



March 17, 2017

The 20th anniversary year of the Community Foundation of the Florida Keys was an important milestone and full of activity. As part of our annual audit, we'd like to share a few of these important events.

Several measures to broaden our base of support were initiated. In January 2016, CFFK announced the creation of the Florida Keys Future Fund, a field of interest fund to make grants for the benefit of the entire Florida Keys. With help from a matching gift campaign, over \$154,000 was raised to build the corpus of grant funds to make ongoing grants starting in 2017. The Foundation Society was implemented as an annual giving program to recognize donors for their support of CFFK programs and operations, and our first donor initiated fund managed by an outside investment firm was established.

As part of our 20th year anniversary celebration, CFFK awarded \$180,000 in grants to Monroe County organizations using funds provided by legacy donors. In addition to these grants, and including those paid by non-profit agency funds, grants increased from \$1.2 million in 2015 to \$1.6 million.

In November, CFFK received notification from the National Standards for U.S. Community Foundations that we were recertified, confirmation that CFFK policies, procedures and board governance are in compliance with national standards for community foundations. The recertification demonstrates our commitment to transparency, quality, integrity and accountability. CFFK has held this distinction since 2006.

As part of its ongoing fiduciary responsibility to ensure the long term viability of endowed assets under management, the board approved the Investment Committee's recommendation to change the asset allocation to better assure consistent grant making over the long term. This decision was based on an historical analysis conducted by our investment advisors, Mason Investment Advisory Services, which demonstrates that by increasing the allocation to equity funds and decreasing bond funds, CFFK can expect over a 25 year time horizon a 20% improvement in success rate of paying consistent grants while preserving or growing the endowment balance. The new asset allocation for endowed funds was implemented in November.

CFFK is making progress toward sustainability to fulfill our mission to build a Keys-wide charitable network. The CFFK operating endowment and administrative fees provided over 67% of the costs for donor services, administration and fundraising in 2016. The goal is for these two sources to cover 100% of operating costs so that CFFK fundraising efforts can be directed exclusively to benefiting nonprofit organizations of the Florida Keys.

At the end of 2016, our reserves are strong and CFFK is well-positioned to continue to fulfill our mission to make Key West and the Florida Keys a better place to live by encouraging philanthropy and matching these acts of caring to the community needs. We believe in the potential, power and possibility of the future for the Florida Keys.

Roger Heinen, Chairman of the Board

Dianna Sutton, President and CEO

COMMUNITY FOUNDATION
OF THE FLORIDA KEYS, INC.

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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SMITH, BUZZI & ASSOCIATES, LLC.
CERTIFIED PUBLIC ACCOUNTANTS
5901 SW 74 STREET, SUITE 300
SOUTH MIAMI, FLORIDA 33143
TEL. (305) 669-4170
FAX (305) 669-4173

JULIO M. BUZZI, C.P.A.
JOSE E. SMITH, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Governors:
Community Foundation of the Florida Keys, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Community Foundation of the Florida Keys, Inc., which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

Opinion

In our opinion, the financial statements referred to above represent fairly, in all material respects, the financial position of Community Foundation of the Florida Keys, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Smith, Burgin & Associates, LLC.

Miami, Florida
March 17, 2017

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Financial Position
At December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 275,229	\$ 391,794
Investments	13,967,056	13,390,095
Pledges receivable	25,000	62,500
Other Assets	9,762	10,246
Total Current Assets	14,277,047	13,854,635
Investment in Real Property	-	448,098
Fixed Assets:		
Building	360,000	360,000
Computer and office equipment	52,554	52,810
Less accumulated depreciation	(131,638)	(122,204)
Total Fixed Assets	280,916	290,606
Total Assets	\$ 14,557,963	\$ 14,593,339
Liabilities and Net Assets		
Current Liabilities		
Grants payable and accrued expenses	\$ 207,386	\$ 288,127
Deferred revenue	34,240	70,500
Funds held for agencies	3,349,962	3,120,067
Total Current Liabilities	3,591,588	3,478,694
Net Assets:		
Unrestricted net assets	7,030,574	7,575,104
Temporarily Restricted net assets	3,935,801	3,539,541
Total net assets	10,966,375	11,114,645
Total Liabilities and Net Assets	\$ 14,557,963	\$ 14,593,339

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Activities
For the Years Ended December 31, 2016 and 2015

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES						
Contributions and program revenues	\$ 1,067,907	\$ 282,456	\$ 1,350,363	\$ 1,830,939	\$ 239,816	\$ 2,070,755
Interest and dividends, net of fees	172,040	111,849	283,889	204,746	129,221	333,967
Net realized gain (loss)	(71,263)	(80,727)	(151,990)	1,038	70	1,108
Net unrealized gain (loss)	504,307	321,249	825,556	(450,648)	(266,005)	(716,653)
Administrative fees	99,993	-	99,993	106,860	-	106,860
Other Income	52,428	-	52,428	12,851	-	12,851
TOTAL SUPPORT AND REVENUES	1,825,412	634,827	2,460,239	1,705,786	103,102	1,808,888
Net assets released from restrictions						
Transfer to unrestricted funds	238,567	(238,567)	-	564,748	(564,748)	-
EXPENSES						
Program services	1,770,897	-	1,770,897	1,437,755	-	1,437,755
Administrative	113,478	-	113,478	104,226	-	104,226
Fundraising	61,534	-	61,534	51,919	-	51,919
TOTAL EXPENSES	1,945,909	-	1,945,909	1,593,900	-	1,593,900
Fund closed	662,600	-	662,600	-	-	-
Increase (decrease) in net assets	(544,530)	396,260	(148,270)	676,634	(461,646)	214,988
Net assets, as previously stated	7,575,104	3,539,541	11,114,645	4,552,763	6,770,518	11,323,281
Correction in funds held for agencies	-	-	-	(423,624)	-	(423,624)
Correction in temporarily restricted net assets	-	-	-	2,769,331	(2,769,331)	-
Net assets, beginning of year	7,575,104	3,539,541	11,114,645	6,898,470	4,001,187	10,899,657
Net assets end of year	\$ 7,030,574	\$ 3,935,801	\$ 10,966,375	\$ 7,575,104	\$ 3,539,541	\$ 11,114,645

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services					Total
	Grants including Agency Funds	Donor Services	Center for Nonprofit Excellence	Total	Administrative	
Agency Funds	\$ 1,604,367 (194,394)	-	-	\$ 1,604,367 (194,394)	-	\$ 1,604,367 (194,394)
Grants approved	1,409,973	-	-	1,409,973	-	1,409,973
Personnel costs	145,202	26,091	-	171,293	83,945	283,598
Administrative fees	66,580	-	-	66,580	-	66,580
Occupancy costs	40,779	6,495	-	47,274	2,691	50,536
Newsletter and marketing	18,474	989	-	19,463	1,583	44,855
Nonprofit program costs	-	22,566	-	22,566	-	22,566
Depreciation	9,887	1,214	-	11,101	2,751	14,694
Office expenses	8,344	755	-	9,099	3,579	13,201
Accounting, legal and professional	4,576	1,114	-	5,690	5,858	12,321
Donor meetings	2,317	-	-	2,317	947	9,479
Dues and Subscriptions	-	995	-	995	3,620	4,615
Conferences and travel	-	-	-	-	4,336	4,336
Telephone	2,120	517	-	2,637	1,171	4,166
Insurance	-	-	-	-	2,065	2,065
Taxes and licenses	1,299	-	-	1,299	661	1,960
Postage	491	119	-	610	271	964
Total Expenses	\$ 1,710,042	\$ 60,855	\$ 1,770,897	\$ 1,770,897	\$ 113,478	\$ 1,945,909

See accompanying notes to financial statements

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services					Total
	Donor Services	Center for Nonprofit Excellence	Administrative	Fundraising	Total	
Grants including Agency Funds	\$ 1,227,660	-	-	-	-	\$ 1,227,660
Agency Funds	(115,094)	-	-	-	-	(115,094)
Grants approved	1,112,566	-	-	-	-	1,112,566
Personnel costs	118,733	29,563	74,268	17,786	-	240,350
Administrative fees	74,593	-	-	-	-	74,593
Occupancy costs	9,082	7,064	3,317	359	-	19,822
Newsletter and marketing	14,808	1,776	4,457	18,098	-	39,139
Nonprofit program costs	-	22,630	-	-	-	22,630
Depreciation	16,346	1,672	3,078	492	-	21,588
Office expenses	7,759	988	2,781	291	-	11,819
Accounting, legal and professional	4,110	1,217	7,387	340	-	13,054
Donor meetings	2,657	-	531	14,309	-	17,497
Dues and Subscriptions	-	995	2,892	-	-	3,887
Conferences and travel	-	-	1,187	-	-	1,187
Telephone	2,280	830	1,529	244	-	4,883
Insurance	4,366	-	1,656	-	-	6,022
Taxes and licenses	2,863	-	655	-	-	3,518
Postage	628	229	488	-	-	1,345
Total Expenses	<u>\$ 1,370,791</u>	<u>\$ 66,964</u>	<u>\$ 104,226</u>	<u>\$ 51,919</u>	<u>\$ 1,593,900</u>	<u>\$ 1,593,900</u>

See accompanying notes to financial statements

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase (Decrease) in Net Assets	\$ (148,270)	\$ 214,988
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	14,694	21,588
Net realized and unrealized (gain) loss on investments	(825,565)	939,588
Realized gain on sale of real property held for investment	(50,548)	-
Decrease in pledges receivable	37,500	77,000
Decrease in other assets	484	4,152
(Decrease) / Increase in grants payable and accrued expenses	(80,741)	227,174
Decrease in deferred revenue	(36,260)	(74,760)
Increase in agency liability	229,895	69,122
Net cash provided (used) by operating activities	(858,811)	1,478,852
 Cash flows from investing activities:		
Purchase of equipment	(6,645)	-
Disposal of office equipment	1,286	-
Donation of office equipment	-	(1,500)
Proceeds from sale of investment in real property	499,000	-
Proceeds from sale of investment securities	4,979,469	1,649,832
Purchase of investment securities	(4,730,864)	(3,019,578)
Net cash provided (used) by investing activities	742,246	(1,371,246)
 Net increase (decrease) in cash and cash equivalents	(116,565)	107,606
Cash and cash equivalents at beginning of year	391,794	284,188
Cash and cash equivalents at end of year	\$ 275,229	\$ 391,794
 Supplemental disclosure information:		
 Interest paid	\$ -	\$ -
 Income taxes paid	\$ -	\$ -

See accompanying notes to financial statements

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Nature of Organization and Significant Accounting Policies

a) Organization

The Community Foundation of the Florida Keys, Inc. ("CFFK") (a not-for-profit corporation) was organized under the statutes of the State of Florida on May 1st, 1996 to create a permanent philanthropic endowment for the Florida Keys Community. CFFK administers charitable funds, each established with an instrument of gift describing either the general or specific purpose for which grants are to be made. CFFK was found to be in compliance by the Community Foundations National Standards Board of the Council on Foundations in 2007 and recertified most recently in 2016. Effective January 1st, 2014, CFFK changed to a calendar year end from a prior fiscal year end of June 30th.

CFFK Holdings, LLC ("LLC") was formed April 3, 2014 to facilitate a gift of real property to a charitable fund administered by CFFK. CFFK Holdings, LLC is treated as a disregarded entity for Federal tax purposes. Its accounts are consolidated into this financial statement.

CFFK operates two programs. Donor services program consists of soliciting, managing and distributing grants for charitable purposes, primarily in Monroe County, Florida. CFFK facilitates prudent investment management practices for individuals and not-for-profit organizations and provides resources to professional advisors and donors to advance philanthropy. The second program is the Center for Nonprofit Excellence. This program provides leadership training to board members and staff, recognizes volunteer achievement and supports not-for-profit organizations with research resources and by connecting donors with organizations in Monroe County, Florida.

b) Basis of Presentation

The financial statements have been prepared under the accrual basis of accounting under the guidance of the Financial Accounting Standards Board under its Accounting Standards Codification (ASC) No. 958 *Not-for-Profit Entities*.

c) Net Assets

CFFK is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets - net assets without donor-imposed restrictions which management or the governing board has discretionary control to use in carrying on the mission of CFFK.

Temporarily restricted net assets - net assets whose use by CFFK are subject to donor-imposed restrictions that can be fulfilled by actions of CFFK or by the passage of time. Support that is restricted is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Nature of Organization and Significant Accounting Policies (Cont.)

c) Net Assets (Cont.)

Permanently restricted net assets - net assets that contain a donor-imposed stipulation that neither expire within a certain period of time nor can be fulfilled or otherwise removed by actions of CFFK.

CFFK articles of incorporation and Fund agreements include a variance provision that allows the Board of Governors to vary the use of contributions received. Based on this variance provision, there were no permanently restricted net assets as of December 31, 2016 and 2015.

d) Revenue Recognition

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. CFFK reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When donor restrictions expire, that is, when stipulated time restricted net assets are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts. CFFK maintains cash balances at financial institutions, however, short term investments with maturities at the date of purchase of three months or less are treated as investments rather than cash.

f) Investments

Investments are in the custody of brokerage and investment firms who manage them in accordance with policies set by the CFFK Board of Governors.

At December 31, 2016 and 2015 investments primarily consist of mutual funds, exchange traded funds and corporate bonds that are carried at market value, as quoted on major stock exchanges. Money market funds maintained a constant net asset value of \$1 per share. Equity securities held at year end, from recent donor contributions, are pending settlement of trades originating in December and the carrying value of the security is also based on market value as quoted on major stock exchanges. Investments received as contributions are recorded at the quoted market value on the date received by CFFK. Realized and unrealized investment gains and losses are determined by comparison of specific cost of acquisition to proceeds at the time of disposal or market value at the statement of financial position date. These gains and losses

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Nature of Organization and Significant Accounting Policies (Cont.)

f) Investments (Cont.)

and other investment income are primarily reflected in the statement of activities as unrestricted support and revenue. CFFK pools a number of funds in order to obtain greater investment advantage and more efficient administration. The investments are managed under a policy determined by the Board of Governors. The goals of the investment policy are to maintain the purchasing power of the current assets and all future contributions, to achieve a target return within reasonable and prudent levels of risk to support a grant making rate that maintains services and programs, and to maintain an appropriate asset allocation based on the total return policy. For both 2016 and 2015, the grant making spending policy was 4.25% of the average of the prior 12 quarters investment balances. CFFK periodically allocates income and expenses, gains and losses from pooled investments based on a unitization calculation that reflects the daily proportion of each fund's assets to the total pool.

g) Investment in Real Property

During 2014 CFFK Holdings, LLC received a donation of residential real estate in Key West, Florida. Donor stipulations require the property not be sold before June 8, 2016. At the direction of the primary funding beneficiary, the property was sold on June 15, 2016 for a gain of \$50,548 and the balance of the fund was distributed as a grant to the beneficiaries.

h) Fixed assets

Building, computer and office equipment are stated at cost, if purchased or at estimated market value at date of receipt if acquired by donation. Depreciation is calculated, using the straight-line method over the estimated useful lives of the respective assets.

i) Concentrations of Credit and Market Risk

Financial instruments that potentially expose CFFK to concentrations of credit and market risk consist primarily of cash equivalents and mutual funds. Cash equivalents are maintained at financial institutions that in management's opinion are viable. CFFK has not experienced any losses on its cash equivalents. However, funds invested in investment company mutual funds and money market funds are not backed by a bank nor are they insured by the FDIC. CFFK had cash and cash equivalent deposits of \$274,969 and \$383,632 in repurchase agreement accounts secured with a perfected interest in securities in excess of the deposit amount at December 31, 2016 and 2015. Because these accounts are secured by a perfected interest in securities, they are not covered by FDIC insurance.

Concentrations of credit risk with respect to contributions and other revenue sources are limited due to the large number of contributors comprising CFFK's contributor base. However, the majority of the contributor base is

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Nature of Organization and Significant Accounting Policies (Cont.)

i) Concentrations of Credit and Market Risk (Cont.)

concentrated in the Lower Florida Keys area. Contributions received from donors for the year ended December 31, 2016, which individually exceeded five percent of contributions and program revenues, consisted of gifts from four (4) donors amounting to \$571,388 (approximately 42% of total contributions and program revenues). These were the result of conversion of a private foundation and legacy gifts. Contributions received from donors for the year ended December 31, 2015, which individually exceeded five percent of contributions and program revenues, consisted of gifts from three (3) donors amounting to \$1,115,596 (approximately 54% of total contributions and program revenues). These were received as bequests from two estates and from the Direct Support Organization described in footnote 11.

j) Functional Allocation of Expenses

The costs of providing the Program Services and Administrative and Fundraising activities have been summarized on a functional basis in the statement of functional expenses. A reasonable basis for allocating indirect costs has been established, therefore certain costs have been allocated to activities benefited.

k) Donated Services and Goods

CFFK receives a significant amount of donated services from unpaid volunteers who act as the Board of Governors, assist in fund-raising and special projects. During the year ended December 31, 2015, CFFK recorded \$500 for professional services that were received in support of its mission. Also during the year ended December 31, 2015 CFFK received artwork with an appraised value of \$1,500 that is reported with office equipment in the statement of financial position. During the year ended December 31, 2016 CFFK donated this artwork to a Monroe County charitable organization that will use it in activities related to its mission.

l) Income Tax

CFFK is tax exempt under Section 501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation under Section 509(a)(1) of the Code. However, subject to certain exceptions, gross income, if any, from an activity not substantially related to the performance of the organization's exempt function that constitutes a trade or business regularly carried on by the organization will be subject to the unrelated business income tax. Management has evaluated the need for a reserve for income tax liability and determined that no reserve is required at December 31, 2016 or 2015.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Nature of Organization and Significant Accounting Policies (Cont.)

m) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

n) Variance Power

The articles of incorporation of CFFK include a variance provision giving the Board of Governors the power to modify any restriction or condition placed on gift to CFFK, including those with donor-imposed restrictions, if, in its sole judgment, the Board determines that the restriction becomes, in effect, incapable of fulfillment or inconsistent with the charitable needs of the community. Accordingly, such contributions are reported as temporarily restricted net assets.

o) Fair Value of Financial Instruments

Accounting standards define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value, and require expanded disclosures about fair value measurements.

Accounting standards establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Each level is defined as follows:

-Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that CFFK has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Nature of Organization and Significant Accounting Policies (Cont.)

o) Fair Value of Financial Instruments (Cont.)

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-the-balance-sheet financial instruments approximate their fair values due to the short-term nature of these instruments. These financial instruments include cash, contributions receivable due within one year, accounts payable and other liabilities, and grants payable.

CFFK's financial assets as of December 31, 2016 and 2015 are valued based on quoted market prices and are considered Level 1.

2. Pledges Receivable/Deferred Revenue

Fiscal year 2016 was the end of a three (3) year cycle where CFFK solicited donors to raise funds by multi-year pledges. The amounts raised represent unconditional promises to give.

Pledges Receivable are summarized as follows:

	<u>2016</u>	<u>2015</u>
Collectible in one year	\$ 15,000	\$ 57,500
Collectible in two years	<u>10,000</u>	<u>5,000</u>
Total	\$ <u>25,000</u>	\$ <u>62,500</u>

Because the majority of receivables are due within one year, management has determined that the applicable discount is immaterial. Management has also determined there is no need to record a reserve for uncollectible pledges receivable at December 31, 2016 and 2015.

Promises to give are deferred until received or earned. CFFK has recorded \$9,240 and \$8,000 of deferred revenue for events to be held during the first three months following the year as of December 31 2016 and 2015, respectively, and these contributions have been recorded as deferred revenue.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

3. Fixed Assets

Fixed Assets consist of the following:

	<u>2016</u>	<u>2015</u>
Building	\$ 360,000	\$ 360,000
Computer and office equipment	<u>52,554</u>	<u>52,810</u>
	412,554	412,810
Less allowance for depreciation	<u>(131,638)</u>	<u>(122,204)</u>
Net fixed asset value	\$ <u>280,916</u>	\$ <u>290,606</u>

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to \$14,694 and \$21,588, including \$4,904 and \$11,753 related to Real Estate Held for Investment, respectively.

4. Investments

Short-term, highly liquid fund investments are reported as investments rather than cash equivalents. Investments, which are managed, are presented in the financial statements at fair market values. CFFK invests in marketable equity securities which, inherent in the fair market value determination, include the risk factor of credit worthiness for each individual equity security. In November 2016 the target asset allocation was changed, increasing equity funds and decreasing bond funds, to increase the ability to sustain consistent grant amounts while preserving the principal balance invested.

Investments consist of the following:

<u>Investment Category</u>	<u>2016</u>	<u>2015</u>
	<u>Level 1 Fair Value</u>	<u>Level 1 Fair Value</u>
Money Market Funds	\$ 211,553	\$ 271,835
Domestic Corporate Bonds	30,743	-
Domestic Bond Funds	1,716,115	2,745,145
Treasury Inflation Protected Security	502,811	723,637
International Bond Funds	709,217	651,201
U.S. Equity Funds	6,447,311	4,501,623
International Equity Funds	2,313,540	1,989,037
Real Estate Funds	957,172	1,419,635
Energy / Natural Resources Funds	533,220	535,809
Commodity Funds	<u>545,374</u>	<u>552,173</u>
Total Investments	\$ <u>13,967,056</u>	\$ <u>13,390,095</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the periods ended December 31, 2016 and 2015 (excluding realized gain of \$50,548 on sale of real property held for investment):

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
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4. Investments (Cont.)

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest & dividends	\$ 197,099	\$ 128,367	\$ 325,466
Net realized gain (loss)	(121,811)	(80,727)	(202,538)
Unrealized gains (losses)	504,307	321,249	825,556
Investment management fees	<u>(25,059)</u>	<u>(16,518)</u>	<u>(41,577)</u>
Total Investment Return	\$ <u>554,536</u>	\$ <u>352,371</u>	\$ <u>906,907</u>

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest & dividends	\$ 231,211	\$ 145,939	\$ 377,150
Net unrealized gain (loss)	1,038	70	1,108
Unrealized gains (losses)	(450,648)	(266,005)	(716,653)
Investment management fees	<u>(26,465)</u>	<u>(16,718)</u>	<u>(43,183)</u>
Total Investment Return	\$ <u>(244,864)</u>	\$ <u>(136,714)</u>	\$ <u>(381,578)</u>

The primary diversified investment portfolio has a time weighted return, net of investment fees, of approximately 9.53% and (3.72%) for the years ended December 31, 2016 and 2015, respectively.

5. Investment in Real Property

On April 4, 2014, CFFK received, from a decedent, a donation of an interest in residential real property located in Key West, Florida. On April 30, 2014, CFFK transferred ownership interest in the property to CFFK Holdings, LLC (the "LLC"). The LLC is wholly owned by CFFK. The investment is jointly owned with Wheaton College for the benefit of CFFK at 25% and the remaining 75% of the property is for the benefit of Wheaton College. On June 15, 2016 the property was sold to an unrelated party for a gain of \$50,548. The Fund was closed after the remaining assets were granted to the beneficiaries for charitable purposes.

6. Grants Payable to Beneficiaries

Grants payable to beneficiaries for the years ended December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Payable in less than one year	\$ 108,500	\$ 103,500
Payable in one to five years	<u>94,500</u>	<u>171,500</u>
Total	\$ <u>203,000</u>	\$ <u>275,000</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2016 and 2015

6. Grants Payable to Beneficiaries (Cont.)

Grants to beneficiaries and administrative fees paid by funds where the donor recommends grant to charitable beneficiaries for the years ended December 31, 2016 and 2015 are substantially composed of the following:

	<u>2016</u>	<u>2015</u>
Grants paid to beneficiaries	\$1,180,717	\$ 832,697
Inter-fund grants	229,256	279,869
Administrative fees paid by funds	<u>66,580</u>	<u>74,593</u>
Total grants and administrative fees	<u>\$1,476,553</u>	<u>\$1,187,159</u>

7. Funds Held for Agencies

An agency transaction is the transfer of assets from a not-for-profit organization to establish or add to a Fund at CFFK whereby the not-for-profit organization specifies themselves or their affiliates as the beneficiaries. The transfers to the Fund, related investment income (losses), fees earned and grants back to the not-for-profit organization are recorded as an increase or decrease to the corresponding assets and liabilities and are not included in the net assets of CFFK.

Since the December 31, 2015 audit report was issued, management has reviewed the funds classified as agency and has reclassified the net assets at January 1, 2015 accordingly.

The change in agency liability for funds held are summarized as follows:

	<u>2016</u>	<u>2015</u>
Agency liability as previously reported	\$ -	\$ 2,625,821
Correction of agency liability fund classification	-	423,624
Grants payable at beginning of year	<u>-</u>	<u>1,500</u>
Agency liability, at beginning of year, corrected	3,120,067	3,050,945
Funds received on behalf of agencies	153,107	261,795
Inter-fund transfers to agency funds	10,158	73,288
Interest and dividends, net of fees	93,575	105,463
Realized investment loss	(67,928)	-
Unrealized investment gain (loss)	270,290	(224,043)
Grants to not-for-profit organizations	(194,394)	(109,094)
Grants cancelled	(1,500)	-
Inter-fund transfer by agency funds	-	(6,000)
Administrative and bank fees	<u>(33,413)</u>	<u>(32,287)</u>
Agency liability, at end of year	<u>\$ 3,349,962</u>	<u>\$ 3,120,067</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
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8. Temporarily Restricted Net Assets

Since the December 31, 2015 audit report was issued, management reviewed the funds classified as temporarily restricted in its accounting system and the fund agreements creating temporarily restricted net assets. The primary change from the previously reported amount was to reclassify the CFFK Operational Support Endowment, created by the CFFK Board of Governors for the benefit of CFFK, as unrestricted net assets which resulted in a reduction of \$2,769,331 that is now classified as unrestricted net assets.

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Donor Advised	\$ 1,412,427	\$ 1,217,469
Designated Funds	460,976	442,048
Field of Interest	303,584	364,611
Organization Endowments	1,158,617	1,000,209
Scholarships	<u>600,197</u>	<u>515,204</u>
Temporarily Restricted Net Assets	\$ <u>3,935,801</u>	\$ <u>3,539,541</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2016</u>	<u>2015</u>
Grants and distributions	\$ 89,218	\$ 434,307
Interfund grants	15,658	78,413
Administrative fees	49,421	52,028
Donor restrictions released	<u>84,270</u>	<u>-</u>
Total restrictions released	\$ <u>238,567</u>	\$ <u>564,748</u>

Accounting Standards provide that if the governing body has the ability to remove a donor restriction ("variance power") the contributions may be classified as unrestricted net assets. However, the governing body of CFFK has adopted a policy to only classify as unrestricted those funds where the donor is deceased or the donor has not imposed any restrictions. Accordingly, despite the existence of its variance power, CFFK will reflect funds with donor restrictions as temporarily restricted until such time as the governing body deems appropriate to exercise its authority.

9. Funds Closed

During the year ended December 31, 2016, a donor advised fund was closed when a transfer to another charitable organization that administers donor advised funds was requested. Since the funds were not paid to charitable beneficiaries, this amount is not included in grants and is separately disclosed on the Statement of Activities as Funds closed.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
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10. Occupancy Costs

Office condominium space used by CFFK was received as a donation in September 2007. The donated office condominiums had a fair market value of \$360,000 at the time of the donation. Occupancy expenses for the years ended December 31, 2016 and 2015, including program expenses in support of the investment in real property, amounted to \$50,536 and \$19,822, respectively. 2016 occupancy expenses included non-recurring costs to prepare the residential property (see Note 5) for sale.

11. Rodel Charitable Foundation - Florida, Inc.

The Rodel Charitable Foundation - Florida, Inc. (Rodel), a Florida not-for-profit corporation was formed on October 6, 2003 as a Direct Support Organization for the specific purpose to conduct or support activities for the benefit of, to perform the function of, or to carry out the purposes of the Community Foundation of the Florida Keys, Inc., and to support and further charitable activities in the Florida Keys. Rodel was recognized as an organization exempt from federal income tax under section 501 (c) (3) of the Internal Revenue Code. The financial position and changes in net assets of Rodel's activities are not included in the accompanying financial statements. Effective July 31, 2015 Rodel made a final distribution of all the assets and filed articles of dissolution with the State of Florida.

12. Related Party Transactions

A member of the board of governors is an executive officer of the bank where the organization has its depository and short term investment accounts. The organization pays fees and receives interest on its accounts at market rates that are available to other unrelated parties. During 2016 a member of the board of governors who is the principal broker of a realty firm acted as the listing agent for investment real property described in footnote 5. The services contract with board member was at an arms-length rate normally used in Key West, Florida.

13. Subsequent Events

CFFK has evaluated events and transactions occurring subsequent to December 31, 2016 as of March 17, 2017 which is the date the financial statements were available to be issued. Subsequent events occurring after March 17, 2017 have not been evaluated by management.

No additional material events have occurred since December 31, 2016 that require recognition or disclosure in the financial statements.

SMITH, BUZZI & ASSOCIATES, LLC.
CERTIFIED PUBLIC ACCOUNTANTS
5901 SW 74 STREET, SUITE 300
SOUTH MIAMI, FLORIDA 33143
TEL. (305) 669-4170
FAX (305) 669-4173

JULIO M. BUZZI, C.P.A.
JOSE E. SMITH, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Governors of
Community Foundation of the Florida Keys, Inc.:

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 Community Foundation of the Florida Keys ("CFFK") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CFFK's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CFFK's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity'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 CFFK's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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 this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CFFK'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Burgin & Associates, LLC.

March 17, 2017