



May 2019

During 2018, CFFK continued to support efforts to help residents of the Florida Keys recover from Hurricane Irma. CFFK continued to assist the community with long-term recovery efforts with grants and by serving as the fiscal agent for Monroe County Long Term Recovery Group (LTRG). This relationship allows the nonprofit organizations leading long-term recovery and resiliency efforts to focus on services while we provide administrative support. While engaged in long-term recovery, we continued to serve our donors and partners during 2018. Together, we provided \$1.7 million through 241 community grants that benefitted thousands of residents from Key West to Key Largo.

Donations and revenues for CFFK operations exceeded general expenditures and CFFK continues to maintain a strong reserve balance in 2018. Surplus operating revenues were used to increase the board designated endowment fund to benefit future operations. Positive returns in the stock market during the first quarter of 2019 have corrected the market decline in net assets experienced at the end of 2018.

The 2018 audit reflects the new generally accepted accounting principles (GAAP) adopted by the Financial Accounting Standards Board (FASB) for better transparency and consistency in nonprofit reporting. Significant new detail regarding agency funds and donor restricted assets is reflected in the Statement of Financial Position. Grants and donations to the LTRG are the main reason for the cash held as agent shown on the Statement of Financial Position. Additional disclosures for investments, liquidity position and endowments can be found in the footnotes.

CFFK continues 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. Working together with our partners, we are doing more for our community than we can individually. We believe in the future of the Florida Keys and are working every day to enhance our wonderful community.

A handwritten signature in blue ink that reads "Ron Burd".

Ron Burd
Board Chair

A handwritten signature in blue ink that reads "Dianna Sutton".

Dianna Sutton
President and CEO

COMMUNITY FOUNDATION
OF THE FLORIDA KEYS, INC.

Financial Statements

December 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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
April 26, 2018

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Financial Position
At December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	\$ 212,829	\$ 439,331
Pledges and accounts receivable	202	15,000
Prepaid Expense	15,305	19,842
Investments	4,692,496	5,381,250
Funds held as agent		
Cash and cash equivalents	779,250	111,779
Accounts receivable	-	375
Investments	3,519,103	3,714,137
Total funds held as agent	4,298,353	3,826,291
Building	360,000	360,000
Computers and office equipment	53,129	53,129
Less accumulated depreciation	(150,969)	(141,322)
Net fixed assets	262,160	271,807
Funds held for endowments		
Cash and cash equivalents	12,156	-
Investments	6,341,590	6,765,119
	6,353,746	6,765,119
Total Assets	\$ 15,835,091	\$ 16,718,640
Liabilities and Net Assets:		
Grants payable and accrued expenses	44,092	118,094
Deferred Revenue	15,550	24,620
Funds held as agent	4,298,353	3,826,291
Total Liabilities	4,357,995	3,969,005
Net Assets:		
Without Donor Restrictions		
Undesignated	239,385	235,702
Designated by Board for reserves	315,258	362,610
Designated by Board for endowment	3,547,853	3,958,320
Invested in fixed assets	262,160	271,807
	4,364,656	4,828,439
With Donor Restrictions		
Perpetual in nature	3,010,841	2,869,254
Purpose restrictions	4,306,547	5,114,400
Underwater endowments	(204,948)	(62,458)
	7,112,440	7,921,196
Total net assets	11,477,096	12,749,635
Total Liabilities and Net Assets	\$ 15,835,091	\$ 16,718,640

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Activities
For the Years Ended December 31, 2018 and 2017

	Year Ended December 31, 2018		Year Ended December 31, 2017			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES:						
Contributions and program revenues	\$ 428,059	954,208	1,382,267	\$ 359,810	1,897,000	2,256,810
Net investment return (loss)	(327,681)	(750,015)	(1,077,696)	556,553	926,396	1,482,949
Administrative fees	152,295	-	152,295	133,031	-	133,031
Other income	1,169	-	1,169	4,056	-	4,056
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	74,588	(74,588)	-	42,913	(42,913)	-
Net assets released from restrictions by grants to fulfill purpose	938,361	(938,361)	-	1,379,435	(1,379,435)	-
Total support and revenues	1,266,791	(808,756)	458,035	2,475,798	1,401,048	3,876,846
EXPENSES:						
Program services	1,531,037	-	1,531,037	1,907,606	-	1,907,606
Administration	134,473	-	134,473	108,727	-	108,727
Fundraising	65,064	-	65,064	77,253	-	77,253
Total expenses	1,730,574	-	1,730,574	2,093,586	-	2,093,586
Increase (decrease) in net assets	(463,783)	(808,756)	(1,272,539)	382,212	1,401,048	1,783,260
Net assets, beginning of year	4,828,439	7,921,196	12,749,635	4,446,227	6,520,148	10,966,375
Net assets end of year	\$ 4,364,656	7,112,440	11,477,096	\$ 4,828,439	7,921,196	12,749,635

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services					Total
	Donor Services	Center for Nonprofit Excellence	Emergency Relief and Recovery	Administrative	Fundraising	
Total Grants including Agency Funds	\$ 1,514,694	-	217,412	-	-	1,732,106
Agency Funds grants paid	(441,109)	-	-	-	-	(441,109)
Grants approved (non-Agency)	1,073,585	-	217,412	-	-	1,290,997
Personnel costs	129,396	37,082	11,661	100,799	40,327	319,265
Newsletter and marketing	8,963	1,679	2,260	3,056	11,400	27,358
Accounting, legal and professional	6,292	1,803	574	4,911	1,959	15,539
Occupancy costs	3,433	6,770	314	2,680	1,068	14,265
Office expenses	5,768	1,652	527	4,501	1,794	14,242
Nonprofit program costs	-	13,689	-	-	-	13,689
Depreciation	3,907	1,119	357	3,048	1,215	9,646
Donor meetings	-	-	-	3,132	2,958	6,090
Conferences and travel	-	-	-	5,464	-	5,464
Telephone	1,401	401	128	1,093	436	3,459
Bank fees	-	-	-	191	3,077	3,268
Dues and Subscriptions	-	-	-	2,254	635	2,889
Insurance	-	-	-	2,244	-	2,244
Postage	627	180	57	489	195	1,548
Taxes and licenses	-	-	-	611	-	611
Total Expenses	\$ 1,233,372	64,375	233,290	134,473	65,064	1,730,574

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					Total
	Donor Services	Center for Nonprofit Excellence	Emergency Relief and Recovery	Administrative	Fundraising	
Total Grants including Agency Funds	\$ 1,056,645	-	1,016,900	-	-	2,073,545
Agency Funds grants paid	(429,313)	-	-	-	-	(429,313)
Grants approved (non-Agency)	627,332	-	1,016,900	-	-	1,644,232
Personnel costs	101,836	50,345	52,199	80,521	34,272	319,173
Newsletter and marketing	5,163	669	211	1,997	26,988	35,028
Accounting, legal and professional	2,331	751	1,185	1,931	822	7,020
Occupancy costs	2,409	6,523	1,226	1,995	850	13,003
Office expenses	4,359	1,405	2,219	3,609	1,536	13,128
Nonprofit program costs	-	19,641	-	-	-	19,641
Depreciation	3,216	1,036	1,637	2,663	1,133	9,685
Donor meetings	1,304	-	-	1,768	3,242	6,314
Conferences and travel	-	-	-	7,720	-	7,720
Telephone	1,379	444	702	1,142	486	4,153
Bank fees	-	-	-	295	7,256	7,551
Dues and Subscriptions	-	-	-	1,943	440	2,383
Insurance	-	-	-	2,057	-	2,057
Postage	647	208	329	536	228	1,948
Taxes and licenses	-	-	-	550	-	550
Total Expenses	\$ 749,976	81,022	1,076,608	108,727	77,253	2,093,586

See accompanying notes to financial statements

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Cash Flows
For the YearS Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (1,272,539)	\$ 1,783,260
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	9,646	9,685
Net realized and unrealized (gain) loss on investments	1,941,523	(1,589,132)
Decrease in pledges receivable	15,173	9,625
(Increase) / Decrease in prepaid expenses	4,537	(10,080)
(Decrease) / Increase in grants payable and accrued expense	(73,833)	(89,292)
Decrease in deferred revenue	(9,070)	(9,620)
Increase in agency liability	471,893	476,329
Net cash provided by operating activities	1,087,330	580,775
 Cash flows from investing activities:		
Purchase of equipment	-	(575)
Proceeds from sale of investment securities	2,743,364	3,814,658
Purchase of investments securities	(3,377,569)	(4,118,977)
Net cash used by investing activities	(634,205)	(304,894)
 Net increase in cash and cash equivalents	453,125	275,881
Cash and cash equivalents at beginning of year	551,110	275,229
Cash and cash equivalents at end of year	\$ 1,004,235	\$ 551,110
 Components of cash and cash equivalents		
Cash and cash equivalents	212,829	439,331
Cash and cash equivalents held as agent	779,250	111,779
Cash and cash equivalents held for endowments	12,156	-
	\$ 1,004,235	\$ 551,110
 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, 2018 and 2017

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 April 2019.

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. By connecting donors with the investment pool managed by Mason Investment Advisory Services, CFFK facilitates prudent investment management practices for individuals and not-for-profit organizations. CFFK also provides resources to professional advisors and donors to advance philanthropy by connecting donors with organizations in Monroe County, Florida. 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. 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. Following Hurricane Irma, for the year 2018, CFFK received 76 gifts for \$234,243 that were restricted to emergency recovery and relief and awarded 39 grants for \$390,402. For the year 2017, CFFK received 610 gifts for \$1,259,279 and awarded 82 grants for \$1,016,900 for emergency recovery and relief. During 2018 CFFK entered an agreement with Monroe County Long Term Recovery Group to act as fiscal agent to receive donations and grants that support direct assistance to individuals and other efforts for recovery.

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*. On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)- Presentation of Financial Statement of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets with donor restrictions by \$2,768,140 and decreased net assets without donor restrictions by \$2,768,140 to recognize

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

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

b) Basis of Presentation - (Cont.)

restrictions on donor advised funds where the Board of Governors has not exercised variance power over grant distributions.

c) Net Assets

CFFK is required to report information regarding its financial position and activities based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and program services that are not subject to donor restrictions. The Board of Governors has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. CFFK classifies donor advised funds that are formed for general charitable purposes as net assets subject to purpose restrictions while the donor advisor (or successor advisor) recommends grants from the funds. Donor advised funds without specific purpose restrictions are reclassified as without donor restrictions after the donor advisor (or successor advisor) is no longer making grant recommendations. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

d) Revenue Recognition

Revenue is recognized when earned. Program service fees, including volunteer recognition and leadership training programs, received in advance are deferred to the applicable period in which the related services are performed. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking 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) Pledges and Accounts Receivable

Pledges are recognized for donors' intentions to give to support future year's operating costs. Recognition of contribution revenue from pledges is deferred until the period designated by the donor.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

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

g) 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.

Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses and administrative fees paid to CFFK.

At December 31, 2018 and 2017 Investments primarily consist of mutual funds, exchange traded funds and corporate bonds that are carried at market value, as quoted on major stock exchanges. Investments also include FDIC Insured accounts and money market funds that maintain 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. Contributions of stock 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 and other investment income are reflected in the statement of activities as support and revenue without donor restrictions unless the underlying asset relating to the gains and losses and other investment income is classified in net assets with donor restrictions.

CFFK pools most donor funds in order to obtain greater investment advantage and more efficient administration. The investments are managed under the Investment 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. CFFK periodically allocates income and expenses, gains and losses from pooled investments based on a unitization calculation that reflects the daily proportion of each donor fund's assets to the total pool.

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 the deposit amount. The amounts thus secured are \$1,004,035 and \$550,910 at December 31, 2018 and 2017 respectively.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

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

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

Concentrations of credit risk with respect to contributions and other revenue sources are limited due to the large number of contributors comprising the 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, 2018 which individually exceeded five percent of contributions and program revenues, consisted of one gift of \$443,985 (approximately 32% of total contributions and program revenues). This was a legacy gift that was contributed to an endowment designated to support specific not-for-profit organizations in Monroe County. 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 gift that was contributed to an endowment for a not-for-profit organization.

No gifts from third party donors to support general expenditures exceeded 5% of gifts for this purpose.

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. When possible, expenses are assigned directly to the functional classification. Indirect costs have been allocated primarily on the percentage of staff time related to program, administrative and fundraising activities. Because significant staff time was devoted to raising funds to respond to Hurricane Irma, the percentage of expenses allocated to fundraising for December 31, 2017 in the statement of functional expenses has increased over prior years.

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 Taxes

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 an uncertain tax position 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 2015 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, 2018 or 2017.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

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, and those differences could be material.

n) Variance Power

CFFK bylaws and fund agreements 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.

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.

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

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

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

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

instruments include cash, contributions receivable due within one year, and grants payable and accrued expenses.

CFFK's financial assets as of December 31, 2018 and 2017 are valued based on quoted market prices and are considered Level 1.

2. Liquidity and Availability

CFFK receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish and increase endowments that will exist in perpetuity. The income generated from such endowments is used to fund programs recommended by the donor or at the discretion of the Board if there are no donor imposed purpose restrictions.

The Board has established a long-term goal to cover the costs of general expenditures through:

spending policy distributions from funds controlled by the Board,
administrative fees earned on fund investment balances,
program service fees, and
investment return on operating reserves.

These revenue sources provided 90% and 75% of applicable costs for the years ended December 31, 2018 and 2017 respectively. General expenditures include administrative and general expenses, fundraising expenses and cost of programs, excluding grants paid by programs.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, are comprised of the following:

Cash and cash equivalents	\$ 200,871
Pledges and accounts receivable	202
Operating reserves held in investments	358,904
Endowment spending policy distributions and appropriations	<u>165,496</u>
	<u>\$ 725,473</u>

Endowment funds managed by CFFK that have no donor purpose restriction provide \$10,356 of the spending policy distributions and appropriations listed in the table above. Board designated endowment funds without donor restrictions provide the remaining balance of \$155,140.

Although CFFK does not plan to spend the board designated endowment fund balance in excess of spending policy distribution, this investment balance, net of spending policy distributions and appropriations, of \$3,392,713 at December 31, 2018 is available to support general expenditures if necessary.

As part of the liquidity management plan, CFFK invests cash in excess of normal operating requirements in short-term investments. The board has established a goal to have 180 days of operating reserves. Occasionally, the board transfers a portion of the operating reserves in excess of this target to the board designated endowment. Based on operating results for 2018, on January 15, 2019

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

2. Liquidity and Availability - (Cont.)

the board transferred \$85,000 from operating reserves held in investments in the table above to the board designated endowment.

CFFK is able to receive cash from investment accounts within a few days to fulfill grant recommendations from donor advised funds and make distributions from not-for-profit agency funds.

3. Pledges Receivable/Deferred Revenue

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 \$0 and \$15,000 at December 31, 2018 and 2017 respectively. Promises to give are deferred until received or earned.

Because all 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, 2018 or 2017.

CFFK has recorded \$15,550 and \$24,620 of deferred revenue for events to be held during the first three months of the following year and contributions restricted to future years as of December 31, 2018 and 2017 respectively.

4. Fixed Assets

Fixed Assets consist of the following:

	<u>2018</u>	<u>2017</u>
Building	\$360,000	\$360,000
Computer and Office Equipment	53,129	53,129
	<u>413,129</u>	<u>413,129</u>
Less allowance for depreciation	(150,969)	(141,322)
Net fixed asset value	<u>\$262,160</u>	<u>\$271,807</u>

Depreciation expense for the year ended December 31, 2018 amounted to \$9,646. Depreciation expense for the year ended December 31, 2017 amounted to \$9,685.

5. Investments

CFFK manages two investment pools for donor funds: the endowment pool and a short-term pool. Within these pools short-term, highly liquid fund investments are included as part of investments rather than cash equivalents. Investments 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 for the endowment pool was changed, increasing equity funds and decreasing bond funds, to increase the ability to sustain consistent grant amounts while preserving the principal balance invested.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

5. Investments - (Cont.)

Investments consist of the following at December 31, 2018 and 2017:

Investment Category	2018	2017
	Level 1 Fair Value	Level 1 Fair Value
Cash and Money Market Funds	\$ 150,188	\$ 198,441
Domestic Corporate Bonds	9,638	20,188
Domestic Bond Funds	2,501,653	2,549,152
International Bond Funds	848,944	810,871
U.S. Equity Funds	6,255,177	7,319,537
International Equity Funds	2,685,610	2,706,394
Real Estate Funds	1,011,837	1,042,603
Energy / Natural Resources Funds	1,090,142	1,213,320
Total Investments	<u>\$14,553,189</u>	<u>\$15,860,506</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the periods ended December 31, 2018 and 2017:

	<u>2018</u>		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest & dividends	\$ 167,611	304,391	\$ 472,002
Net realized gain (loss)	21,461	38,372	59,833
Unrealized gain (loss)	(500,581)	(958,781)	(1,459,362)
Investment management fees	(16,172)	(30,595)	(46,767)
Administrative fees	-	(103,402)	(103,402)
Total Investment Return	<u>\$ (327,681)</u>	<u>(750,015)</u>	<u>\$ (1,077,696)</u>

	<u>2017</u>		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest & dividends	\$ 152,817	273,347	\$ 426,164
Net realized gain (loss)	(13,997)	(27,971)	(41,968)
Unrealized gain (loss)	433,324	805,578	1,238,902
Investment management fees	(15,591)	(28,900)	(44,491)
Administrative fees	-	(95,658)	(95,658)
Total Investment Return	<u>\$ 556,553</u>	<u>926,396</u>	<u>\$1,482,949</u>

The endowment pool has a time weighted return of approximately (8.61)% and 15.84% for the years ended December 31, 2018 and 2017 respectively before considering administrative fees.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

6. Endowments

At December 31, 2018, CFFK maintained 147 distinct funds (138 distinct funds at December 31, 2017) established for a variety of purposes, including scholarships, funds to benefit specific Florida Keys not-for-profit organizations, and funds directed to a field of interest including arts and culture, health and human services, the environment, education and disaster relief. Thirty-three (33) of these funds are considered endowments (30 distinct funds at December 31, 2017), either because they are donor restricted and intended to be an endowment or the board has designated the fund to be an endowment. Currently the board has designated 3 of these 33 funds (30 at December 31, 2017) as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

CFFK is subject to the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Governors appropriates such amounts for expenditure. Most of the endowments managed by CFFK are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Governors of CFFK has interpreted FUPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. None of the donor-restricted endowment funds managed by CFFK have donor directions to maintain purchasing power. Although a fund agreement may state an intention to be an endowment, the Board of Governors may honor grant requests during the original donor's lifetime in excess of the spending policy amount. Accordingly, CFFK does not classify these funds as endowments so long as the original donor recommends grants. When the original donor is deceased or has expressed an intention to limit grants to the spending policy, the fund balance at that time plus any subsequent gifts are used to determine whether the endowment fund is underwater.

As a result of this interpretation, when reviewing its donor-restricted endowment funds, CFFK considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations of the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor agreement. CFFK has interpreted FUPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. Additionally, in accordance with FUPMIFA, CFFK considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund.
2. The purposes of both CFFK and the endowment fund.
3. General economic conditions.
4. The possible effect of inflation or deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the beneficiaries of the endowment fund.
7. CFFK's investment policy.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

6. Endowments - (Cont.)

Endowment Net Asset Composition by Type of Fund as of December 31, 2018

	Without Donor Restrictions	With Donor Restrictions - Purpose Restrictions	With Donor Restrictions - Permanent in Nature	Total
Board designated endowment funds	\$ 3,547,853	-	-	\$ 3,547,853
Donor-restricted endowment funds:	-	-	-	-
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,677,030	248,442	2,925,472
Accumulated investment gains / (losses)	-	(120,820)	1,241	(119,579)
Total funds	\$ 3,547,853	2,556,210	249,683	\$ 6,353,746

Changes in Endowment Net Assets for the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions - Purpose Restrictions	With Donor Restrictions - Permanent in Nature	Total
Endowment net assets, beginning of year	\$ 3,958,320	2,544,336	262,463	\$ 6,765,119
Investment return, net	(395,293)	(263,524)	(25,723)	(684,540)
Contributions	129,679	499,608	20,851	650,138
Appropriation of endowment assets for expenditure	(144,853)	(224,210)	(7,908)	(376,971)
Endowment net assets, end of year	\$ 3,547,853	2,556,210	249,683	\$ 6,353,746

Endowment net Asset Composition by Type of Fund as of December 31, 2017

	Without Donor Restrictions	With Donor Restrictions - Purpose Restrictions	With Donor Restrictions - Permanent in Nature	Total
Board designated endowment funds	\$ 3,958,320	-	-	\$ 3,958,320
Donor-restricted endowment funds:				
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,309,076	227,662	2,536,738
Accumulated investment gains / (losses)	-	235,260	34,801	270,061
Total funds	\$ 3,958,320	2,544,336	262,463	\$ 6,765,119

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

6. Endowments - (Cont.)

Changes in Endowment Net Assets for the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions - Purpose Restrictions	With Donor Restrictions - Permanent in Nature	Total
Endowment net assets, beginning of year	\$ 3,574,082	2,012,276	235,630	\$5,821,988
Investment return, net	492,006	310,687	32,667	835,360
Contributions		258,452		258,452
Appropriation of endowment assets for expenditure	(107,768)	(37,079)	(5,834)	(150,681)
Endowment net assets, end of year	\$ 3,958,320	2,544,336	262,463	\$6,765,119

Underwater Endowment Funds

From time to time, the fair value of assets associated with distinct donor-restricted endowment funds may fall below the level that the donor or FUPMIFA requires CFFK to retain as a fund of perpetual duration. At December 31, 2018, deficiencies of this nature exist in 20 of 33 donor-restricted endowment funds. These 20 funds together have an original gift value of \$1,738,877, a current fair value of \$1,533,929 and a deficiency of \$204,948. At December 31, 2017, deficiencies of this nature exist in 3 of 30 donor-restricted endowment funds. These three funds together have an original gift value of \$315,300, a current fair value of \$252,842 and a deficiency of \$62,458.

For 2018, the deficiencies primarily were due to decline in the endowment investment pool of 11.7% during the fourth quarter that particularly effected the three new endowments established during the year. Deficiencies at December 31, 2017 primarily relate to continued appropriation for grants that were deemed prudent by the Board of Governors.

If prudent, the Board of Governors may approve grants from underwater endowment funds unless otherwise precluded by donor intent or relevant laws and regulations. The Board of Governors appropriated spending policy grants of \$4,183 for the year ended December 31, 2018 and \$4,197 for the year ended December 31, 2017 from one endowment that was underwater as of the first day of the applicable year.

For fund agreements that state an intention to be an endowment, the Board of Governors may approve requests from the donor in excess of the spending policy to meet the purpose of the endowment, even if these grants will result in distribution of a portion of the original and/or subsequent gift amounts. For donor advised funds, when the original donor is no longer making grant recommendations, the Board of Governors will enforce the spending policy when determining grants paid from these endowment funds in order to preserve the balance of the fund as of the donor's date of death and will exercise its variance power to distribute income from the endowed fund to meet community needs.

Return Objectives and Risk Parameters

CFFK has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

6. Endowments - (Cont.)

endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated endowments. In November 2016 the Board of Governors approved a change in the target asset allocation. Under this policy, the endowment assets are invested in a manner that is intended to produce results after inflation that equal or exceed the spending policy amount plus the average administrative fee charged to the endowment funds. At December 31, 2018 this target rate of return is 5.45 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives with a prudent level of risk, CFFK relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CFFK uses a diversified asset allocation, primarily through mutual funds and exchange traded funds that invest in domestic and international equities, domestic and international bonds, real estate, energy/natural resources, and cash equivalents. At December 31, 2018 the target allocation was 81.25 percent equity and 18.75 percent bonds.

Spending Policy and How the Investment Objectives Relate to Spending Policy

CFFK has a policy of appropriating for distribution each year 4.25% of its endowment funds' average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, CFFK considered the long-term expected return on its endowment. Accordingly, over the long term CFFK expects the current spending policy to allow appropriations at the target rate of return of the endowment portfolio, adjusted for inflation. The target rate of return, after inflation, at December 31, 2018 is 5.45%. This target rate approximates the spending policy for grants plus an average administrative fee to be appropriated from the fund.

7. Grants Payable to Beneficiaries

Grants payable to beneficiaries primarily relate to scholarships paid over a multi-year period. For the years ended December 31, 2018 and 2017 they consist of the following:

	<u>2018</u>	<u>2017</u>
Payable in less than one year	\$ 19,000	\$ 90,573
Payable in one to five years	20,000	20,000
Total	<u>\$ 39,000</u>	<u>\$ 110,573</u>

8. Funds Held as Agent

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.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

8. Funds Held as Agent - (Cont.)

The change in funds held as agent are summarized as follows:

	<u>2018</u>	<u>2017</u>
Agency liability at beginning of year	\$ 3,826,291	\$3,349,962
Funds received as agent	1,352,578	431,298
Inter-fund transfers to agency funds	450	250
Interest and dividends, net of fees	140,587	119,515
Realized investment gain (loss)	20,100	(13,474)
Unrealized investment gain (loss)	(482,223)	405,427
Grants to not-for-profit organizations	(412,941)	(405,606)
Inter-fund transfer by agency funds	(28,168)	(23,707)
Administrative fees	(48,893)	(37,374)
Payments as fiscal agent	(69,428)	-
Agency liability at end of year	<u>\$ 4,298,353</u>	<u>\$3,826,291</u>

9. Net Assets With Donor Restrictions

Donor restrictions placed on gifts to distinct funds may be to a specific not-for-profit organization or to a general field of interest. Some donors also specify that the gifts are intended to create an endowment. Net assets with donor restrictions are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Non-Endowments		
Subject to expenditure for specified purpose:		
Arts & Culture	\$ 1,317,324	\$ 1,525,160
Health & Human Services	1,109,401	1,310,216
Education	646,253	652,040
Disaster Relief	110,695	282,354
Environment	28,419	31,583
General Philanthropy	1,094,455	1,313,047
	<u>4,306,547</u>	<u>5,114,400</u>
Endowments		
Subject to endowment spending policy and appropriation:		
Arts & Culture	1,683,887	1,890,559
Health & Human Services	405,951	483,723
Education	133,896	159,081
Environment	27,567	29,144
Animal Welfare	24,619	27,222
General Philanthropy	485,197	17,062
Available for general purposes	249,724	262,463
Underwater endowments	(204,948)	(62,458)
	<u>2,805,893</u>	<u>2,806,796</u>
	<u>\$ 7,112,440</u>	<u>\$ 7,921,196</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

9. Net Assets With Donor Restrictions - (Cont.)

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

	<u>2018</u>	<u>2017</u>
Non-Endowments		
Grants and appropriations for specified purpose:		
Arts & Culture	\$ 26,000	\$ 34,605
Health & Human Services	85,593	12,181
Education	41,000	42,875
Disaster Relief	394,402	1,016,900
Environment	-	-
General Philanthropy	233,836	272,874
	780,831	1,379,435
 Endowments		
Subject to endowment spending policy and appropriation:		
Arts & Culture	38,741	20,307
Health & Human Services	14,764	14,197
Education	10,500	-
Environment	1,125	1,050
Animal Welfare	-	-
General Philanthropy	1,550	1,525
Available for general purposes	7,908	5,834
Variance power exercised for Arts & Culture grant in excess of spending policy	157,530	-
	232,118	42,913
	\$1,012,949	\$1,422,348

The table above does not include grants from unrestricted funds, pass through grants where the gift and grant occur in the same year and grants paid by agency funds. These grants totaled \$719,157 and \$651,197 for the years ended December 31, 2018 and 2017, respectively.

During 2018, the Board of Governors exercised their variance power to make a grant of \$157,530 in excess of the spending policy amount for an endowment that was established for the benefit of a specific not-for-profit organization. During 2017, that not-for-profit organization made a gift of unrestricted funds to the endowment. In order to pay for repair and recovery costs following Hurricane Irma, the organization requested in 2018 that the Board make a grant in the same amount as the 2017 gift. The Board determined that this request was consistent with the purposes of the endowment and was a prudent use of endowment assets to sustain the viability of the not-for-profit organization.

Accounting Standards provide that if the governing body may remove a donor restriction ("variance power") the contributions may be classified as assets without donor restrictions. 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 classifies funds where the donor is making

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2018 and 2017

9. Net Assets With Donor Restrictions - (Cont.)

grant recommendations as "with donor restrictions" until such time as the governing body deems appropriate to exercise its authority.

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, 2018 and 2017 amounted to \$14,265 and \$13,003 respectively.

11. Subsequent Events

CFFK has evaluated events and transactions occurring subsequent to December 31, 2018 as of April 26, 2019 which is the date the financial statements were available to be issued. Subsequent events occurring after April 26, 2019 have not been evaluated by management.

Other than as discussed in the notes above, no material events have occurred since December 31, 2018 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, 2018 and 2017 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 April 26, 2019.

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.

April 26, 2019