,746	\$ 20,119,746

The total interest incurred for the fiscal year ended September 30, 2012, was \$586,687, which includes amortized bond discount of \$5,337.

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, 2013, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$464,978. The current portion of the compensated absences liability, \$20,000, is the amount expected to be paid in the coming fiscal year to employees who retired with an effective retirement date of June 30, 2013.

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 administered 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.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 2012-13 fiscal year, 13 retirees received postemployment healthcare benefits, and 10 retirees received postemployment life insurance benefits. The College provided required contributions of \$43,388 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$82,035, which represents 1.6 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 33,408
Amortization of Unfunded Actuarial Accrued Liability	<u>13,736</u>
Annual Required Contribution	47,144
Interest on Net OPEB Obligation	3,611
Adjustment to Annual Required Contribution	<u>(3,009)</u>
Annual OPEB Cost (Expense)	47,746
Contribution Toward the OPEB Cost	<u>(43,388)</u>
Increase in Net OPEB Obligation	4,358
Net OPEB Obligation, Beginning of Year	<u>90,283</u>
Net OPEB Obligation, End of Year	<u><u>\$ 94,641</u></u>

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, 2013, and for the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010-11	\$ 39,592	24.6%	\$ 74,947
2011-12	47,644	67.8%	90,283
2012-13	47,746	90.9%	94,641

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

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

employees) was \$5,020,844 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.2 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 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, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years for pre-Medicare and 5 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, 2013, was 24 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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.

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 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
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.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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, 2011, June 30, 2012, and June 30, 2013, totaled \$417,727, \$253,151, and \$256,474, respectively, which were equal to the required contributions for each fiscal year.

There were 32 College participants in the Investment Plan during the 2012-13 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$152,951, which was equal to the required contribution for the 2012-13 fiscal year.

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. CONSTRUCTION COMMITMENTS

The College’s major construction commitment at June 30, 2013, is as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Marine Propulsion Building	\$ 4,179,533	\$ 2,344,119	\$ 1,835,414

11. 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 \$90 million to February 28, 2013, and up to \$125 million from March 1, 2013. 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.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

12. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 4,052,238
Public Services	121,918
Academic Support	1,169,923
Student Services	1,013,386
Institutional Support	2,232,740
Operation and Maintenance of Plant	2,288,536
Scholarships and Waivers	419,853
Depreciation	1,005,753
Auxiliary Enterprises	<u>61,671</u>
Total Operating Expenses	<u>\$ 12,366,018</u>

13. DISCRETELY PRESENTED COMPONENT UNITS

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

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Condensed Statement of Net Position

	Direct-Support Organizations		Total
	Florida Keys Educational Foundation, Inc. (1)	Florida Keys College Campus Foundation, Inc. (2)	
Assets:			
Current Assets	\$ 4,081,888	\$ 1,366,855	\$ 5,448,743
Capital Assets, Net	43,774	6,674,021	6,717,795
Other Noncurrent Assets	222,195		222,195
Total Assets	<u>4,347,857</u>	<u>8,040,876</u>	<u>12,388,733</u>
Liabilities:			
Current Liabilities	62,074	9,103,513	9,165,587
Total Liabilities	<u>62,074</u>	<u>9,103,513</u>	<u>9,165,587</u>
Net Position:			
Restricted Nonexpendable	2,464,362		2,464,362
Restricted Expendable	1,801,031		1,801,031
Unrestricted	20,390	(1,062,637)	(1,042,247)
Total Net Position	<u>\$ 4,285,783</u>	<u>\$ (1,062,637)</u>	<u>\$ 3,223,146</u>

Notes: (1) Amounts are for the fiscal year ended March 31, 2013.
(2) Amounts are for the fiscal year ended September 30, 2012.

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

	Direct-Support Organizations		Total
	Florida Keys Educational Foundation, Inc. (1)	Florida Keys College Campus Foundation, Inc. (2)	
Operating Revenues	\$ 223,979	\$ 741,767	\$ 965,746
Depreciation Expense		(188,886)	(188,886)
Operating Expenses	(250,551)	(434,518)	(685,069)
Operating Income (Loss)	<u>(26,572)</u>	<u>118,363</u>	<u>91,791</u>
Net Nonoperating Revenues (Expenses)			
Nonoperating Revenues	419,369	259	419,628
Interest Expense		(586,687)	(586,687)
Net Nonoperating Revenues (Expenses)	<u>419,369</u>	<u>(586,428)</u>	<u>(167,059)</u>
Increase (Decrease) in Net Position	<u>392,797</u>	<u>(468,065)</u>	<u>(75,268)</u>
Net Position, Beginning of Year	3,892,986	(594,572)	3,298,414
Net Position, End of Year	<u>\$ 4,285,783</u>	<u>\$ (1,062,637)</u>	<u>\$ 3,223,146</u>

Notes: (1) Amounts are for the fiscal year ended March 31, 2013.
(2) Amounts are for the fiscal year ended September 30, 2012.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

14. CURRENT UNRESTRICTED FUNDS

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

Statement of Current Unrestricted Funds Net Position

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,235,872
Accounts Receivable, Net	226,586
Due from Other Governmental Agencies	87,335
Inventories	9,972
Prepaid Expenses	48,899
TOTAL ASSETS	1,608,664
LIABILITIES	
Current Liabilities:	
Accounts Payable	453,859
Compensated Absences Payable	20,000
Total Current Liabilities	473,859
Noncurrent Liabilities:	
Compensated Absences Payable	444,978
Other Postemployment Benefits Payable	94,641
TOTAL LIABILITIES	1,013,478
TOTAL NET POSITION	\$ 595,186

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship		
Allowances of \$1,497,779	\$	1,914,994
Auxiliary Enterprises		97,608
Other Operating Revenues		<u>386,648</u>
Total Operating Revenues		<u>2,399,250</u>

EXPENSES

Operating Expenses:

Personnel Services		6,978,321
Utilities and Communications		601,353
Contractual Services		662,357
Other Services and Expenses		790,840
Materials and Supplies		<u>312,273</u>
Total Operating Expenses		<u>9,345,144</u>
Operating Loss		<u>(6,945,894)</u>

NONOPERATING REVENUES

State Noncapital Appropriations		5,780,527
Gifts and Grants		57,500
Investment Income		6,259
Other Nonoperating Revenues		<u>68,219</u>
Nonoperating Revenues		<u>5,912,505</u>

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

		<u>(1,033,389)</u>
Capital Grants, Contracts, Gifts, and Fees		117,708
Transfers from Other Funds		<u>1,494,178</u>
Increase in Net Position		578,497
Net Position, Beginning of Year		<u>16,689</u>
Net Position, End of Year	\$	<u>595,186</u>

**FLORIDA KEYS COMMUNITY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 204,308	\$ 204,308	0%	\$ 4,308,946	4.7%
7/1/2009		348,494	348,494	0%	5,270,286	6.6%
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*

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida Keys Community College, a component unit of the State of Florida, and the aggregate discretely presented component units as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 19, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors and was modified to address a disclaimer of an opinion on the Florida Keys College Campus Foundation, Inc., one of the aggregate discretely presented component units, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, as described in the **FINDINGS AND RECOMMENDATIONS** section of this report, that we consider, in combination, to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2014-065.

Management's response to the findings described in the **FINDINGS AND RECOMMENDATIONS** section of this report are included as Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 19, 2014

FINDINGS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCY

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

Finding No. 1: 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 net position are those imposed by law, rule, regulation, or the Board's budget. At June 30, 2013, the College's current funds-unrestricted fund balance¹ totaled \$572,290, which was an increase of \$456,471 over the \$115,819 balance at June 30, 2012.

Although the College's current funds-unrestricted experienced a favorable increase in its fund balance during the 2012-13 fiscal year, the College's current funds-unrestricted fund balance may be reduced, as follows:

- As discussed in finding No. 2, as of June 30, 2013, the College loaned the Florida Keys College Campus Foundation, Inc. (Campus Foundation), a total of \$908,544 (\$563,506 and \$345,038 during the 2011-12 and 2012-13 fiscal years, respectively) for expenses of the Campus Foundation's student residence hall. As of June 30, 2013, the Foundation had repaid \$115,190 of this amount and owed the College \$793,354. The \$793,354 still owed to the College consists of \$210,572 of capital improvement moneys from the unexpended plant fund, and \$582,782 from the agency fund. College personnel indicated that as of January 14, 2014, the Foundation had repaid the College an additional \$56,320 since June 30, 2013. College personnel also indicated that the College has a reasonable expectation that the Foundation will continue to repay the College for those expenses. College personnel further stated that the College has been negotiating with the Trustee for the Foundation's outstanding revenue bonds and with the majority bondholder to collect the outstanding amounts owed to the College by the Foundation.

The Foundation's independent auditor's report, dated October 24, 2013, on the Foundation's financial statements for the fiscal year ended September 30, 2012, stated that there was substantial doubt about the Foundation's ability to continue as a going concern. Additionally, the auditor's report states that the bond trustee for the Foundation's Senior Leasehold Industrial Development Revenue Bonds used to finance campus student housing issued a notice of default indicating that the Foundation was in violation of certain provisions of the trust indenture and had not made scheduled debt service payments, and that since the bond trustee claims that the revenues generated by the student residence hall financed with the proceeds of the bonds are pledged and assigned as collateral for the bonds, foreclosure on the student housing facilities by the bank would seriously impair the Foundation's ability to continue to operate the student residence hall as a going concern. Further, the report states that the Foundation incurred a net loss of \$468,000 for the fiscal year ended September 30, 2012, and incurred cumulative net losses of \$1.1 million from April 26, 2010, to September 30, 2012.

Notwithstanding that College personnel expect the Foundation to fully repay the College, the uncertainties described in the auditor's report may significantly impact the College's ability to collect the outstanding amounts owed to it. In addition, as funds are needed in the College's unexpended plant fund to pay for College capital outlay project commitments, and as agency fund liabilities become due (see further discussion

¹ Unrestricted net position reported on the statement of net position totaled \$595,186, which is comprised of the current funds-unrestricted fund balance of \$572,290 plus the auxiliary funds – fund balance of \$22,896.

in finding No. 3), it may be necessary for the College to restore the amounts to these funds from the College’s current funds-unrestricted.

Professional auditing standards require that when other auditors report on a significant portion of an entity’s financial statements, and the opinions contained in the reports are not unmodified, appropriate disclosures should be made in the auditor’s report. For the reasons described above, the Foundation’s independent auditor’s report disclaimed an opinion on the Foundation’s financial statements. Therefore, our report on the College’s financial statements includes a disclaimer of opinion on the aggregate discretely presented component units.

- At June 30, 2013, the College reported net accounts receivable totaling \$228,565, as follows:

Fund	Amount
Current Funds-Unrestricted	\$ 218,960
Current Funds-Restricted	686
Auxiliary	7,627
Scholarship	627
Unexpended Plant	665
Total Accounts Receivable, Net of Allowance for Doubtful Accounts	\$ 228,565

Included in the receivable balances of the various funds listed above were student receivables totaling \$215,876, net of allowance for doubtful accounts. Our review of the individual student receivable balances disclosed that, as of June 30, 2013, no payments had been received by the College in the past two years for 115 individual receivable accounts with balances ranging from \$7 to \$7,143 and totaling \$85,855. Since no payments have been made on those delinquent accounts in the past two years, the collectability of those accounts is uncertain. College Procedure No. 21.45, *Accounts Receivable Write-Offs*, provides that uncollectible account receivables eligible for write-off are those that are two years old or older. Although the College provided for a \$16,720 allowance for doubtful accounts in the current funds-unrestricted, the amount of the allowance is significantly less than the delinquent student accounts totaling \$85,855. College personnel indicated that during the 2013-14 fiscal year the individual student receivable accounts would continue to be reviewed to determine which accounts were collectible and to write-off those that are determined to be uncollectible.

If the College is unable to collect amounts owed to it by the Foundation, and if a large portion of the delinquent student accounts receivable of the current funds-unrestricted is determined to be uncollectible, the fund balance of the College’s current funds-unrestricted would be significantly reduced and, as a result, may not have sufficient resources available for emergencies and unforeseen situations. A similar finding was noted in our report No. 2013-151.

Recommendation: The Board should develop a formal financial plan to ensure the current funds-unrestricted have sufficient resources for emergencies and unforeseen situations. The plan should address the College’s efforts to collect the amounts due from the Campus Foundation, and efforts to collect student receivables and maintain an adequate allowance for doubtful accounts.

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

During the 2011-12 fiscal year, the Campus Foundation, a 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 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 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. The management agreement indicates that the College is fiscal agent for the Foundation.

During the 2011-12 fiscal year, College funds were loaned to the Foundation for Facility operating expenses, and at June 30, 2012, \$563,506 was reported in the College’s current funds-restricted as due from the Foundation. During the 2012-13 fiscal year, additional College funds totaling \$345,038 were loaned to the Foundation for Facility operating expenses from the current funds-restricted and from the agency fund. The College received reimbursements from the Foundation totaling \$115,190 and, at June 30, 2013, the College reported that \$793,354 was due from the Foundation. A summary of the amounts loaned to the Foundation for Facility operating expenses, and reimbursements received, is shown below:

	Current Funds - Restricted	Agency Fund	Unexpended Plant Fund	Total
Due from Campus Foundation, July 1, 2012	\$ 563,506	\$	\$	\$ 563,506
Foundation expenses paid by the College, during the 2012-13 fiscal year	250,625	94,413		345,038
Expense reimbursements received from Foundation, during the 2012-13 fiscal year	(47,636)	(67,554)		(115,190)
Net additional amounts loaned to Foundation during the 2012-13 fiscal year	202,989	26,859		229,848
Adjustment to reimburse current funds-restricted using capital improvement fees from unexpended plant fund	(210,572)		210,572	
Adjustment to transfer Foundation loans from the current funds-restricted to the agency fund	(555,923)	555,923		
Due from Campus Foundation, June 30, 2013	<u>\$</u>	<u>\$ 582,782</u>	<u>\$ 210,572</u>	<u>\$ 793,354</u>

College personnel indicated that College funds were advanced to the Foundation to allow for a timely opening and for continuing Facility operations and that the College had a reasonable expectation that amounts advanced would be repaid. However, as discussed in finding No. 1, the Foundation’s independent auditor’s report dated October 24, 2013, stated that there was substantial doubt about the ability of the Foundation to continue as a going concern.

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. A similar finding was noted in our report No. 2013-151.

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

Finding No. 3: Use of Agency Fund Cash

The Florida Department of Education publication, *Accounting Manual for Florida's Public Community Colleges* (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.” 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. 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.” Additionally, 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. 2, the College served as the fiscal agent for the Campus Foundation. During the 2012-13 fiscal year, the Foundation’s financial activities were accounted for in the College’s current funds-restricted and agency fund; however, adjustments were made at year-end to transfer amounts recorded in the current funds-restricted as due from the Foundation to the agency fund. As a result of these adjustments, agency fund cash totaling \$555,923 was used to reimburse the current funds-restricted for the amount the Foundation owed the College for Facility operating expenses, and an additional \$26,859 of agency fund cash was used during the 2012-13 fiscal year to pay for unreimbursed operating expenses. At June 30, 2013, \$582,782 was reported in the agency fund as due from the Foundation.

Since the cash resources of the agency fund represents resources held by the College as custodian or fiscal agent for others, the agency fund does not have the cash needed to pay the liabilities (obligations) as they become due. As a result, resources of the Colleges current fund-unrestricted will be needed to pay the obligations of the agency fund as they become due. At June 30, 2013, the College’s agency fund had a cash balance deficit of \$89,993 and liabilities (consisting of deposits held in custody for others and salaries and wages payable) totaling \$492,789.

Recommendation: The College should ensure that agency fund cash, being held as custodian or fiscal agent for others, are not used for other purposes. Also, the College should restore the \$582,782 to the agency fund from unobligated funds of the College’s current funds-unrestricted.

Finding No. 4: Financial 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 2012-13 financial statements, as presented for audit, disclosed that financial accounting and reporting procedures could be improved as discussed below.

- At its meeting on June 24, 2013, the College's Board of Trustees approved a resolution providing for the Board's ratification and confirmation of \$210,572 of expenditures of capital improvement fees during the 2011-12 fiscal year to pay the costs of certain security, fire safety, and internet network systems at the Facility owned by the Campus Foundation. The College's expenditures of capital improvement fees referred to in the Board's resolution were recorded as other expenses of the unexpended plant fund for the 2012-13 fiscal year. Since those expenditures were originally paid by the Foundation during the 2011-12 fiscal year with funds loaned by the College (as discussed in finding No. 2), the College recorded the \$210,572 as a reduction of the amount originally loaned to the Foundation. However, the Board's resolution authorizing such use of the capital improvement fees provided that the Foundation's obligation to repay the \$210,572 to the College was not forgiven and, therefore, should not have been recorded as an expense of the unexpended plant fund or a reduction to the amount due from the Foundation. As a result, amounts due from component units were under reported on the statement of net position by \$210,572.
- During the 2011-12 fiscal year, the College made a post-closing adjustment to transfer \$800,000 from the unexpended plant funds to the current funds-restricted to eliminate a \$789,216 deficit cash balance in the current funds-restricted fund. However, the College did not record the post-closing adjustment in the general ledger. As a result, the 2012-13 fiscal year beginning cash balances for the current funds-restricted and the unexpended plant funds did not agree with the 2011-12 fiscal year ending cash balances for the funds, respectively, on the statement of net position.

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

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

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2013-151, except finding Nos. 1 and 2 were also noted in prior audit report No. 2013-151, as finding Nos. 4 and 2, respectively.

**EXHIBIT A
MANAGEMENT'S RESPONSE**



March 19, 2014

David W. Martin
Auditor General
G74 Claude Pepper Building
Tallahassee, Florida 32399-1450
Dear Mr. Martin:

Please find Florida Keys Community College's responses to Preliminary and Tentative Findings for the FY 2013 Financial Audit.

Finding No. 1: Financial Conditions:

The College and the Florida Keys College Campus Foundation (FKCCF) are working to formalize a plan with the bondholders to recover monies advanced for the operation of the residence hall. Occupancy levels have improved over prior years and operational expenditures have been reduced during FY 2013-14.

A forbearance agreement with the bondholders is being prepared which will temporarily reduce the interest rate to 5% and delay payments of principal for two years. With these adjustments to the bond payments the FKCCF budget will reflect funds in excess of \$100,000 in each of the next two years that will be available to the FKCCF to repay the College the funds previously advanced.

The College will restore to the Agency fund the amounts used for the operation of the residence hall. The College will pursue the recovery of these funds from the FKCCF but will fully reserve the amount due based upon the "going concern" note in the FKCCF's most recent audit.

The College has improved its accounts receivable reconciliation process and has reviewed the status of the collection of its receivables. Any accounts which are deemed uncollectible will be written off in FY 2014. The College has been diligently reviewing the accounts receivable files and correcting errors on student accounts as needed.

The College has reduced operating expenditures and ended Fiscal Year 2013 with an ending unrestricted fund balance of 10.75%, more than double the minimum amount required by the State of Florida. Based upon the College's control over its finances in FY 2014, the ending unrestricted fund balance will still be above the required 5% even after recording the adjustments for the loan and write off of uncollectible accounts receivable.

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

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

The College discontinued advancing funds to the foundation for its operations in January 2013 and has reduced the amount from \$582,782 (exclusive of the \$210,572 for capital expenditures) in FY 2013 to approximately \$510,000 as of February 2014. The bondholder has released funds for payment of expenses on a monthly basis. The bond holder is establishing a petty cash fund at a local bank for direct payment of some items.

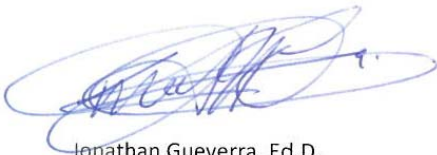
Finding No. 3: Use of Agency Fund Cash

The College restored the amounts to the agency funds and will record the use of funds in the Current Unrestricted Fund in March 2014. This will clear the deficit in the Agency Fund. The College will not use the Agency account funds for expenditures of the residence hall.

Finding No. 4: Financial Reporting

The College will revise its resolution regarding the recovery of the \$210,572 and recognize it as an expense as was previously intended and not as a loan of funds. These capital improvement funds were identified as college related expenses. The FLDOE approved these expenditures as such.

The College maintains that the recording of the \$800,000 was a temporary Due to/Due From of cash which was eliminated in the consolidated financials. The amounts would have been reversed in the subsequent year having no effect on the overall financials. However, the College will be more diligent in its financial reporting and has addressed additional reporting requirements.



Jonathan Guevera, Ed.D.
President, Florida Keys Community College

cc: W. Jean Mauk

Island Living, Island Learning

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