



AUDITOR GENERAL
DAVID W. MARTIN, CPA



FLORIDA KEYS COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended June 30, 2007

During the audit period, the President of the College was Dr. William A. Seeker. Members of the College's Board of Trustees who served during the audit period are listed below:

Board Member

Ed Scales, Vice-Chair from 7-25-06 to 6-24-07,

Chair from 6-25-07 (1)

Dr. Ann L. Henderson, Vice-Chair from 6-25-07

Carey D. Goodman, Chair to 6-24-07

Brian C. Schmitt

Spencer Slate from 4-23-07 (2)

Ed Yacovone to 1-17-07 (2)

Notes: (1) Board did not have a Vice-Chair until reorganization meeting held on July 25, 2006.

(2) The Board member position remained vacant from January 18, 2007, through April 22, 2007.

FLORIDA KEYS COMMUNITY COLLEGE

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EXECUTIVE SUMMARY

The audit of the financial statements of Florida Keys Community College for the fiscal year ended June 30, 2007, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the College, a component unit of the State of Florida, and a determination as to whether management complied with applicable laws, rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the College is included in 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. 2008-098.

The following provides a summary of the findings of our audit of the College's financial statements:

- We found that the College's financial statements presented fairly, in all material respects, the financial positions of the College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- No significant deficiencies are noted in our report on the College's internal control over financial reporting.
- The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by James A. Bell, CPA, and supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Keys Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, as shown on pages 15 through 31. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for this entity, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Keys Community College and of its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Florida Keys Educational Foundation, Inc. (Foundation), a component unit of the College, changed its fiscal year from July through June to April through March in the prior year. As a result, the College's 2005-06 financial statements include Foundation financial activities for the nine-month period ended March 31, 2006. This affects the comparability of amounts reported on the statement of revenues, expenses, and changes in net assets for the discretely presented component unit column for the 2006-07 fiscal year with amounts reported for the 2005-06 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of Florida Keys Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 14 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
February 28, 2008



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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111 West Madison Street
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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Florida Keys Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2008-098, dated February 2008.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
February 28, 2008

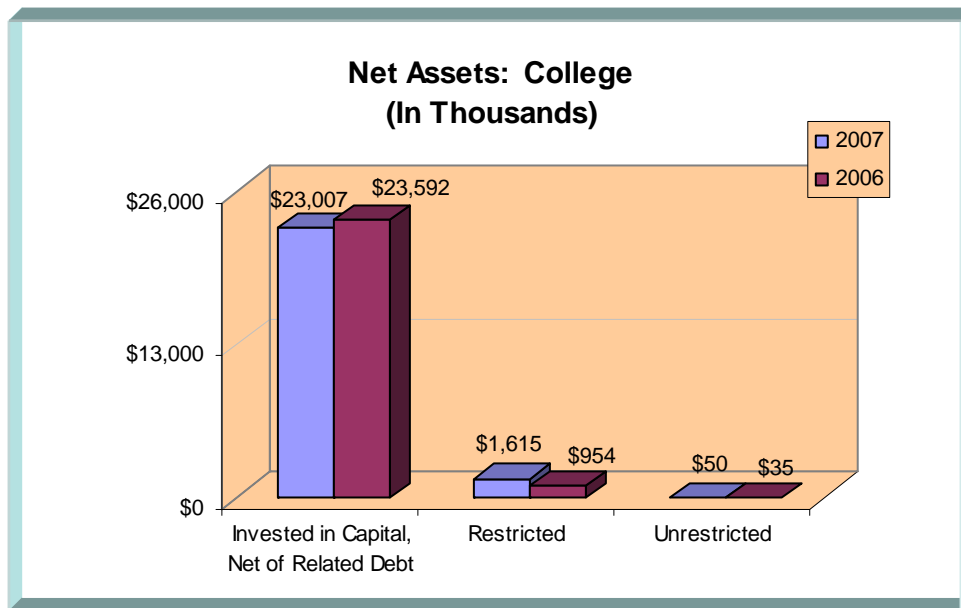
MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2007, 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 activities of the College for the fiscal years ended June 30, 2007, and June 30, 2006, and for the College’s component unit, the Florida Keys Educational Foundation, Inc., for the fiscal year ended March 31, 2007, and the nine-month period ended March 31, 2006. For the 2005–06 fiscal year, the Foundation changed its fiscal year from July through June to April through March. This affects the comparability of amounts reported between current and prior reporting periods.

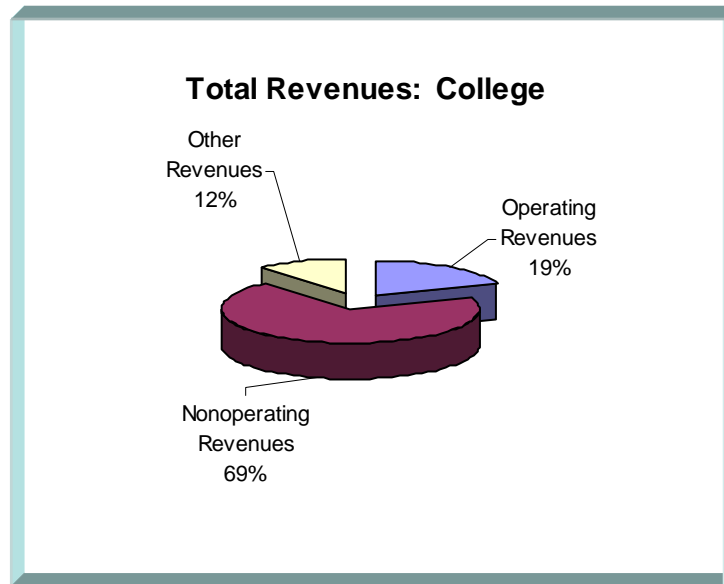
FINANCIAL HIGHLIGHTS

The College’s comparative total net assets by category for the fiscal years ended June 30, 2007, and June 30, 2006, are shown in the following graph:



The College’s net assets increased \$91,000, or .4 percent, from the 2005-06 fiscal year.

The following chart provides a graphical representation of College revenues by category for the 2006-07 fiscal year:



For the fiscal year ended June 30, 2007, College revenue and other support exceeded expenses, creating an increase in net assets of \$91,000 (compared to a \$308,000 increase in the 2005-06 fiscal year).

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

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

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

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

These two statements report Florida Keys Community College's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one

indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

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

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

Assets, Liabilities, and Net Assets at (In Thousands)				
	College		Component Unit	
	6-30-07	6-30-06	3-31-07	3-31-06
Assets				
Current Assets	\$ 1,484	\$ 2,484	\$ 785	\$ 639
Capital Assets, Net	23,248	23,857		
Other Noncurrent Assets	1,433	666	3,020	2,391
Total Assets	26,165	27,007	3,805	3,030
Liabilities				
Current Liabilities	663	1,392	182	34
Noncurrent Liabilities	830	1,034		
Total Liabilities	1,493	2,426	182	34
Net Assets				
Invested in Capital Assets, Net of Related Debt	23,007	23,592		
Restricted	1,615	954	3,625	3,014
Unrestricted	50	35	(2)	(18)
Total Net Assets	\$ 24,672	\$ 24,581	\$ 3,623	\$ 2,996
Increase in Net Assets	\$ 91	0.4%	\$ 627	20.9%

The College's assets totaled \$26.2 million at June 30, 2007. This balance reflects a \$842,000, or 3 percent, decrease from the 2005-06 fiscal year, resulting from decreases in depreciable capital assets of \$539,000, due from other governmental agencies of \$140,000, accounts receivable of \$79,000, nondepreciable capital assets of \$69,000, cash of \$38,000, and a due from component unit increase of \$22,000. While assets decreased, liabilities decreased by a greater amount of \$933,000, or 38 percent, totaling \$1.5 million at June 30, 2007, compared to \$2.4 million at June 30, 2006. As a result, the College's net assets increased by \$91,000, reaching a year end balance of \$24.7 million.

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

**Operating Results for the Respective Periods Ended
(In Thousands)**

	College		Component Unit	
	6-30-07	6-30-06	3-31-07	3-31-06 (1)
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 1,830	\$ 1,761	\$	\$
Federal Grants and Contracts	138	147		
State and Local Grants and Contracts	172	1,014		
Nongovernmental Grants and Contracts	309	233		
Auxiliary Enterprises	17	15		
Other Operating Revenues	117	101	796	106
Total Operating Revenues	2,583	3,271	796	106
Less, Operating Expenses	13,165	13,837	393	214
Operating Income (Loss)	(10,582)	(10,566)	403	(108)
Nonoperating Revenues (Expenses)				
State Appropriations	6,560	6,346		
Insurance Recoveries	1,653	3,005		
Other Nonoperating Revenues	961	784	224	207
Loss on Disposal of Capital Assets	(12)			
Interest on Capital Asset-Related Debt	(20)	(11)		
Net Nonoperating Revenues	9,142	10,124	224	207
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,440)	(442)	627	99
Capital Appropriations	1,154	630		
Capital Grants, Contracts, Gifts, and Fees	377	120		
Increase in Net Assets	91	308	627	99
Net Assets, Beginning of Year	24,581	24,273	2,996	2,897
Net Assets, End of Year	\$ 24,672	\$ 24,581	\$ 3,623	\$ 2,996

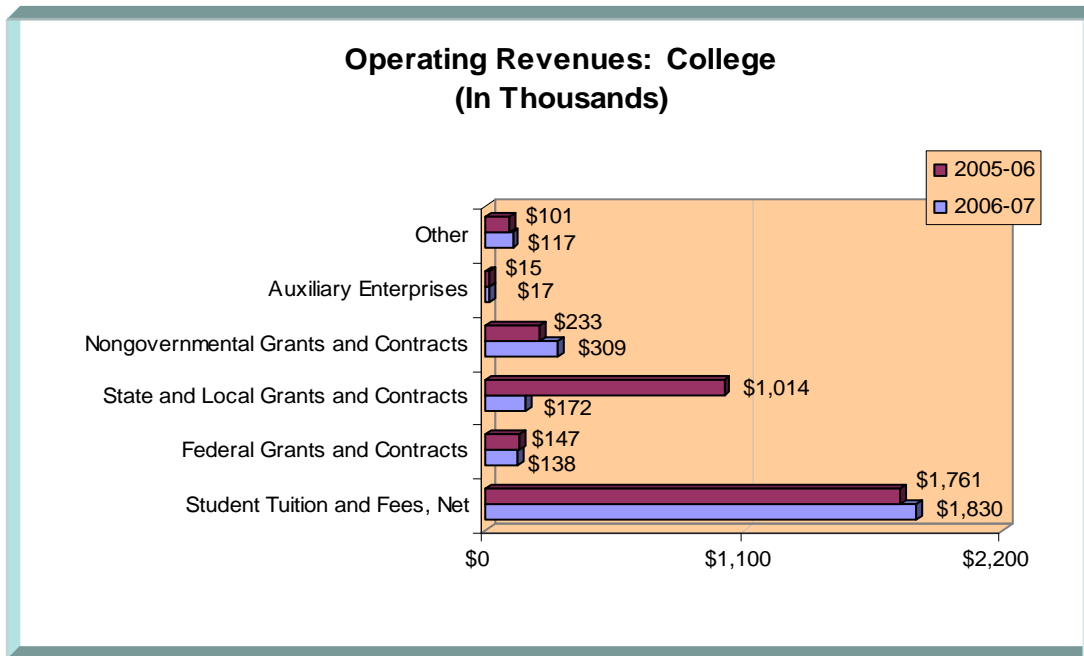
Note: (1) Amounts are for the nine-month period ended March 31, 2006.

The College's revenues totaled \$13.3 million for the 2006-07 fiscal year, representing a 6 percent decrease over the 2005-06 fiscal year due mainly to a decrease in insurance recoveries and an increase in capital appropriations. Nonoperating revenues totaled \$9.2 million, which represents 69 percent of total revenues and are comprised of state appropriations, gifts and grants, insurance recoveries, and investment income. Operating expenses totaled \$13.2 million for the 2006-07 fiscal year, representing a decrease of 5 percent over the 2005-06 fiscal year due mainly to a decrease in repair costs related to hurricane damage.

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 give up or receive something of equal or similar value.

The following chart presents the College’s operating revenues for the 2006-07 and 2005-06 fiscal years:



Operating revenue changes were the result of the following factors:

- State and local grants and contracts revenues decreased by \$842,000 due primarily to decreased funding from the Monroe County Tourist Development Council.
- Nongovernmental grants and contracts increased by \$76,000 due primarily to increased funding from the Florida keys educational Foundation, Inc.
- Student tuition and fee revenues increased \$69,000 due to increased fee rates.

Operating Expenses

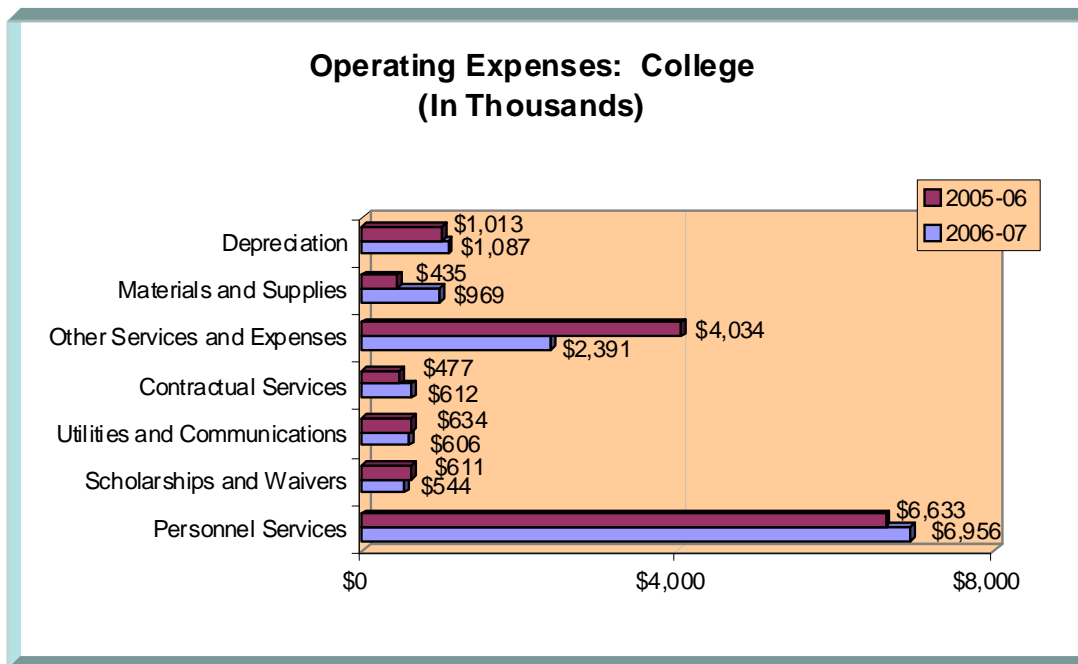
Expenses are categorized as operating or nonoperating. The majority of the College’s expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen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

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

	Operating Expenses for the Respective Periods Ended (In Thousands)			
	College		Component Unit	
	6-30-07	6-30-06	3-31-07	3-31-06 (1)
Operating Expenses				
Personnel Services	\$ 6,956	\$ 6,633	\$	\$
Scholarships and Waivers	544	611	79	129
Utilities and Communications	606	634		
Contractual Services	612	477		
Other Services and Expenses	2,391	4,034	314	85
Materials and Supplies	969	435		
Depreciation	1,087	1,013		
Total Operating Expenses	\$13,165	\$13,837	\$ 393	\$ 214

Note: (1) Amounts are for the nine-month period ended March 31, 2006.

The following chart presents the College’s operating expenses for the 2006-07 and 2005-06 fiscal years:



Operating expense changes were the result of the following factors:

- Personnel services expenses increased \$323,000 over the prior year due to annual salary increases for the staff and increased costs in health insurance.
- Scholarships and waivers expenses decreased \$67,000 from the prior year due to a decreased amount of scholarship money provided to the students in excess of their tuition.
- Other services and expenses decreased \$1.6 million from the prior year due to decreased repair expenses related to hurricanes Rita, Dennis, Katrina, and Wilma damages.
- Contractual Services increased \$135,000 over the prior year due to an increase in legal and consultant fees.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2006-07 and 2005-06 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
State Appropriations	\$ 6,560	\$ 6,346
Insurance Recoveries	1,653	3,005
Gifts and Grants	841	619
Other Nonoperating Revenues	120	165
Loss on Disposal of Capital Assets	(12)	
Interest on Capital Asset-Related Debt	(20)	(11)
Net Nonoperating Revenues	<u>\$ 9,142</u>	<u>\$ 10,124</u>

Nonoperating revenue changes were the result of the following factors:

- State appropriations increased \$214,000 over the prior year.
- Insurance recoveries from the Community College Risk Management Consortium for hurricanes Rita, Dennis, Katrina, and Wilma damages decreased \$1.3 million from the prior year.
- Other nonoperating revenues decreased due to an \$11,000 decrease in investment income and a \$12,000 loss on the sale of assets during the 2006-07 fiscal year, compared to a \$38,000 gain on the sale of assets in the prior year.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2006-07 and 2005-06 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
Capital Appropriations	\$ 1,154	\$ 630
Capital Grants, Contracts, Gifts, and Fees	377	120
Total	<u>\$ 1,531</u>	<u>\$ 750</u>

College other revenues, expenses, gains, or losses increased by \$781,000, compared to the prior fiscal year. Capital appropriations increased by \$524,000 as a result of an increase in State funding in support of capital

projects. Capital grants, contracts, gifts, and fees increased by \$257,000 from the State Educational Enhancement Trust Fund Community College Matching Grant.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College’s cash flows for the 2006-07 and 2005-06 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College		
(In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
Cash Provided (Used) by:		
Operating Activities	\$ (9,805)	\$ (9,193)
Noncapital Financing Activities	9,048	9,964
Capital and Related Financing Activities	618	(453)
Investing Activities	<u>101</u>	<u>105</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(38)	423
Cash and Cash Equivalents, Beginning of Year	<u>2,625</u>	<u>2,202</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,587</u></u>	<u><u>\$ 2,625</u></u>

Major sources of funds came from State appropriations (\$6.6 million), net student tuition and fees (\$1.9 million), grants, contracts, and gifts (\$1.9 million) and insurance recoveries (\$1.7 million). The following discussion amplifies the overview of cash flows presented above:

- Cash used by operating activities increased approximately \$612,000 during the 2006-07 fiscal year. This is primarily due to an increase in cash flow from tuition and fees of \$202,000 and a reduction in payments to suppliers of \$986,000. The resulting increases in cash flow were offset by increases in personnel services (salary and benefits) expenditures totaling \$431,000 a reduction in cash flow from grants and contracts of \$502,000 and a reduction in accounts payable of \$530,000 (compared to an increase in accounts payable in the prior year of \$535,000).
- Cash provided by noncapital financing activities decreased by \$916,000 due to a decrease in insurance recoveries for hurricanes Rita, Dennis, Katrina, and Wilma damages.
- Cash used by capital and related financing activities was \$1.1 million higher than the prior fiscal year. The increase in cash provided is due to an increase in State capital appropriations of \$525,000. In addition, the purchase of capital assets decreased by \$410,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2007, the College had \$37.5 million in capital assets, less accumulated depreciation of \$14.3 million, for net capital assets of \$23.2 million. Depreciation charges for the current fiscal year totaled \$1.1 million. The following table summarizes the College's capital assets for the 2006-07 fiscal year:

Capital Assets: College (In Thousands)				
Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 322	\$	\$	\$ 322
Buildings	33,276	50		33,326
Other Structures and Improvements	2,140			2,140
Furniture, Machinery, and Equipment	1,387	509	139	1,757
Construction in Progress	69		69	
Total	37,194	559	208	37,545
Less, Accumulated Depreciation:				
Buildings	10,172	856		11,028
Other Structures and Improvements	2,095	33		2,128
Furniture, Machinery, and Equipment	1,070	198	127	1,141
Total Accumulated Depreciation	13,337	1,087	127	14,297
Capital Assets, Net	\$ 23,857	\$ (528)	\$ 81	\$23,248

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

DEBT ADMINISTRATION

At fiscal year-end, the College had \$363,000 in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2007, and June 30, 2006:

Long-Term Debt, at June 30: College (In Thousands)		
	2007	2006
SBE Capital Outlay Bonds	\$ 245	\$ 265
Loans Payable (Rodel Foundation)	118	518
Total	\$ 363	\$ 783

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2006-07 fiscal year, there were no bond sales and debt repayments totaled \$20,000. During the 2006-07 fiscal year, the College

repaid \$400,009 on the Rodel Loan and \$118,073 will be repaid during the 2007-08 fiscal year. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Florida Keys Community College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the coming year. The continued high cost of housing will affect the College as employees and students seek affordable housing.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice-President for Finance and Administration, Florida Keys Community College, 5901 College Road, Key West, Florida 33040.

FINANCIAL SECTION

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2007**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 696,614	\$ 980
Restricted Cash and Cash Equivalents	458,183	492,946
Accounts Receivable, Net	81,557	265,565
Due from Other Governmental Agencies	190,040	23,532
Due from Component Unit	40,837	
Inventories		1,700
Prepaid Expenses	16,285	150
Total Current Assets	1,483,516	784,873
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,432,882	
Restricted Investments		3,020,256
Depreciable Capital Assets, Net	22,926,527	
Nondepreciable Capital Assets	321,796	
Total Noncurrent Assets	24,681,205	3,020,256
TOTAL ASSETS	\$ 26,164,721	\$ 3,805,129
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 141,775	\$ 44,328
Salary and Payroll Taxes Payable	182,766	
Due to Other Governmental Agencies	51,360	
Due to Component Unit/College	16,156	138,292
Deferred Revenue	59	
Deposits Held for Others	62,660	
Long-Term Liabilities - Current Portion:		
Bonds Payable	20,000	
Loans Payable	118,073	
Compensated Absences Payable	69,747	
Total Current Liabilities	662,596	182,620
Noncurrent Liabilities:		
Bonds Payable	225,000	
Compensated Absences Payable	604,642	
Total Noncurrent Liabilities	829,642	
TOTAL LIABILITIES	1,492,238	182,620

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2007**

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 23,007,442	\$
Restricted:		
Nonexpendable:		
Endowment		1,733,303
Expendable:		
Grants and Loans	456,365	1,891,169
Scholarships	44,248	
Capital Projects	1,106,943	
Debt Service	7,098	
Unrestricted	50,387	(1,963)
Total Net Assets	24,672,483	3,622,509
TOTAL LIABILITIES AND NET ASSETS	\$ 26,164,721	\$ 3,805,129

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

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$431,685	\$ 1,829,995	\$
Federal Grants and Contracts	138,027	
State and Local Grants and Contracts	172,444	
Nongovernmental Grants and Contracts	308,888	
Auxiliary Enterprises	17,616	
Other Operating Revenues	116,917	796,012
Total Operating Revenues	2,583,887	796,012
EXPENSES		
Operating Expenses:		
Personnel Services	6,956,458	
Scholarships and Waivers	544,050	78,592
Utilities and Communications	605,942	
Contractual Services	611,791	
Other Services and Expenses	2,391,672	314,401
Materials and Supplies	968,957	
Depreciation	1,086,540	
Total Operating Expenses	13,165,410	392,993
Operating Income (Loss)	(10,581,523)	403,019
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	6,560,029	
Gifts and Grants	841,197	
Investment Income	99,159	68,187
Insurance Recoveries	1,652,484	
Other Nonoperating Revenues	20,519	19,085
Loss on Disposal of Capital Assets	(11,604)	
Interest on Capital Asset-Related Debt	(20,044)	
Net Unrealized and Realized Gain on Investments		136,500
Net Nonoperating Revenues	9,141,740	223,772
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,439,783)	626,791
Capital Appropriations	1,154,220	
Capital Grants, Contracts, Gifts, and Fees	377,395	
Total Other Revenues	1,531,615	
Increase in Net Assets	91,832	626,791
Net Assets, Beginning of Year	24,580,651	2,995,718
Net Assets, End of Year	\$ 24,672,483	\$ 3,622,509

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, 2007**

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 1,879,173
Grants and Contracts	742,232
Payments to Suppliers	(3,973,497)
Payments for Utilities and Communications	(605,476)
Payments to Employees	(5,465,378)
Payments for Employee Benefits	(1,494,497)
Payments for Scholarships	(544,050)
Auxiliary Enterprises	12,251
Other Payments	(356,434)
	(9,805,676)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	6,560,029
Gifts and Grants Received for Other Than Capital or Endowment Purposes	835,816
Insurance Recoveries	1,652,484
	9,048,329
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	1,154,220
Capital Grants and Gifts	377,395
Proceeds from Sale of Capital Assets	20,519
Purchases of Capital Assets	(493,748)
Principal Paid on Capital Debt	(420,009)
Interest Paid on Capital Debt	(20,044)
	618,333
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	101,377
	101,377
Net Cash Provided by Investing Activities	101,377
Net Decrease in Cash and Cash Equivalents	(37,637)
Cash and Cash Equivalents, Beginning of Year	2,625,316
	2,625,316
Cash and Cash Equivalents, End of Year	\$ 2,587,679

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2007**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$(10,581,523)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,086,540
Changes in Assets and Liabilities:	
Receivables, Net	200,306
Other Assets	(1,676)
Accounts Payable	(523,044)
Deferred Revenue	(33,020)
Deposits Held for Others	56,690
Compensated Absences Payable	(9,949)
NET CASH USED BY OPERATING ACTIVITIES	\$ (9,805,676)

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, 2007

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 Community 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 law 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 *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading or incomplete. Based upon the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activity are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida Keys Educational Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2007. In the 2005-06 fiscal year, the Foundation changed its fiscal year from July through June to April through March, and the financial statements were presented for a nine-month period. This affects the comparability of amounts reported on the statement of revenues, expenses, and changes in net assets for the discretely presented component unit column for the 2006-07 fiscal year with amounts reported for the 2005-06 fiscal year.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers 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 the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
- Notes to Financial Statements

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

The College's component unit uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows FASB standards of accounting and financial reporting for not-for-profit organizations.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

The College follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

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

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

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

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. For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Board of Administration Local Government Surplus Funds Trust Fund investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

At June 30, 2007, the College reported as cash equivalents at fair value \$373,706 of moneys held in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The College's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign credit risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2007.

Capital Assets. College capital assets consist of land; buildings; other structures and improvements; furniture, machinery, and equipment; and construction in progress. 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

2. INVESTMENTS

Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code,

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College reported no investments at June 30, 2007, as surplus funds were invested in the State Board of Administration Local Government Surplus Funds Trust Fund investment pool, which are reported as cash and cash equivalents.

Investments held by the College’s component unit at March 31, 2007, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Common Stock Equities	\$1,803,975
Government Securities	720,664
Mutual Funds	495,617
Total Component Unit Investments	\$3,020,256

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions from bookstore and vending machine contractors. These receivables are reported net of a \$3,607 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount consists of \$109,057 due from the Federal government for various student financial aid programs and vocational education grants, \$27,917 due from the Monroe County Sheriff, \$23,070 due from the Key West Police Department, \$14,862 due from the State for the Florida Prepaid College Program, and \$15,134 due from other governmental agencies.

The College’s component unit, the Florida Keys Educational Foundation, Inc., receives significant support from the Florida Community College System under their program challenge grants. At March 31, 2007, the organization’s receivables under this program were \$23,532.

5. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The \$40,837 reported as due from component unit consists of amounts owed to the College by the Florida Keys Educational Foundation, Inc., for scholarships and student aid. The \$16,156 reported as payable to the

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

component unit consists of amounts owed by the College to the Foundation to support the Foundation's operations. The College's financial statements are reported for the fiscal year ended June 30, 2007. The College's component unit's financial statements are reported for the fiscal year ended March 31, 2007. Accordingly, amounts reported by the College as due from or to the component unit on the statement of net assets do not agree with amounts reported by the component unit as due from or to the College.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 321,796	\$	\$	\$ 321,796
Construction in Progress	69,268		69,268	
Total Nondepreciable Capital Assets	\$ 391,064	\$	\$ 69,268	\$ 321,796
Depreciable Capital Assets:				
Buildings	\$ 33,275,537	\$ 50,396	\$	\$ 33,325,933
Other Structures and Improvements	2,140,675			2,140,675
Furniture, Machinery, and Equipment	1,386,835	508,553	138,778	1,756,610
Total Depreciable Capital Assets	36,803,047	558,949	138,778	37,223,218
Less, Accumulated Depreciation:				
Buildings	10,172,226	855,607		11,027,833
Other Structures and Improvements	2,094,815	33,396		2,128,211
Furniture, Machinery, and Equipment	1,070,283	197,537	127,173	1,140,647
Total Accumulated Depreciation	13,337,324	1,086,540	127,173	14,296,691
Total Depreciable Capital Assets, Net	\$ 23,465,723	\$ (527,591)	\$ 11,605	\$ 22,926,527

7. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2007, include bonds, loans, and compensated absences.

Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 265,000	\$	\$ 20,000	\$ 245,000	\$ 20,000
Loans Payable	518,082		400,009	118,073	118,073
Compensated Absences Payable	684,338		9,949	674,389	69,747
Total Long-Term Liabilities	\$ 1,467,420	\$	\$ 429,958	\$ 1,037,462	\$ 207,820

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

Bonds Payable. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable outstanding at June 30, 2007:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds: Series 2005-A	<u>\$ 245,000</u>	5	2016

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bond:		
	Principal	Interest	Total
2008	\$ 20,000	\$ 12,250	\$ 32,250
2009	25,000	11,250	36,250
2010	25,000	10,000	35,000
2011	25,000	8,750	33,750
2012	30,000	7,500	37,500
2013-2016	120,000	15,250	135,250
Total	\$245,000	\$65,000	\$ 310,000

Loans Payable. On November 30, 2004, the College entered into a loan agreement with the Rodel Charitable Foundation – Florida, Inc., a Florida not-for-profit corporation to provide operating funds for the lobby expansion of the College’s Tennessee Williams Fine Arts Center. The agreement provides for two separate loans totaling \$800,000 to be paid upon receipt of funds from the Monroe County Tourist Development Council (TDC) and the State of Florida Facility Enhancement Challenge Grant Program. During the 2006-07 fiscal year, \$400,009 was paid to the Rodel Charitable Foundation. The payment was comprised of TDC funds in the amount of \$138,292 and State matching funds of \$261,717. During the 2005-06 fiscal year, \$281,918 was paid to the Rodel Charitable Foundation. The payment was comprised of TDC funds in the amount of \$247,669, return of unexpended loan funds of \$20,200, and interest earned on the amount loaned of \$14,049. The remaining balance of \$118,073 will be paid from State matching funds during the 2007-08 fiscal year.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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 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, 2007, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$674,389. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and represents payments for employees in the final year of the Deferred Retirement Option Program and for employees that have notified the College of their intention to terminate or retire during the 2007-08 fiscal year.

8. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the College are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions 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. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (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 the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

**FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$280,587, \$303,477, and \$363,195, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. College employees already participating in the State Community College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 44 College participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$154,185.

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.

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

9. 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 Community Colleges Risk Management Consortium, which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public community colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide community 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 \$115 million. Insurance coverage obtained through the Consortium included employee group health and life, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Employee and dependent dental and supplemental health coverage and employee short-term disability insurance are available through purchased commercial insurance. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

10. SCHEDULE OF STATE REVENUE SOURCES

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

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

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

FLORIDA KEYS COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

<u>Source</u>	<u>Amount</u>
Community College Program Fund	\$5,400,233
Gross Receipts Tax (Public Education Capital Outlay)	1,107,219
Education Enhancement Trust Fund (Lottery)	953,728
Restricted Contracts and Grants	589,809
Florida Student Assistance Grants	181,291
Bright Futures Scholarship Program	82,750
Performance Based Incentives	49,724
Motor Vehicle License Tax (Capital Outlay and Debt Service)	47,001
Total	<u><u>\$8,411,755</u></u>

11. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 3,977,648
Public Services	227,403
Academic Support	1,266,005
Student Services	949,025
Institutional Support	2,024,702
Operation and Maintenance of Plant	3,132,367
Scholarships and Fellowships	501,720
Depreciation	1,086,540
Total Operating Expenses	<u><u>\$ 13,165,410</u></u>

12. SUBSEQUENT EVENT

As discussed in note 1, at June 30, 2007, the College had \$373,706 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on

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the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the College and the State Board of Administration. The College had \$383,391 invested in the Pool as of February 28, 2008.