

FLORIDA KEYS COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2014



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

Robert C. Stoky, Chair from 9-23-13 (1)
Timothy J. Koenig from 8-28-13,
Vice Chair from 9-23-13
Dr. Antoinette MacPherson-Charles,
to 8-27-13, Chair (2)(3)
Edwin A. Scales III, to 10-28-13,
Vice Chair to 9-22-13 (4)
Anne M. O'Bannon
Brian C. Schmitt
Elena G. Spottswood from 2-28-14 (1)
Vacant positions (5)

Dr. Jonathan Gueverra, President

- Notes:
- (1) Board member served beyond the end of term, May 31, 2014.
 - (2) Board Chair resigned on August 27, 2013. Chair position remained vacant through September 22, 2013.
 - (3) Formerly known as Dr. Antoinette E. Martin.
 - (4) Board member resigned on October 28, 2013, position remained vacant until February 27, 2014.
 - (5) On March 31, 2014, the Board approved adding two Board member positions, these board member positions were vacant through June 30, 2014.

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 Ian Borbolla, CPA, and the audit was supervised by Hector J. Quevedo, 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
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental 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:

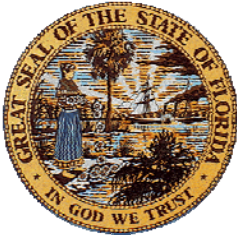
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied 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. 2014-180.

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, 2014. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent College records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Keys Community College and of its aggregate discretely presented component units as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Liquidity and Management Plans

The other auditor's report on the financial statements of Florida Keys College Campus Foundation, Inc. (Campus Foundation), for the fiscal year ended September 30, 2013, included an emphasis-of-matter paragraph that indicated the Campus Foundation has experienced significant losses over the past several years. In addition, the other auditor's report indicated that the Campus Foundation currently has debt of \$8,305,000 that would be due May 1, 2015, if certain obligations are not met under a Forbearance Agreement with the Trustee for the debt that the Campus Foundation entered into as of May 1, 2014. Details of the Forbearance Agreement are described in notes 8 and 9 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** and **SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**, 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 23, 2015

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, 2014, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2014, and June 30, 2013, and its component units Florida Keys Educational Foundation, Inc., for the fiscal years ended March 31, 2014, and March 31, 2013, and for Florida Keys College Campus Foundation, Inc., for the fiscal years ended September 30, 2013, and September 30, 2012.

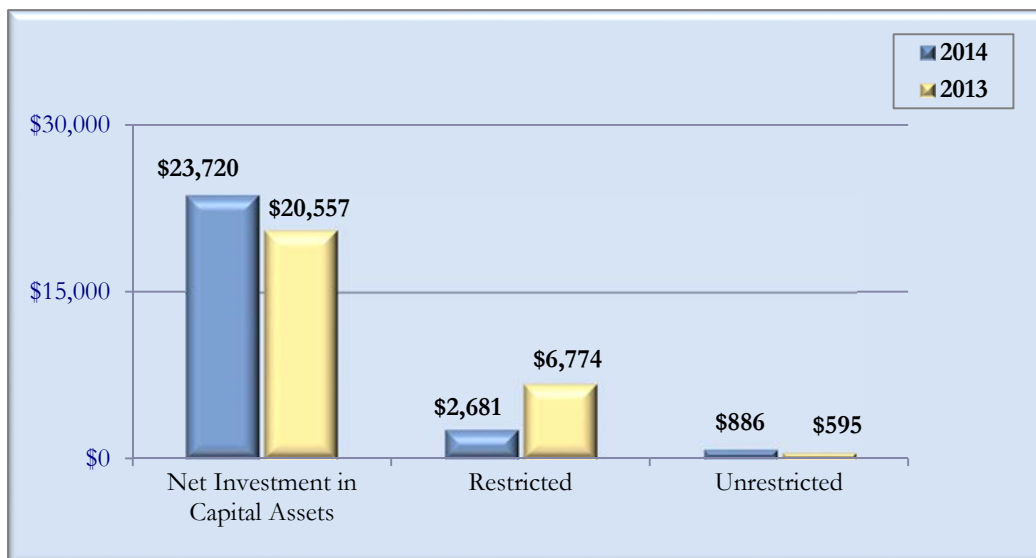
FINANCIAL HIGHLIGHTS

The College’s assets totaled \$28.8 million at June 30, 2014. This balance reflects a \$1.1 million, or 3.7 percent, decrease as compared to the 2012-13 fiscal year, resulting from reductions in cash and cash equivalents and receivables, offset by an increase in depreciable capital assets. Liabilities decreased by 24 percent, totaling \$1.5 million at June 30, 2014, compared to \$1.9 million at June 30, 2013. As a result, the College’s net position decreased by \$0.6 million, resulting in a year-end balance of \$27.3 million.

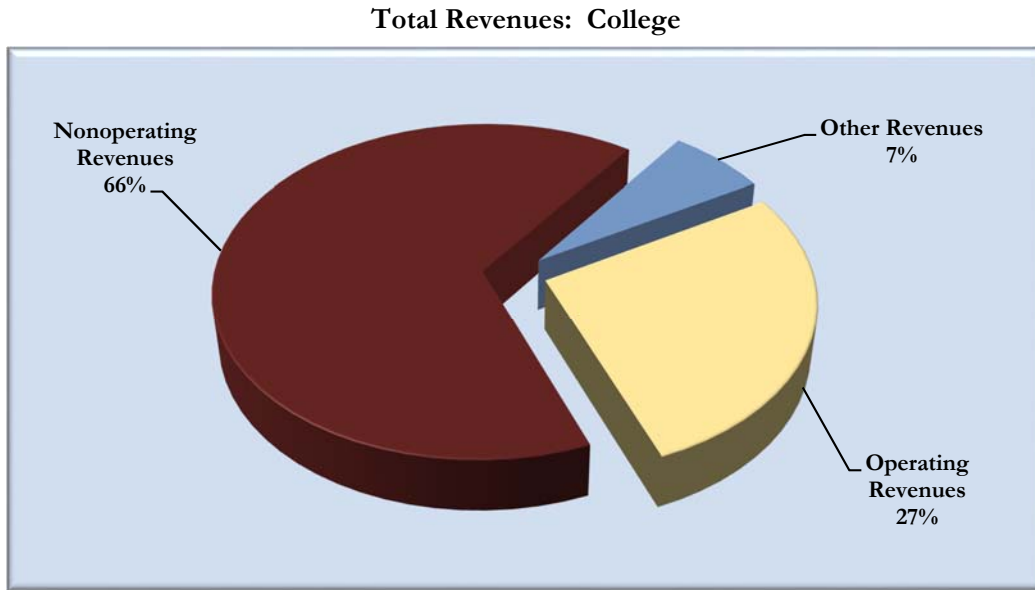
The College’s operating revenues totaled \$3.3 million for the 2013-14 fiscal year, representing a 3.5 percent increase as compared to the 2012-13 fiscal year. Operating expenses totaled \$12.9 million for the 2013-14 fiscal year, representing an increase of 4.2 percent as compared to the 2012-13 fiscal year, mainly due to increases in contractual services for campus security and legal services; materials and supplies expenses (non-capitalized furniture, machinery, and equipment and computer software for the new Marine Technology Building); and utilities and communications expenses, offset by a reduction in personnel services expenses due to organizational restructuring and delays in hiring for open positions.

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, 2014, and June 30, 2013, 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 2013-14 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College’s financial report consists of three basic financial statements: the statement of net 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.
- 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.

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 equal 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 fiscal years ended are shown in the following table:

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

	College		Component Units	
	6-30-14	6-30-13	2014 (1)	2013 (2)
Assets				
Current Assets	\$ 3,065	\$ 5,528	\$ 6,062	\$ 5,449
Capital Assets, Net	23,780	20,643	6,553	6,718
Other Noncurrent Assets	1,911	3,689	50	222
Total Assets	28,756	29,860	12,665	12,389
Liabilities				
Current Liabilities	914	1,334	9,474	9,166
Noncurrent Liabilities	555	600	5	
Total Liabilities	1,469	1,934	9,479	9,166
Net Position				
Net Investment in Capital Assets	23,720	20,557	(930)	
Restricted	2,681	6,774	4,662	4,265
Unrestricted	886	595	(546)	(1,042)
Total Net Position	\$ 27,287	\$ 27,926	\$ 3,186	\$ 3,223

Notes: (1) Amounts are for the fiscal year ended March 31, 2014, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2013, for the Florida Keys College Campus Foundation, Inc.

(2) 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.

Significant events include the following:

- Net capital Assets increased by \$3.1 million due to the completion of the new Marine Technology Building in the amount of \$6.4 million, partially offset by the reduction of construction in progress of \$2.3 million, and additions to accumulated depreciation of \$1.2 million.
- Due from other governmental agencies decreased by \$2.2 million due to the receipt of State Public Education Capital Outlay (PECO) funds for the Marine Technology Building.
- Retainage payable decreased by \$0.2 million due to the completion of the Marine Technology Building during the 2013-14 fiscal year.

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

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

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

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

	College		Component Units	
	6-30-14	6-30-13	2014 (1)	2013 (2)
Operating Revenues	\$ 3,346	\$ 3,233	\$ 990	\$ 966
Less, Operating Expenses	12,883	12,366	1,035	874
Operating Income (Loss)	(9,537)	(9,133)	(45)	92
Net Nonoperating Revenues (Expenses)	8,081	7,665	8	(167)
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,456)	(1,468)	(37)	(75)
Other Revenues, Expenses, Gains, or Losses	817	2,203		
Net Increase (Decrease) in Net Position	(639)	735	(37)	(75)
Net Position, Beginning of Year	27,926	27,191	3,223	3,298
Net Position, End of Year	\$ 27,287	\$ 27,926	\$ 3,186	\$ 3,223

Notes: (1) Amounts are for the fiscal year ended March 31, 2014, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2013, for the Florida Keys College Campus Foundation, Inc.

(2) 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.

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 fiscal years ended:

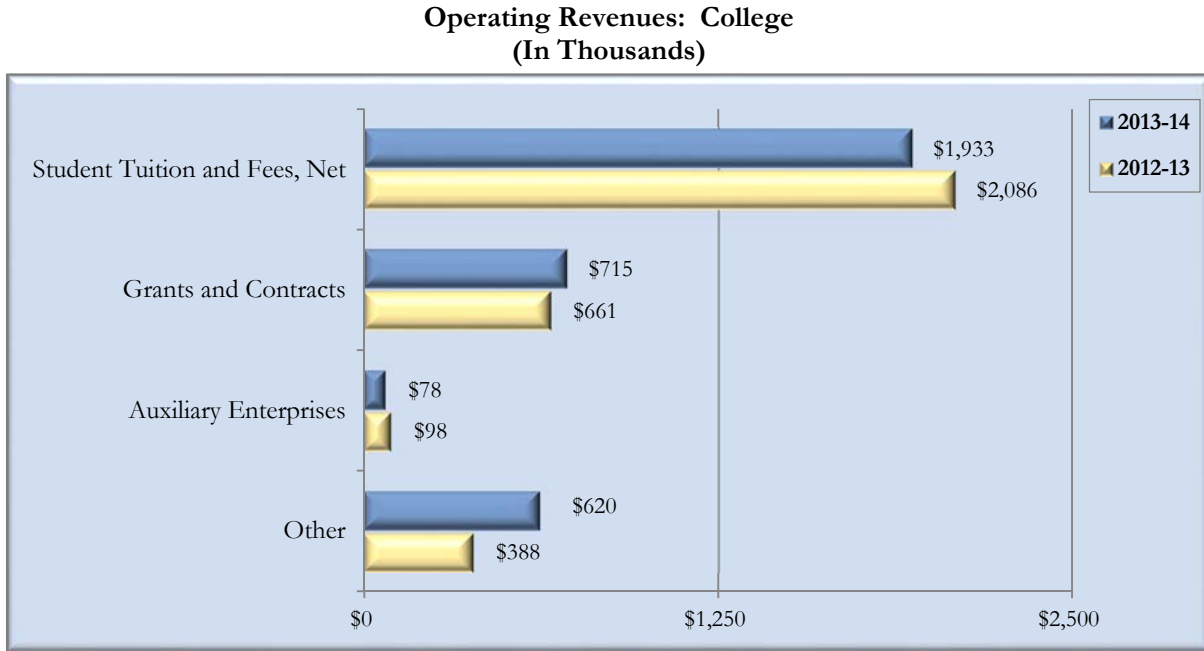
**Operating Revenues
For the Fiscal Years Ended
(In Thousands)**

	College		Component Units	
	6-30-14	6-30-13	2014 (1)	2013 (2)
Student Tuition and Fees, Net	\$ 1,933	\$ 2,086	\$	\$
Grants and Contracts	715	661	13	8
Auxiliary Enterprises	78	98		
Other	620	388	977	958
Total Operating Revenues	\$ 3,346	\$ 3,233	\$ 990	\$ 966

Notes: (1) Amounts are for the fiscal year ended March 31, 2014, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2013, for the Florida Keys College Campus Foundation, Inc.

(2) 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.

The following chart presents the College’s operating revenues for the 2013-14 and 2012-13 fiscal years:



Total operating revenues were relatively unchanged as compared to the prior 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 fiscal years ended:

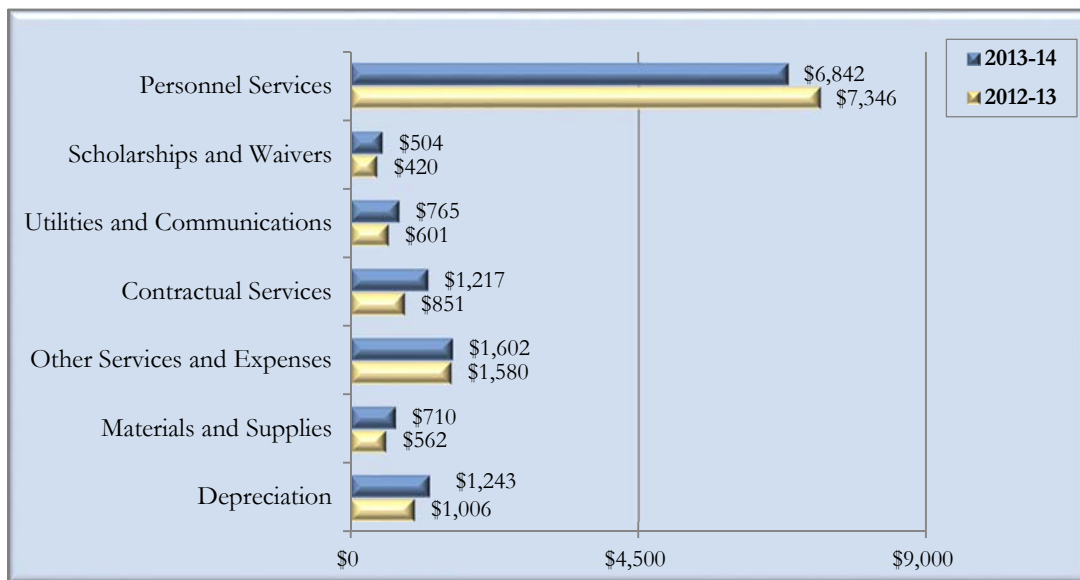
**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Units	
	6-30-14	6-30-13	2014 (1)	2013 (2)
Personnel Services	\$ 6,842	\$ 7,346	\$	\$
Scholarships and Waivers	504	420	159	98
Utilities and Communications	765	601		
Contractual Services	1,217	851		
Other Services and Expenses	1,602	1,580	687	587
Materials and Supplies	710	562		
Depreciation	1,243	1,006	189	189
Total Operating Expenses	\$ 12,883	\$ 12,366	\$ 1,035	\$ 874

- Notes: (1) Amounts are for the fiscal year ended March 31, 2014, for the Florida Keys Educational Foundation, Inc., and for the fiscal year ended September 30, 2013, for the Florida Keys College Campus Foundation, Inc.
- (2) 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.

The following chart presents the College’s operating expenses for the 2013-14 and 2012-13 fiscal years:

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



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

- Personnel services expenses decreased \$504 thousand, or 6.9 percent, due to organizational restructuring and delays in hiring for open positions.
- Utilities and communications expense increased \$164 thousand, or 27.3 percent, due to opening of the new Marine Technology Building.
- Contractual services increased \$366 thousand, or 43 percent, primarily due to additional costs related to enhanced 24 hour campus security services and increases in accounting and legal services.

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 2013-14 and 2012-13 fiscal years:

Nonoperating Revenues (Expenses): College		
(In Thousands)		
	<u>2013-14</u>	<u>2012-13</u>
State Noncapital Appropriations	\$ 6,413	\$ 5,781
Federal and State Student Financial Aid	1,655	1,751
Gifts and Grants	2	65
Investment Income	19	6
Other Nonoperating Revenues	26	68
Interest on Capital Asset-Related Debt	(5)	(6)
Other Nonoperating Expenses	<u>(29)</u>	<u> </u>
Net Nonoperating Revenues	<u>\$ 8,081</u>	<u>\$ 7,665</u>

State noncapital appropriations increased by \$0.6 million, or 11 percent, as compared to the prior fiscal year due to increases in Florida College System Program Fund and Educational Enhancement Trust Fund appropriations of \$0.4 million and \$0.2 million, respectively.

Other Revenues, Expenses, Gains, or Losses

This category is primarily 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 2013-14 and 2012-13 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College		
(In Thousands)		
	<u>2013-14</u>	<u>2012-13</u>
State Capital Appropriations	\$ 251	\$ 1,607
Capital Grants, Contracts, Gifts, and Fees	542	596
Other Revenues	<u>24</u>	<u> </u>
Total	<u>\$ 817</u>	<u>\$ 2,203</u>

Total other revenues decreased \$1.4 million, or 62.9 percent, due mainly to a decrease in State PECO appropriations as the Marine Technology Building, funded from these appropriations, was completed during the 2013-14 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 2013-14 and 2012-13 fiscal years:

Condensed Statement of Cash Flows: College (In Thousands)	2013-14	2012-13
Cash Provided (Used) by:		
Operating Activities	\$ (8,485)	\$ (7,472)
Noncapital Financing Activities	8,981	7,459
Capital and Related Financing Activities	(1,477)	3,919
Investing Activities	23	13
Net Increase (Decrease) in Cash and Cash Equiva	(958)	3,919
Cash and Cash Equivalents, Beginning of Year	5,241	1,322
Cash and Cash Equivalents, End of Year	\$ 4,283	\$ 5,241

Major sources of cash came from State noncapital appropriations (\$6.4 million), State capital appropriations (\$2.4 million), student tuition and fees, net (\$2 million), Federal and State student financial aid (\$1.7 million), and Federal direct student loan program receipts (\$1.2 million). Major uses of cash were for payments to employees (\$5.5 million), payments for employee benefits (\$1.4 million), payments to suppliers (\$3.8 million), purchases of capital assets (\$4.3 million), and disbursements to students for Federal direct student loans (\$1.2 million).

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

- Operating activities used \$1 million more cash compared to the prior fiscal year as a result of an increase of \$1 million for payments to suppliers.
- Cash flows from noncapital financing activities increased \$1.5 million primarily as a result of increases of \$1.1 million in other nonoperating receipts and \$0.6 million in State noncapital appropriations. These increases were offset by less cash received for Federal and State student financial aid (\$0.1 million), gifts and grants received for other than capital or endowment purposes (\$0.1 million), and Federal direct student loan program (\$0.3 million).
- Cash flows from capital and related financing activities decreased \$5.4 million primarily as a result a decrease of \$3.2 million in State PECO appropriations and an increase of \$2 million in purchases of capital assets.

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

CAPITAL ASSETS

At June 30, 2014, the College had \$45.3 million in capital assets, less accumulated depreciation of \$21.5 million, for net capital assets of \$23.8 million. Depreciation charges for the current fiscal year totaled \$1.2 million. The following table summarizes the College’s capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2014</u>	<u>2013</u>
Land	\$ 322	\$ 322
Construction in Progress		2,344
Buildings	22,747	17,241
Other Structures and Improvements	418	488
Furniture, Machinery, and Equipment	293	248
Capital Assets, Net	\$ 23,780	\$ 20,643

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2014, were incurred to complete the construction of the Marine Technology Building which replaced an aging facility. The College did not have any major capital commitments at June 30, 2014.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$60 thousand in long-term debt outstanding versus \$90 thousand at the end of the prior fiscal year representing a decrease of \$30 thousand, or 33 percent, from the prior fiscal year.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2013-14 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

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2014-15 fiscal year. The Board of Trustees has opted not to increase student tuition and fee rates for the 2014-15 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A (or other required supplementary information) and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Business and 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, 2014**

	College	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,451,867	\$ 87,238
Restricted Cash and Cash Equivalents	923,891	1,217,240
Restricted Investments		4,534,839
Accounts Receivable, Net	168,691	36,539
Due from Other Governmental Agencies	345,148	
Due from Component Units/College, Net	17,931	134,427
Inventories	5,564	
Deposit Receivable	29,500	
Prepaid Expenses	122,402	51,363
Total Current Assets	3,064,994	6,061,646
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,907,636	
Restricted Investments	3,199	
Depreciable Capital Assets, Net	23,458,026	6,509,609
Nondepreciable Capital Assets	321,796	43,774
Other Assets		49,800
Total Noncurrent Assets	25,690,657	6,603,183
TOTAL ASSETS	28,755,651	12,664,829
LIABILITIES		
Current Liabilities:		
Accounts Payable	375,701	43,468
Salary and Payroll Taxes Payable	403,698	
Accrued Interest		532,904
Due to College		747,710
Deposits Held for Others	69,707	250
Long-Term Liabilities - Current Portion:		
Bonds Payable	25,000	8,154,849
Compensated Absences Payable	40,000	
Total Current Liabilities	914,106	9,479,181
Noncurrent Liabilities:		
Bonds Payable	35,000	
Compensated Absences Payable	423,062	
Other Postemployment Benefits Payable	97,165	
Total Noncurrent Liabilities	555,227	
TOTAL LIABILITIES	1,469,333	9,479,181

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014**

	College	Component Units
NET POSITION		
Net Investment in Capital Assets	\$ 23,719,822	\$ (930,116)
Restricted:		
Nonexpendable:		
Endowment		2,495,362
Expendable:		
Grants and Loans	486,194	2,166,873
Scholarships	38,911	
Capital Projects	2,153,743	
Debt Service	1,650	
Unrestricted	885,998	(546,471)
TOTAL NET POSITION	\$ 27,286,318	\$ 3,185,648

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, 2014**

	College	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$1,433,411	\$ 1,932,699	\$
Federal Grants and Contracts	422,664	
State and Local Grants and Contracts	40,101	13,065
Nongovernmental Grants and Contracts	251,672	
Auxiliary Enterprises	77,978	
Other Operating Revenues	620,375	976,970
Total Operating Revenues	3,345,489	990,035
EXPENSES		
Operating Expenses:		
Personnel Services	6,842,244	
Scholarships and Waivers	504,161	158,651
Utilities and Communications	764,405	
Contractual Services	1,216,587	
Other Services and Expenses	1,602,585	687,507
Materials and Supplies	709,901	
Depreciation	1,243,040	188,887
Total Operating Expenses	12,882,923	1,035,045
Operating Loss	(9,537,434)	(45,010)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	6,413,673	
Federal and State Student Financial Aid	1,654,676	
Gifts and Grants	1,700	
Investment Income	18,879	594,399
Other Nonoperating Revenues	26,283	
Interest on Capital Asset-Related Debt	(5,130)	(586,887)
Other Nonoperating Expenses	(28,911)	
Net Nonoperating Revenues	8,081,170	7,512
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,456,264)	(37,498)
State Capital Appropriations	251,238	
Capital Grants, Contracts, Gifts, and Fees	542,032	
Other Revenues	23,204	
Total Other Revenues	816,474	
Decrease in Net Position	(639,790)	(37,498)
Net Position, Beginning of Year	27,926,108	3,223,146
Net Position, End of Year	\$ 27,286,318	\$ 3,185,648

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, 2014

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 1,992,572
Grants and Contracts	795,638
Payments to Suppliers	(3,842,676)
Payments for Utilities and Communications	(764,405)
Payments to Employees	(5,513,112)
Payments for Employee Benefits	(1,365,665)
Payments for Scholarships	(504,161)
Auxiliary Enterprises	77,978
Other Receipts	638,133
	(8,485,698)
Net Cash Used by Operating Activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	6,413,673
Federal and State Student Financial Aid	1,654,676
Federal Direct Loan Program Receipts	1,216,518
Federal Direct Loan Program Disbursements	(1,216,518)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	14,370
Other Nonoperating Receipts	898,540
	8,981,259
Net Cash Provided by Noncapital Financing Activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	2,396,379
Capital Grants and Gifts	471,811
Purchases of Capital Assets	(4,309,973)
Principal Paid on Capital Debt	(30,000)
Interest Paid on Capital Debt	(5,130)
	(1,476,913)
Net Cash Used by Capital and Related Financing Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	4,410
Investment Income	18,879
	23,289
Net Cash Provided by Investing Activities	
Net Decrease in Cash and Cash Equivalents	(958,063)
Cash and Cash Equivalents, Beginning of Year	5,241,457
	\$ 4,283,394
Cash and Cash Equivalents, End of Year	\$ 4,283,394

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2014**

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (9,537,434)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,243,040
Changes in Assets and Liabilities:	
Receivables, Net	141,074
Inventories	4,408
Accounts Payable	(248,983)
Salary and Payroll Taxes Payable	(37,140)
Prepaid Expenses	(69,027)
Deposits Held for Others	17,756
Compensated Absences Payable	(1,916)
Other Postemployment Benefits Payable	2,524
	<u>\$ (8,485,698)</u>
NET CASH USED BY OPERATING ACTIVITIES	
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITY	
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 70,222

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, 2014

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 five¹ 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 legally separate organization provides funding and services to support and foster the pursuit of higher education at the College and is governed by a separate board. The purpose of the Educational Foundation is to assist in the achievement of the College's mission by soliciting, administering, and optimizing resources through matching programs, private gifts, bequests, and donations to support the College's students and to enhance teaching and learning at the College.
- 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 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, 2014, and from the Campus Foundation's audited financial statements for the fiscal year ended September 30, 2013. Additional condensed financial statements for the College's component units are included in a subsequent note.

¹ On March 31, 2014, the District Board of Trustees voted to expand the Board from five members to seven. New members were not appointed until December 15, 2014.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

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

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net 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 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,

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, gifts and grants, investment income, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College identified, within its accounting system, amounts paid for tuition and fees by financial aid. The College records a scholarship allowance against student tuition and fees for the total 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, 2014, the College reported as cash equivalents \$94,277 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, 2014, 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, 2014.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years

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

2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the 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, 2014, are reported at fair value, as follows:

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 1,549
State Board of Administration Debt Service Accounts	1,650
Total College Investments	\$ 3,199

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, 2014, the College reported investments at fair value of \$1,549 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 1.84438408 at June 30, 2014. The weighted-average life (WAL) of Fund B at June 30, 2014, was 2.86 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, 2014. 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 \$1,650 at June 30, 2014, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education 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, 2014, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
Cash and Cash Equivalents	\$ 40,908
Mutual Funds - Equities	3,811,257
Mutual Funds - Fixed Income	682,674
Total Component Unit Investments	\$ 4,534,839

The Florida Keys College Campus Foundation Inc., had no investments at September 30, 2013.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, book sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$16,720 allowance for doubtful accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$219,375 of Public Education Capital Outlay allocations due from the State for remodeling, renovation, maintenance, and repairs of College facilities.

5. DUE FROM AND TO COMPONENT UNITS/COLLEGE

The \$17,931 reported as due from component units consists of amounts owed by the Florida Keys Educational Foundation, Inc., to the College for scholarships and student aid programs. The College's financial statements are reported for the fiscal year ended June 30, 2014. The Florida Keys Educational Foundation, Inc., financial statements are reported for the fiscal year ended March 31, 2014, and the Florida Keys College Campus Foundation, Inc., financial statements are reported for the fiscal year ended September 30, 2013. 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, 2014, is shown below:

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 321,796	\$	\$	\$ 321,796
Construction in Progress	2,344,119		2,344,119	
Total Nondepreciable Capital Assets	\$ 2,665,915	\$	\$ 2,344,119	\$ 321,796
Depreciable Capital Assets:				
Buildings	\$ 33,325,933	\$ 6,425,250	\$	\$ 39,751,183
Other Structures and Improvements	2,837,675			2,837,675
Furniture, Machinery, and Equipment	2,134,826	299,064	17,337	2,416,553
Total Depreciable Capital Assets	38,298,434	6,724,314	17,337	45,005,411
Less, Accumulated Depreciation:				
Buildings	16,085,094	919,087		\$ 17,004,181
Other Structures and Improvements	2,349,775	69,700		2,419,475
Furniture, Machinery, and Equipment	1,886,813	254,253	17,337	2,123,729
Total Accumulated Depreciation	20,321,682	1,243,040	17,337	21,547,385
Total Depreciable Capital Assets, Net	\$ 17,976,752	\$ 5,481,274	\$	\$ 23,458,026

Capital Assets – Component Unit

The Florida Keys College Campus Foundation, Inc., capital asset activity for the fiscal year ended September 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
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	185,071	158,726		343,797
Furnishings and Equipment	35,188	30,161		65,349
Total Accumulated Depreciation	220,259	188,887		409,146
Total Depreciable Capital Assets, Net	\$ 6,674,021	\$ (188,887)	\$	\$ 6,485,134

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2014, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 90,000	\$	\$ 30,000	\$ 60,000	\$ 25,000
Compensated Absences Payable	464,978	75,089	77,005	463,062	40,000
Other Postemployment Benefits Payable	94,641	29,881	27,357	97,165	
Total Long-Term Liabilities	\$ 649,619	\$ 104,970	\$ 134,362	\$ 620,227	\$ 65,000

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 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, 2014:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2005A	<u>\$ 60,000</u>	5	2016

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2015	\$ 25,000	\$ 3,000	\$ 28,000
2016	35,000	1,750	36,750
Total	\$ 60,000	\$ 4,750	\$ 64,750

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 (student residence hall) 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 unamortized bond

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

discount is being amortized over 31 years. The following is a summary of debt transactions for the fiscal year ended September 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds Payable	\$ 8,305,000	\$	\$	\$ 8,305,000
Less: Unamortized Bond Discount	(155,688)		5,537	(150,151)
Total Bonds Payable	\$ 8,149,312	\$	\$ 5,537	\$ 8,154,849

On February 26, 2013, the Trustee for the bonds issued a notice of default indicating that the Campus Foundation was in violation of provisions of the trust indenture. On May 1, 2014, the Foundation entered into a Forbearance Agreement (Agreement) with the Trustee in which the Trustee will temporarily forbear exercising its rights and remedies through April 30, 2015. The Agreement allows the Campus Foundation to make a partial interest payment of five (5) percent with the remaining two (2) percent deferred for one year, and one additional year upon consent of both parties. The bondholder will also defer principal payment for one year to May 1, 2015, and one additional year upon consent of both parties. Additionally, upon mutual written agreement, the forbearance terms will be extended through April 30, 2016. The Bonds are collateralized by the revenues of the Campus Foundation and by the building constructed by the Campus Foundation.

As a result of the Agreement, future maturities of the Bonds payable would be as follows:

Year Ending September 30	Principal	Interest	Total Debt Service
2014	\$	\$ 575,575	\$ 575,575
2015	185,000	568,954	753,954
2016	100,000	561,983	661,983
2017	110,000	554,342	664,342
2018	115,000	546,321	661,321
2019-2023	705,000	2,590,613	3,295,613
2024-2028	995,000	2,287,104	3,282,104
2029-2033	1,400,000	1,860,367	3,260,367
2034-2038	1,955,000	1,262,304	3,217,304
2039-2043	2,740,000	425,833	3,165,833
Total	\$ 8,305,000	\$ 11,233,396	\$ 19,538,396

The total interest incurred for the fiscal year ended September 30, 2013, was \$586,887, which includes amortized bond discount of \$5,537.

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

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2014, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$463,062. The current portion of the compensated absences liability, \$40,000, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2013-14 fiscal year, 12 retirees received postemployment healthcare benefits and 12 retirees received postemployment life insurance benefits. The College provided required contributions of \$27,357 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$71,812, 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:

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 19,229
Amortization of Unfunded Actuarial Accrued Liability	10,021
Annual Required Contribution	29,250
Interest on Net OPEB Obligation	3,786
Adjustment to Annual Required Contribution	(3,155)
Annual OPEB Cost (Expense)	29,881
Contribution Toward the OPEB Cost	(27,357)
Increase in Net OPEB Obligation	2,524
Net OPEB Obligation, Beginning of Year	94,641
Net OPEB Obligation, End of Year	\$ 97,165

The College’s annual OPEB costs, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2014, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 47,644	67.8%	\$ 90,283
2012-13	47,746	90.9%	94,641
2013-14	29,881	91.6%	97,165

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$300,627 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$300,627 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$4,448,984 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.76 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

**FLORIDA KEYS COMMUNITY COLLEGE
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JUNE 30, 2014**

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, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the College's 2013-14 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 8.5 percent pre-Medicare and 6.25 percent Medicare for the 2013-14 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 5 years for pre-Medicare and 4 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on open basis. The remaining amortization period at June 30, 2014, was 23 years.

9. CAMPUS FOUNDATION LIQUIDITY AND MANAGEMENT PLAN

The Campus Foundation incurred a net loss of \$491,508 for the fiscal year ended September 30, 2013. Further, the Campus Foundation had a deficit net position of \$1,554,145 at September 30, 2013. Realization of the carrying value of the assets included in the statement of net position is dependent on the Campus Foundation's successful future operation of the student residence hall. In addition, at September 30, 2013, the Campus Foundation was in default on its Senior Leasehold Industrial Development Revenue Bonds, Series 2010 (Bonds).

As discussed in note 8, a Forbearance Agreement (Agreement) was signed on May 1, 2014, in which the Trustee for the bonds will temporarily forbear exercising its rights and remedies relating to default of the Bonds through April 30, 2015. In addition, the Foundation has been granted partial deferment on interest and deferment of principal for one year with one year extension upon consent of both parties. Also, during the Agreement period, the Campus Foundation has agreed to adhere to certain obligations in the Agreement for the purpose of enhancing revenue generating programs, developing and improving contracts, and exploring refinancing options as well as housing unit expansion on campus with a set of obligations to overcome its prior period financial shortfalls. Since signing the Agreement, the Campus Foundation has completed several of the obligations directly related to financial activities. The Campus Foundation intends to implement processes to address the remaining obligations. While Campus Foundation management believes that it will be able to meet all the conditions, there can be no assurances that it will be successful on terms acceptable under the Agreement, if at all.

10. 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

**FLORIDA KEYS COMMUNITY COLLEGE
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JUNE 30, 2014**

plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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 2013-14 fiscal year were as follows:

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JUNE 30, 2014**

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$253,151, \$256,474, and \$347,430, respectively, which were equal to the required contributions for each fiscal year.

There were 27 College participants in the Investment Plan during the 2013-14 fiscal year. The College’s contributions, including employee contributions to the Investment Plan, totaled \$189,715, which was equal to the required contribution for the 2013-14 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’ Web site (www.myfloridacfo.com). 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 Division of Retirement’s Web site (www.frs.myflorida.com).

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 purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage for property insurance of up to \$125 million to February 28, 2014, and up to \$150 million from March 1, 2014. 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.

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
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JUNE 30, 2014**

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

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	\$ 3,517,317
Public Services	186,570
Academic Support	1,277,643
Student Services	1,012,440
Institutional Support	2,698,778
Operation and Maintenance of Plant	2,477,913
Scholarships and Waivers	431,950
Depreciation	1,243,040
Auxiliary Enterprises	<u>37,272</u>
Total Operating Expenses	<u><u>\$ 12,882,923</u></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, 2014**

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	\$ 4,626,983	\$ 1,434,663	\$ 6,061,646
Capital Assets, Net	68,249	6,485,134	6,553,383
Other Noncurrent Assets	49,800		49,800
Total Assets	4,745,032	7,919,797	12,664,829
Liabilities:			
Current Liabilities	5,239	9,473,942	9,479,181
Total Liabilities	5,239	9,473,942	9,479,181
Net Position:			
Net Investment in Capital Assets	68,249	(998,365)	(930,116)
Restricted Nonexpendable	2,495,362		2,495,362
Restricted Expendable	2,166,873		2,166,873
Unrestricted	9,309	(555,780)	(546,471)
Total Net Position	\$ 4,739,793	\$ (1,554,145)	\$ 3,185,648

Notes: (1) Amounts are for the fiscal year ended March 31, 2014.
(2) Amounts are for the fiscal year ended September 30, 2013.

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

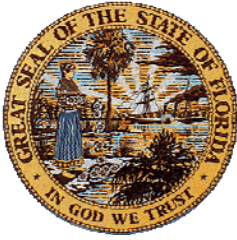
	Direct-Support Organizations		Total
	Florida Keys Educational Foundation, Inc. (1)	Florida Keys College Campus Foundation, Inc. (2)	
Operating Revenues	\$ 256,493	\$ 733,542	\$ 990,035
Depreciation Expense		(188,887)	(188,887)
Operating Expenses	(396,678)	(449,480)	(846,158)
Operating Income (Loss)	(140,185)	95,175	(45,010)
Net Nonoperating Revenues (Expenses)			
Nonoperating Revenues	594,195	204	594,399
Interest Expense		(586,887)	(586,887)
Net Nonoperating Revenues (Expenses)	594,195	(586,683)	7,512
Increase (Decrease) in Net Position	454,010	(491,508)	(37,498)
Net Position, Beginning of Year	4,285,783	(1,062,637)	3,223,146
Net Position, End of Year	\$ 4,739,793	\$ (1,554,145)	\$ 3,185,648

Notes: (1) Amounts are for the fiscal year ended March 31, 2014.
(2) Amounts are for the fiscal year ended September 30, 2013.

**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]
7/1/2009	\$ -	\$ 348,494	\$ 348,494	0%	\$ 5,270,286	6.6%
7/1/2011	-	412,087	412,087	0%	5,517,620	7.5%
7/1/2013	-	300,627	300,627	0%	4,448,984	6.8%

- Notes: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the actuarial accrued liability.
- (2) The July 1, 2013, unfunded actuarial accrued liability of \$300,627 was significantly lower than the July 1, 2011, liability of \$412,087 primarily because the demographic assumptions (rates of termination, mortality, disability, and retirement) were revised to be consistent with those used for the Florida Retirement System; the assumed per capita costs of healthcare were updated; the healthcare inflation used to project the per capita health care costs were revised; the rates of participation in the Plan were adjusted to reflect current experience; and the conditions for retirement eligibility and rates of retirement were supplemented to accommodate those active employees hired on or after July 1, 2011.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2014, 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 23, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 23, 2015

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2014-180.