



May 25, 2018

Serving critical, unmet needs in the community is one of our most important roles and that was especially evident in 2017. During the last four months of the year, our efforts were primarily focused on helping our community recover following the devastation of Hurricane Irma. More than \$1 million was received and granted to benefit thousands of residents from Key West to Key Largo. Four community advisory committees assisted CFFK with grant review, helping us respond to critical needs throughout the entire island chain. Expenses related to our disaster relief initiative are detailed in the Statement of Functional Expenses.

In total, nearly \$2 million was allocated for grants and program services – the largest amount in any single year in our history. CFFK and our partners have now provided more than \$26 million in grants and program services to the Keys community since our inception 21 years ago – a significant accomplishment that ranks CFFK as a top grant maker nationally.

The excitement and momentum created by our milestone 20<sup>th</sup> anniversary in 2016 continued, and we made tremendous progress on our strategic Vision 20/20 Plan to create a Keys-wide charitable network. Growth in our Foundation Society membership, Legacy Society membership and new funds under management broadened our base of support and assisted our efforts toward sustainability. Grants and program services impacted more people throughout the entire Keys than ever before, increasing our visibility and outreach.

As always, we conduct prudent investment management practices to meet donor goals and build philanthropy in the Keys. Since 2006, the National Standards for U.S. Community Foundations has certified our commitment to transparency, quality, integrity and accountability.

At the end of 2017, 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 community needs. We believe in the future of the Florida Keys and are working every day to enhance our wonderful community.

Ron Burd  
Board Chair

Dianna Sutton  
President and CEO

COMMUNITY FOUNDATION  
OF THE FLORIDA KEYS, INC.

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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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, 2017 and 2016, 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, 2017 and 2016, 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  
May 25, 2018

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Statement of Financial Position  
At December 31, 2017 and 2016

	2017	2016
<b>Assets:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 551,110	\$ 275,229
Investments	15,860,506	13,967,056
Pledges receivable	15,375	25,000
Other Assets	19,842	9,762
<b>Total Current Assets</b>	<b>16,446,833</b>	<b>14,277,047</b>
<b>Fixed Assets:</b>		
Building	360,000	360,000
Computer and office equipment	53,129	52,554
Less accumulated depreciation	(141,322)	(131,638)
<b>Total Fixed Assets</b>	<b>271,807</b>	<b>280,916</b>
<b>Total Assets</b>	<b>\$ 16,718,640</b>	<b>\$ 14,557,963</b>
 <b>Liabilities and Net Assets:</b>		
<b>Current Liabilities</b>		
Grants payable and accrued expenses	118,094	207,386
Deferred revenue	24,620	34,240
Funds held for agencies	3,826,291	3,349,962
<b>Total Current Liabilities</b>	<b>3,969,005</b>	<b>3,591,588</b>
<b>Net Assets:</b>		
Unrestricted net assets	7,596,579	7,030,574
Temporarily Restricted net assets	5,153,056	3,935,801
<b>Total net assets</b>	<b>12,749,635</b>	<b>10,966,375</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 16,718,640</b>	<b>\$ 14,557,963</b>

See accompanying notes to financial statements.



COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Statement of Functional Expenses  
For the Year Ended December 31, 2017

	Program Services					
	Donor Services	Center for Nonprofit Excellence	Emergency Relief and Recovery	Total	Administrative Fundraising	Total
Total Grants including Agency Funds	\$ 1,056,645	\$ -	\$ 1,016,900	\$ 2,073,545	\$ -	\$ 2,073,545
Agency Funds grants paid	(429,313)			(429,313)		(429,313)
Grants approved (non-Agency)	627,332	-	1,016,900	1,644,232	-	1,644,232
Personnel costs	101,836	50,345	52,199	204,380	80,521	319,173
Administrative fees	64,759	-	-	64,759	-	64,759
Newsletter and marketing	5,163	669	211	6,043	1,997	35,028
Nonprofit program costs	-	19,641	-	19,641	-	19,641
Office expenses	4,359	1,405	2,219	7,983	3,609	13,128
Occupancy costs	2,409	6,523	1,226	10,158	1,995	13,003
Depreciation	3,216	1,036	1,637	5,889	2,663	9,685
Conferences and travel	-	-	-	-	7,720	7,720
Bank fees	-	-	-	-	295	7,551
Accounting, legal and professional	2,331	751	1,185	4,267	1,931	7,020
Donor meetings	1,304	-	-	1,304	1,768	6,314
Telephone	1,379	444	702	2,525	1,142	4,153
Dues and Subscriptions	-	-	-	-	1,943	2,383
Insurance	-	-	-	-	2,057	2,057
Postage	647	208	329	1,184	536	1,948
Taxes and licenses	-	-	-	-	550	550
Total Expenses	\$ 814,735	\$ 81,022	\$ 1,076,608	\$ 1,972,365	\$ 108,727	\$ 2,158,345

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				
	Donor Services	Center for Nonprofit Excellence	Total	Administrative Fundraising	Total
Total Grants including Agency Funds	\$ 1,604,367	-	\$ 1,604,367	-	\$ 1,604,367
Agency Funds grants paid	(194,394)		(194,394)		(194,394)
Grants approved (non-Agency)	1,409,973	-	1,409,973	-	1,409,973
Personnel costs	145,202	26,091	171,293	28,360	283,598
Administrative fees	66,580	-	66,580	-	66,580
Newsletter and marketing	18,474	989	19,463	23,809	44,855
Nonprofit program costs	-	22,566	22,566	-	22,566
Office expenses	8,344	755	9,099	523	13,201
Occupancy costs	40,779	6,495	47,274	571	50,536
Depreciation	9,887	1,214	11,101	842	14,694
Conferences and travel	-	-	-	4,336	4,336
Bank Fees	-	-	-	200	3,332
Accounting, legal and professional	4,576	1,114	5,690	2,526	8,989
Donor meetings	2,317	-	2,317	947	9,479
Telephone	2,120	517	2,637	358	4,166
Dues and Subscriptions	-	995	995	-	4,615
Insurance	-	-	-	2,065	2,065
Postage	491	119	610	271	964
Taxes and licenses	1,299	-	1,299	661	1,960
<b>Total Expenses</b>	<b>1,710,042</b>	<b>60,855</b>	<b>1,770,897</b>	<b>110,346</b>	<b>1,945,909</b>

See accompanying notes to financial statements

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Statement of Cash Flows  
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,783,260	\$ (148,270)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	9,685	14,694
Net realized and unrealized (gain) loss on investments	(1,589,132)	(825,565)
Realized gain on sale of real property held for investment	-	(50,548)
Decrease in pledges receivable	9,625	37,500
(Increase) / Decrease in other assets	(10,080)	484
(Decrease) / Increase in grants payable and accrued expenses	(89,292)	(80,741)
Decrease in deferred revenue	(9,620)	(36,260)
Increase in agency liability	476,329	229,895
Net cash provided by operating activities	580,775	(858,811)
 Cash flows from investing activities:		
Purchase of equipment	(575)	(6,645)
Disposal of office equipment	-	1,286
Proceeds from sale of investment in real property	-	499,000
Proceeds from sale of investment securities	3,814,658	4,979,469
Purchase of investment securities	(4,118,977)	(4,730,864)
Net cash used by investing activities	(304,894)	742,246
 Net increase in cash and cash equivalents	275,881	(116,565)
Cash and cash equivalents at beginning of year	275,229	391,794
Cash and cash equivalents at end of year	\$ 551,110	\$ 275,229
 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, 2017 and 2016

**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 1<sup>st</sup>, 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.

CFFK Holdings, 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 incorporated into this financial statement.

CFFK operates three 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 Monroe County not-for-profit 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. The third program is to identify unmet needs in the community and to work with other community organizations and individuals to meet those needs. Hurricane Irma struck the Florida Keys on September 10, 2017. During the last four months of 2017, assisting with relief and recovery efforts was the primary focus of the organization. CFFK processed 610 gifts for \$1,259,279 that were restricted to emergency recovery and relief, then awarded 82 grants for \$1,016,900. Because significant staff time was devoted to raising funds to respond to this emergency, the percentage of expenses allocated to fundraising in the statement of functional expenses has increased over prior years.

**b) Basis of Presentation**

The financial statements have been prepared under the accrual basis of accounting under the guidance of 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.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

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

**c) Net Assets (Cont.)**

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 restrictions expire in the reporting period in which the support is recognized.

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's 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, 2017 and 2016.

**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, 2017 and 2016 Investments primarily consist of mutual funds, exchange traded funds and corporate bonds that are carried at market value, as quoted on major stock exchanges. Investment also include FDIC Insured accounts and 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

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

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

**f) Investments (Cont.)**

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 and other investment income are reflected in the statement of activities as unrestricted support and revenue unless the underlying asset relating to the gains and losses is classified as temporarily restricted.

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 2017 and 2016, 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 fund 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. Substantially all of cash and cash equivalents are secured by perfected interest in securities that have a value in excess of deposit amount. The amounts thus secured are \$550,910 and \$274,969 at December 31, 2017 and 2016 respectively.

Concentrations of credit risk with respect to contributions and other revenue sources are limited due to the large number of contributors comprising the

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

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

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

CFFK's contributor base. However, the majority of the contributor base is concentrated in the Lower Florida Keys area. Contributions received from donors for the year ended December 31, 2017 which individually exceeded five percent of contributions and program revenues, consisted of gifts from two donors amounting to \$407,530 (approximately 18% of total contributions and program revenues). These were the result of a gift supporting emergency relief and recovery following Hurricane Irma and a legacy gift that was contributed to an endowment for a not-for-profit organization. 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 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.

**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. Indirect costs have been allocated primarily on the percentage of staff time related to program, administrative and fundraising activities. Presentation of 2016 Administrative and Fundraising Bank Fees have been reclassified for consistency with the current year presentation.

**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. The value of these services are not recorded as in-kind gifts and expenditures. During the year ended December 31, 2017, CFFK recorded \$750 as an in-kind gift for professional services that were received in support of 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 believes that it has appropriate support for any tax positions taken and as such does not have any uncertain tax positions that would be material to the financial statements. CFFK's tax returns are subject to routine audits by taxing jurisdictions, however, currently there are no such audits in progress. Tax returns for years before 2014 are no longer subject to examination. Management has evaluated the need for a reserve for income tax liability and determined that no reserve is required at December 31, 2017 or 2016.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

**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 gifts 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.

*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.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

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

**o) Fair Value of Financial Instruments (Cont.)**

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, 2017 and 2016 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-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>2017</u>	<u>2016</u>
Collectible in one year	\$ 15,000	\$ 15,000
Collectible in two years	<u>          -</u>	<u>10,000</u>
Total	\$ <u>15,000</u>	\$ <u>25,000</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, 2017 or 2016.

Promises to give are deferred until received or earned. CFFK has recorded \$4,620 and \$9,240 of deferred revenue for events to be held during the first three months of the following year as of December 31, 2017 and 2016 respectively.

**3. Fixed Assets**

Fixed Assets consist of the following:

	<u>2017</u>	<u>2016</u>
Building	\$ 360,000	\$ 360,000
Computer and Office Equipment	<u>53,129</u>	<u>52,554</u>
	413,129	412,554
Less allowance for depreciation	<u>(141,322)</u>	<u>(131,638)</u>
Net fixed asset value	\$ <u>271,807</u>	\$ <u>280,916</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

**3. Fixed Assets (Cont.)**

Depreciation expense for the year ended December 31, 2017 amounted to \$9,685. Depreciation expense for the year ended December 31, 2016 amounted to \$14,694, including \$4,904 related to Real Estate Held for Investment.

**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 at December 31, 2017 and 2016:

<u>Investment Category</u>	<u>2017</u> Level 1 <u>Fair Value</u>	<u>2016</u> Level 1 <u>Fair Value</u>
Cash and Money Market Funds	\$ 198,441	\$ 211,553
Domestic Corporate Bonds	20,188	30,743
Domestic Bond Funds	1,962,168	1,716,115
Treasury Inflation Protected Security	586,984	502,811
International Bond Funds	810,871	709,217
U.S. Equity Funds	7,319,537	6,447,311
International Equity Funds	2,706,394	2,313,540
Real Estate Funds	1,042,603	957,172
Energy / Natural Resources Funds	1,213,320	533,220
Commodity Funds	-	545,374
	<hr/>	<hr/>
Total Investments	<u>\$15,860,506</u>	<u>\$13,967,056</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the periods ended December 31, 2017 and 2016 (excluding realized gain of \$50,548 on real property held for investment):

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
Notes to Financial Statements  
December 31, 2017 and 2016

**4. Investments (Cont.)**

	<u>2017</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Interest & dividends	\$ 383,159	\$ 175,211	\$ 558,370
Net realized gain (loss)	(37,613)	(17,828)	(55,441)
Unrealized gain (loss)	1,128,235	516,093	1,644,328
Investment management fees	<u>(40,333)</u>	<u>(18,571)</u>	<u>(58,904)</u>
Total Investment Return	<u>\$1,433,448</u>	<u>\$ 654,905</u>	<u>\$2,088,353</u>

	<u>2016</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Interest & dividends	\$ 197,099	\$ 128,367	\$ 325,466
Net realized gain (loss)	(121,811)	(80,727)	(202,538)
Unrealized gain (loss)	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>

The primary diversified investment portfolio has a time weighted return of approximately 15.84% and 9.53% for the years ended December 31, 2017 and 2016 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 was 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.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
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**6. Grants Payable to Beneficiaries**

Grants payable to beneficiaries for the years ended December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Payable in less than one year	\$ 90,573	\$ 108,500
Payable in one to five years	<u>20,000</u>	<u>94,500</u>
Total	\$ <u>110,573</u>	\$ <u>203,000</u>

Grants to beneficiaries and administrative fees paid by funds where the donor recommends grants to charitable beneficiaries for the years ended December 31, 2017 and 2016 are substantially composed of the following:

	<u>2017</u>	<u>2016</u>
Grants paid to beneficiaries	\$ 1,454,650	\$ 1,180,717
Inter-fund grants	189,582	229,256
Administrative fees paid by funds	<u>64,759</u>	<u>66,580</u>
Total grants and administrative fees	\$ <u>1,708,991</u>	\$ <u>1,476,553</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 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.

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**7. Funds Held for Agencies (Cont.)**

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

	<u>2017</u>	<u>2016</u>
Agency liability at beginning of year	\$ 3,349,962	\$ 3,120,067
Funds received on behalf of agencies	431,298	153,107
Inter-fund transfers to agency funds	250	10,158
Interest and dividends, net of fees	119,515	93,575
Realized investment loss	(13,474)	(67,928)
Unrealized investment gain (loss)	405,427	270,290
Grants to not-for-profit organizations	(405,606)	(194,394)
Grant cancelled	-	(1,500)
Inter-fund transfer by agency funds	(23,707)	-
Administrative and bank fees	<u>(37,374)</u>	<u>(33,413)</u>
Agency liability at end of year	\$ <u>3,826,291</u>	\$ <u>3,349,962</u>

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Donor Advised	\$ 1,604,595	\$ 1,412,427
Designated Funds	547,017	460,976
Field of Interest	652,507	303,584
Organization Endowments	1,593,591	1,158,617
Scholarships	<u>755,346</u>	<u>600,197</u>
Temporarily Restricted Net Assets	\$ <u>5,153,056</u>	\$ <u>3,935,801</u>

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

	<u>2017</u>	<u>2016</u>
Grants and distributions	\$ 1,076,425	\$ 89,218
Interfund grants	-	15,658
Administrative fees	55,572	49,421
Donor restrictions released	-	84,270
Total restrictions released	\$ <u>1,131,997</u>	\$ <u>238,567</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.  
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**8. Temporarily Restricted Net Assets (Cont.)**

The significant increase in Grants and distributions in 2017 relates to gifts restricted to emergency relief and recovery that were paid as grants during the last four months of the year.

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.

**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, 2017 and 2016, including program expenses in support of the investment in real property in 2016, amounted to \$13,003 and \$50,536 respectively. 2016 occupancy expenses included nonrecurring costs to prepare the residential real property (described in Note 5) for sale.

**11. Subsequent Events**

CFFK has evaluated events and transactions occurring subsequent to December 31, 2017 as of May 25, 2018 which is the date the financial statements were available to be issued. Subsequent events occurring after May 25, 2018 have not been evaluated by management.

No material events have occurred since December 31, 2017 that require recognition or disclosure in the financial statements.

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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, 2017 and 2016 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 May 25, 2018.

**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.*

May 25, 2018