



COMMUNITY FOUNDATION
OF THE FLORIDA KEYS

June 2020

Friends of the Community Foundation of the Florida Keys:

Thank you for partnering with us ***In Paradise for Good*** as we celebrate the growth and success of your Community Foundation during the 15 years that Dianna Sutton served as our President and CEO. Five years ago, we set a “Vision 20/20” goal of achieving **\$20 million in assets by 2020**, which we accomplished due to significant legacy gifts and positive market performance.

It is the Board of Governors’ pleasure to have selected Jennifer McComb as the new President and CEO following a nationwide search and Dianna’s retirement in December 2019. Jennifer’s energy, ingenuity, and nonprofit management experience give us strength to meet challenges of the current economic climate, our milestone 25th anniversary next year, and the decade to come.

As we look back on 2019, we give special thanks to our Foundation Society members, a dedicated group of business and community leaders who make \$1,000+ unrestricted annual gifts to support Community Foundation operations. These gifts are the core to the success of our ability to provide programs and services for the entire Florida Keys community, as we work toward an endowment to cover our modest administrative needs. Due to the leadership transition, administrative expenses as a percentage of total expenses temporarily increased in 2019, but we continue to maintain a strong reserve balance of six months of operating expenses.

We can’t ignore that the world changed in the Spring of 2020 because of the COVID-19 pandemic. After supporting nonprofit partners with nearly half a million dollars of emergency relief grants in the 60 days following the closing of businesses on March 17, the Community Foundation itself obtained a Paycheck Protection Program loan to assure our continued operations. Our staff has been working continuously to receive donations and process grants. Despite unprecedented fluctuations in stock and bond markets, our investment policy has guided us to stay the course and take advantage of new cash gifts to rebalance investment holdings.

On behalf of our Board of Governors and Staff, we are incredibly honored to be the steward for so many generous donors and charitable organizations who have put your trust in the Community Foundation. Together we will help make the Florida Keys a better place now and in the future.

In Paradise for Good,

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

Ron Burd
Chairman of the Board

A handwritten signature in blue ink that reads "Jennifer McComb".

Jennifer McComb
President and CEO

COMMUNITY FOUNDATION
OF THE FLORIDA KEYS, INC.

Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, 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, Buzzi & Associates, LLC.

Miami, Florida
June 6, 2020

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Financial Position
At December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	\$ 257,591	\$ 212,829
Contributions receivable	1,000	202
Promises to give	1,715,925	-
Prepaid Expense	11,456	15,305
Investments	5,455,565	4,692,496
 Funds held as agent		
Cash and cash equivalents	107,825	779,250
Contributions receivable	250	-
Investments	<u>4,282,450</u>	<u>3,519,103</u>
Total funds held as agent	<u>4,390,525</u>	<u>4,298,353</u>
 Split interest agreement	229,000	-
 Building	360,000	360,000
Computers and office equipment	21,290	53,129
Less accumulated depreciation	<u>(128,671)</u>	<u>(150,969)</u>
Net fixed assets	<u>252,619</u>	<u>262,160</u>
 Funds held for endowments		
Cash and cash equivalents	-	12,156
Accounts receivable	10,000	-
Promises to give	804,612	-
Investments	<u>7,516,577</u>	<u>6,341,590</u>
Total funds held for endowments	<u>8,331,189</u>	<u>6,353,746</u>
 Total Assets	<u>\$ 20,644,870</u>	<u>\$ 15,835,091</u>
 Liabilities and net assets:		
Grants payable	\$ 59,000	\$ 39,000
Accounts payable and accrued expenses	29,940	5,092
Deferred Revenue	10,320	15,550
Funds held as agent	<u>4,390,525</u>	<u>4,298,353</u>
Total Liabilities	<u>4,489,785</u>	<u>4,357,995</u>
 Net Assets:		
Without Donor Restrictions		
Undesignated	425,669	239,385
Designated by Board for reserves	233,236	315,258
Designated by Board for endowment	<u>4,146,012</u>	<u>3,547,853</u>
Invested in fixed assets	<u>252,619</u>	<u>262,160</u>
	<u>5,057,536</u>	<u>4,364,656</u>
 With Donor Restrictions		
Perpetual in nature	4,234,341	3,010,841
Purpose restrictions	6,940,549	4,306,547
Underwater endowments	<u>(77,341)</u>	<u>(204,948)</u>
	<u>11,097,549</u>	<u>7,112,440</u>
Total net assets	<u>16,155,085</u>	<u>11,477,096</u>
Total Liabilities and Net assets	<u>\$ 20,644,870</u>	<u>\$ 15,835,091</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
 Statement of Activities
 For the Years Ended December 31, 2019 and 2018

	<u>Year Ended December 31, 2019</u>			<u>Year Ended December 31, 2018</u>		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES						
Contributions and program revenues	\$ 538,310	3,253,544	3,791,854	\$ 428,059	954,208	1,382,267
Net investment return (loss)	735,729	1,306,585	2,042,314	(327,681)	(750,015)	(1,077,696)
Administrative fees	145,707	-	145,707	152,295	-	152,295
Change in Split Interest Agreement	22,000	-	22,000	-	-	-
Other income	-	-	-	1,169	-	1,169
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	59,550	(59,550)	-	74,588	(74,588)	-
Net assets released from restrictions by grants and appropriations to fulfill purpose	515,470	(515,470)	-	938,361	(938,361)	-
Total support and revenues	2,016,766	3,985,109	6,001,875	1,266,791	(808,756)	458,035
EXPENSES						
Program services	1,018,817	-	1,018,817	1,531,037	-	1,531,037
Administration	238,520	-	238,520	134,473	-	134,473
Fundraising	66,549	-	66,549	65,064	-	65,064
Total expenses	1,323,886	-	1,323,886	1,730,574	-	1,730,574
Increase (decrease) in net assets	692,880	3,985,109	4,677,989	(463,783)	(808,756)	(1,272,539)
Net assets, beginning of year	<u>4,364,656</u>	<u>7,112,440</u>	<u>11,477,096</u>	<u>4,828,439</u>	<u>7,921,196</u>	<u>12,749,635</u>
Net assets end of year	<u>\$ 5,057,536</u>	<u>11,097,549</u>	<u>16,155,085</u>	<u>\$ 4,364,656</u>	<u>7,112,440</u>	<u>11,477,096</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
 Statement of Functional Expenses
 For the Year Ended December 31, 2019

	Program Services						Total
	Donor Services	Center for Nonprofit Excellence	Emergency Relief and Recovery	Total	Administrative	Fundraising	
Total Grants including Agency Funds	\$ 1,161,407	-	32,058	1,193,465	-	-	1,193,465
Agency Funds grants paid	(464,967)	-	-	(464,967)	-	-	(464,967)
Grants approved (non-Agency)	696,440	-	32,058	728,498	-	-	728,498
Personnel costs	138,422	33,639	1,699	173,760	164,786	32,187	370,733
Newsletter and marketing	26,334	2,533	-	28,867	2,617	14,277	45,761
Accounting, legal and professional	29,030	2,710	125	31,865	41,881	2,584	76,330
Occupancy costs	3,487	6,852	40	10,379	2,826	828	14,033
Office expenses	6,850	1,709	80	8,639	5,554	1,629	15,822
Nonprofit program costs	-	29,220	-	29,220	-	-	29,220
Depreciation	4,131	1,030	48	5,209	3,349	983	9,541
Donor meetings	-	-	-	-	2,270	10,657	12,927
Conferences and travel	-	-	-	-	5,060	-	5,060
Telephone	1,370	342	16	1,728	1,110	325	3,163
Bank fees	-	-	-	-	159	2,358	2,517
Dues and Subscriptions	-	-	-	-	5,706	250	5,956
Insurance	-	-	-	-	2,522	-	2,522
Postage	517	129	6	652	420	121	1,193
Taxes and licenses	-	-	-	-	260	350	610
Total Expenses	\$ 906,581	78,164	34,072	1,018,817	238,520	66,549	1,323,886

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						
	Donor Services	Center for Nonprofit Excellence	Emergency Relief and Recovery	Total	Administrative	Fundraising	Total
Total Grants including Agency Funds	\$ 1,514,694	-	217,412	1,732,106	-	-	1,732,106
Agency Funds grants paid	(441,109)	-	-	(441,109)	-	-	(441,109)
Grants approved (non-Agency)	1,073,585	-	217,412	1,290,997	-	-	1,290,997
Personnel costs	129,396	37,082	11,661	178,139	100,799	40,327	319,265
Newsletter and marketing	8,963	1,679	2,260	12,902	3,056	11,400	27,358
Accounting, legal and professional	6,292	1,803	574	8,669	4,911	1,959	15,539
Occupancy costs	3,433	6,770	314	10,517	2,680	1,068	14,265
Office expenses	5,768	1,652	527	7,947	4,501	1,794	14,242
Nonprofit program costs	-	13,689	-	13,689	-	-	13,689
Depreciation	3,907	1,119	357	5,383	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	1,930	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	864	489	195	1,548
Taxes and licenses	-	-	-	-	611	-	611
 Total Expenses	 <u>\$ 1,233,372</u>	 <u>64,375</u>	 <u>233,290</u>	 <u>1,531,037</u>	 <u>134,473</u>	 <u>65,064</u>	 <u>1,730,574</u>

See accompanying notes to financial statements.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Statement of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 4,677,989	(1,272,539)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	9,541	9,646
Net realized and unrealized (gain) loss on investments	(2,257,996)	1,941,523
(Increase) / Decrease in contributions receivable	(1,048)	15,173
(Increase) in promises to give	(2,520,537)	-
(Increase) in split interest agreement	(229,000)	-
(Increase) / Decrease in prepaid expenses	(6,151)	4,537
(Decrease) / Increase in grants payable and accrued expenses	44,848	(73,833)
Decrease in deferred revenue	(5,230)	(9,070)
Increase in agency liability	92,172	471,893
Net cash provided by operating activities	(195,412)	1,087,330
Cash flows from investing activities:		
Purchase of equipment	-	-
Proceeds from sale of investment securities	4,266,059	2,743,364
Purchase of investment securities	(4,709,466)	(3,377,569)
Net cash used by investing activities	(443,407)	(634,205)
Net increase (decrease) in cash and cash equivalents	(638,819)	453,125
Cash and cash equivalents at beginning of year	1,004,235	551,110
Cash and cash equivalents at end of year	\$ 365,416	1,004,235
Components of cash and cash equivalents		
Cash and cash equivalents	257,591	212,829
Cash held as agent	107,825	779,250
Cash in endowment funds	-	12,156
	\$ 365,416	1,004,235
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, 2019 and 2018

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. Following Hurricane Irma, which struck the Florida Keys on September 10, 2017, CFFK has received a significant number of gifts restricted to emergency recovery and relief. By the end of 2019 most of these gifts had been disbursed as grants. 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 effective January 1, 2017.

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:

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

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

c) Net Assets - (Cont.)

Net Assets Without Donor Restrictions are 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 an endowment.

Net Assets With Donor Restrictions are 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.

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605) as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. No changes to prior year revenue were required from adopting this standard.

e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking accounts.

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.

g) Promises to Give

Promises to Give are recorded when irrevocable and CFFK has the facts available to determine the fair value. We initially record and subsequently adjust the value of promises to give using present value techniques incorporating risk-adjusted discount rates to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contributions and program revenues in the statement of activities.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

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

h) 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, 2019 and 2018 Investments primarily consist of mutual funds, exchange traded funds, stocks 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. 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.

i) 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.

j) Split Interest Agreement

Split interest agreements are recorded when irrevocable and all the facts necessary to value a beneficial interest are available. The split interest assets are held by a third party. Upon the death of a named beneficiary, the remaining assets are payable to CFFK. Gifts and subsequent changes in the fair value of the split interest agreement are recorded using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

k) 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

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

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

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

opinion are viable. Substantially all of cash and cash equivalents are secured by perfected interest in securities that have a value more than the deposit amount. The amounts thus secured are \$345,379 and \$1,004,035 at December 31, 2019 and 2018, respectively. CFFK has not experienced any losses on its cash equivalents. However, investments in mutual funds and money market funds are not backed by a bank nor are they insured by the FDIC.

Concentrations of credit risk with respect to contributions and other revenue sources are limited due to the large number of contributors comprising CFFK's contributor base. However, most of the contributor base is concentrated in the Lower Florida Keys area. Contributions received from donors for the year ended December 31, 2019 which individually exceeded five percent of contributions and program revenues consisted of two estate gifts totaling \$2,585,559 and one split-interest agreement with an initial gift value of \$207,000. These gifts were approximately 74% of contributions and program revenues for 2019. The estate gifts were contributed to an endowment designated to support specific not-for-profit organizations in Monroe County, for teacher awards and college scholarships. The split-interest agreement gift is without donor restrictions. Contributions received from donors for the year ended December 31, 2018 which individually exceeded five percent of contributions and program revenues, consisted of one estate 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.

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

l) Functional Allocation of Expenses

The costs of providing the Program Services, 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.

m) 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 is not recorded as in-kind gifts and expenditures.

n) 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.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

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

n) Income Taxes - (Cont.)

Tax returns for years before 2016 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, 2019 or 2018.

o) 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.

p) 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.

q) 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 can 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, 2019 and 2018

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

q) 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, and grants payable and accrued expenses.

CFFK's Investments as of December 31, 2019 and 2018 are valued based on quoted market prices and are considered Level 1. Promises to Give and Split Interest Agreement as of December 31, 2019 are based on present value techniques and are considered Level 2.

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 donor fund investment balances,
program service fees, and
investment return on operating reserves.

These revenue sources provided 68% and 90% of applicable costs for the years ended December 31, 2019 and 2018, 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 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial Assets		
Cash and cash equivalents	\$ 224,485	\$ 200,871
Pledges and accounts receivable	1,000	202
Operating reserves held in investments	211,789	358,904
Endowment spending policy distributions and appropriations:		
Endowments without restrictions	10,893	10,356
Board designated endowment funds	161,387	155,140
Total financial assets available within one year	<u>\$ 609,554</u>	<u>\$ 725,473</u>
Liquidity Resources		
Board designated endowments available for general operations	<u>\$ 3,984,625</u>	<u>\$ 3,392,173</u>
Total Financial Assets and Liquidity Resources Available within one year	<u>\$ 4,594,179</u>	<u>\$ 4,117,646</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

2. Liquidity and Availability - (Cont.)

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 the board transferred \$85,000 from operating reserves to the board designated endowment.

CFFK can 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. Contributions and Accounts Receivable

Contributions receivable represent unconditional promises to give. Contributions receivable are \$1,000 and \$0 at December 31, 2019 and 2018, respectively. Accounts receivable consist of refundable deposits and matching gifts of \$10,250 and \$202 at December 31, 2019 and 2018, respectively.

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 contributions receivable at December 31, 2019 or 2018.

4. Promises to Give

Promises to Give represent gifts from donor's estates to distinct funds at CFFK. Because of probate and challenges to the estate distribution, these promises are not expected to be received in the same year as the gift is recorded. The challenges to the estate distribution do not involve the specific bequests to CFFK, but that is a main reason the gifts will be paid to CFFK in future periods. Additional disclosures are in Footnote 14 Litigation. Amounts receivable from promises to give are estimated to be received as follows:

	<u>2019</u>
Receivable in less than one year:	\$ 1,715,925
Receivable in one to five years:	<u>804,612</u>
Total Promises to Give	<u>\$ 2,520,537</u>

5. Fixed Assets

Fixed Assets consist of the following:

	<u>2019</u>	<u>2018</u>
Building	\$360,000	\$360,000
Computer and Office Equipment	<u>21,290</u>	<u>53,129</u>
	381,290	413,129
Less allowance for depreciation	(128,671)	(150,969)
Net fixed asset value	<u>\$252,619</u>	<u>\$262,160</u>

Depreciation expense was \$9,541 and \$9,646 for the years ended December 31, 2019 and 2018, respectively.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

6. Investments

CFFK manages two investment pools for donor funds: the endowment pool and a short-term pool. Within these pools short-term, highly liquid 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.

Investments consist of the following at December 31, 2019 and 2018:

<u>Investment Category</u>	<u>2019</u>	<u>2018</u>
	Level 1 <u>Fair Value</u>	Level 1 <u>Fair Value</u>
Cash and Money Market Funds	\$ 276,429	\$ 150,188
U.S. Corporate Bonds	24,014	9,638
U.S. Bond Funds	2,752,930	2,501,653
International Bond Funds	857,141	848,944
U.S. Corporate Stock	22,650	-
U.S. Equity Funds	7,873,663	6,255,177
International Equity Funds	3,014,527	2,685,610
Real Estate Funds	1,128,659	1,011,837
Energy / Natural Resources Funds	1,304,579	1,090,142
Total Investments	<u>\$17,254,592</u>	<u>\$14,553,189</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2019 and 2018:

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest & dividends	\$ 148,950	\$ 272,038	\$ 420,988
Net realized gain (loss)	28,439	53,443	81,882
Unrealized gain (loss)	574,074	1,113,936	1,688,010
Investment management fees	(15,734)	(30,675)	(46,409)
Administrative fees	—	(102,157)	(102,157)
Total Investment Return	<u>\$ 735,729</u>	<u>\$1,306,585</u>	<u>\$2,042,314</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

6. Investments - (Cont.)2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

The endowment pool has a time weighted return of approximately 20.73% and (8.61)% for the years ended December 31, 2019 and 2018 respectively before considering administrative fees.

7. Split Interest Agreement

During 2019 CFFK recorded \$207,000 as a gift relating to a split interest agreement for trust assets held by a third party. Upon the death of a named beneficiary, the remaining assets are payable to CFFK. The current beneficiary receives quarterly distributions computed at 9% of the assets as of the beginning of the year. CFFK has valued the gift and subsequent change in the value of the split interest agreement using a discounted cash flow technique based upon the asset values, mortality tables published by the Social Security Administration, net investment earnings of 5% and a 6% discount rate. The same assumptions were used at December 31, 2019 and a change in split interest agreement of \$22,000 is recorded as an increase in Support and Revenue in the Statement of Activities.

8. Endowments

At December 31, 2019, CFFK maintained 156 distinct funds (147 distinct funds at December 31, 2018) 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-six (36) of these funds are considered endowments (33 distinct funds at December 31, 2018), 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 three funds 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

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

8. Endowments - (Cont.)

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.

Endowment Net Asset Composition by Type of Fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions - Purpose Restrictions	With Donor Restrictions - Permanent in Nature	Total
Board designated endowment funds	\$ 4,146,009	-	-	\$ 4,146,009
Donor-restricted endowment funds:				
Original donor- restricted gift amount and amounts required to be maintained in perpetuity by donor	-	3,597,872	248,442	3,846,314
Accumulated investment gains / (losses)	-	273,374	37,315	310,689
Total funds	\$ 4,146,009	\$ 3,871,246	\$ 285,757	\$ 8,303,012

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

8. Endowments - (Cont.)

Changes in Endowment Net Assets for the Year Ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions - Purpose Restrictions	With Donor Restrictions - Permanent in Nature	Total
Endowment net assets, beginning of year	\$ 3,547,853	2,556,210	249,683	\$6,353,746
Investment return, net	724,953	462,182	45,803	1,232,938
Contributions	85,000	920,841	-	1,005,841
Appropriation of endowment assets for expenditure	<u>(211,797)</u>	<u>(67,987)</u>	<u>(9,729)</u>	<u>(289,513)</u>
Endowment net assets, end of year	<u>\$ 4,146,009</u>	<u>3,871,246</u>	<u>285,757</u>	<u>\$8,303,012</u>

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	<u>\$3,547,853</u>	<u>2,556,210</u>	<u>249,683</u>	<u>\$6,353,746</u>

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	<u>(144,853)</u>	<u>(224,210)</u>	<u>(7,908)</u>	<u>(376,971)</u>
Endowment net assets, end of year	<u>\$ 3,547,853</u>	<u>2,556,210</u>	<u>249,683</u>	<u>\$6,353,746</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.
Notes to Financial Statements
December 31, 2019 and 2018

8. Endowments - (Cont.)

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, 2019, deficiencies of this nature exist in five of 33 donor-restricted endowment funds. These five funds together have an original gift value of \$392,268, a current fair value of \$314,927 and a deficiency of \$77,341. 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.

Deficiencies at December 31, 2019 primarily relate to continued appropriation for grants that were deemed prudent by the Board of Governors. 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. During 2019, 15 of the 20 endowments that were underwater on the first day of the year recorded net investment income that cured the underwater condition.

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 \$41,491 for the year ended December 31, 2019 from fourteen endowments and \$4,183 for the year ended December 31, 2018 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 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, 2019, this target rate of return is 5.45 percent annually. Actual returns in any given year may vary from this amount.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

8. Endowments - (Cont.)

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, 2019, 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, 2019 is 5.45%. This target rate approximates the spending policy for grants plus an average administrative fee to be appropriated from the fund.

9. Grants Payable

Grants payable primarily relate to scholarships paid over a multi-year period and grants approved late in the year that were distributed early in the following year. For the years ended December 31, 2019 and 2018 they consist of the following:

	<u>2019</u>	<u>2018</u>
Payable in less than one year	\$ 31,500	\$ 19,000
Payable in one to five years	27,500	20,000
Total	<u>\$ 59,000</u>	<u>\$ 39,000</u>

10. Deferred Revenue

CFFK has recorded \$10,320 and \$15,550 of deferred revenue for events to be held during the first three months of the following year and contributions with donor time restrictions to future years as of December 31, 2019 and 2018, respectively.

11. 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, 2019 and 2018

11. Funds Held as Agent – (Cont.)

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

	<u>2019</u>	<u>2018</u>
Agency liability at beginning of year	\$ 4,298,353	\$ 3,826,291
Funds received as agent	569,338	1,352,578
Inter-fund transfers to agency funds	1,351	450
Interest and dividends, net of fees	128,222	140,587
Realized investment gain (loss)	28,614	20,100
Unrealized investment gain (loss)	566,848	(482,223)
Grants to not-for-profit organizations	(410,387)	(412,941)
Inter-fund transfer by agency funds	(54,580)	(28,168)
Administrative fees	(43,550)	(48,893)
Payments as fiscal agent	(693,684)	(69,428)
 Agency liability at end of year	<u>\$ 4,390,525</u>	<u>\$ 4,298,353</u>

12. 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:

	2019	2018
Non-Endowments		
Subject to expenditure for specified purpose:		
Arts & Culture	\$ 1,680,486	\$1,317,324
Health & Human Services	1,254,260	1,109,401
Education	2,534,841	646,253
Disaster Relief	175,917	110,695
Environment	32,075	28,419
General Philanthropy	1,262,970	1,094,455
	<u>\$ 6,940,549</u>	<u>\$4,306,547</u>

Endowments

Subject to endowment spending policy and appropriation:

Arts & Culture	\$1,952,468	\$1,683,887
Health & Human Services	436,849	405,951
Education	154,376	133,896
Environment	28,792	27,567
Animal Welfare	84,008	24,619
General Philanthropy	1,292,091	485,197
Available for general purposes	285,757	249,724
Underwater endowments	(77,341)	(204,948)
Total Net Assets with restrictions	<u>4,157,000</u>	<u>2,805,893</u>
	<u>\$11,097,549</u>	<u>\$7,112,440</u>

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

12. 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:

	2019	2018
Non-Endowments		
Grants and appropriations for specified purpose:		
Arts & Culture	\$ 5,000	\$ 26,000
Health & Human Services	81,470	85,593
Education	132,174	41,000
Disaster Relief	32,058	394,402
Environment	1,750	-
General Philanthropy	244,852	233,836
	<hr/>	<hr/>
	\$497,304	\$780,831

Endowments

Subject to endowment spending policy
and appropriation:

Arts & Culture	\$ 22,810	\$ 38,741
Health & Human Services	19,236	14,764
Education	5,000	10,500
Environment	1,150	1,125
General Philanthropy	1,625	1,550
Available for general purposes	9,729	7,908
Variance power exercised for Arts & Culture grant in excess of spending policy	-	157,530
Variance power exercised appropriating expenditures for litigation	18,166	-
	<hr/>	<hr/>
Total Net Assets released	\$77,716	\$232,118
	<hr/>	<hr/>
	\$575,020	\$1,012,949

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 \$636,608 and \$719,157 for the years ended December 31, 2019 and 2018, respectively.

During 2019, the Board of Governors exercised their variance power by appropriating for expenditure from an endowment fund \$18,166 for legal fees related to an estate gift. Footnote 14 provides more information about this litigation.

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.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

12. Net Assets With Donor Restrictions – (Cont.)

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

13. 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, 2019 and 2018 amounted to \$14,033 and \$14,265, respectively.

14. Litigation

Specific funds managed by CFFK are the beneficiary of gifts from two estates that are involved in litigation. One estate has litigation relating to the compensation of the trustee. The amount of the bequest to specific funds managed by CFFK is not a part of the challenge, however distribution has been delayed pending results of this action.

A second estate has been challenged with respect to the amount of the bequest to a beneficiary unrelated to CFFK. Although the amount of the bequest to a specific fund at CFFK was not initially a part of the challenge, the Board of Governors has retained legal counsel to represent the interest of the specific fund named as beneficiary of the estate. The 2019 promise to give estimated at \$804,612 and the 2018 gift of cash of \$443,985 may be subject to return to the estate should outcome of the litigation require. A hearing is scheduled for 2020.

15. Subsequent Events

CFFK has evaluated events and transactions occurring subsequent to December 31, 2019 as of June 6, 2020 which is the date the financial statements were available to be issued. Subsequent events occurring after June 6, 2020 have not been evaluated by management.

On March 11, 2020, the World Health Organization characterized the spread of COVID-19 disease as a pandemic. Due to uncertainties about the economic impact of the pandemic, United States and worldwide investment values have significantly declined in value. At May 31, 2020 CFFK's investment funds have recorded unrealized losses of \$1,482,661. There are several impacts to CFFK and donor funds from the pandemic.

- Contributions to CFFK for general expenditures may decrease as supporters who have suffered investment losses may not be able to continue contributing at recent levels. As disclosed in footnote 2 Liquidity and Availability, CFFK has operating reserves that are not invested in stock funds that will enable continuing operations at recent activity levels for approximately 18 months from December 31, 2019 without using funds designated by the board for endowment.
- The net asset value of specific funds held by CFFK has decreased. The administrative fee charged to these funds that is used for general expenditures will be lower than recent levels until investment values increase or new contributions to donor funds are received.

COMMUNITY FOUNDATION OF THE FLORIDA KEYS, INC.

Notes to Financial Statements

December 31, 2019 and 2018

15. Subsequent Events - (Cont.)

- At May 31, 2020, 19 of 33 donor restricted endowment funds are underwater. These 19 funds together have an original gift value of \$2,644,784, a May 31, 2020 fair value of \$2,474,919 and a deficiency of \$169,865.

On March 13, 2020 CFFK received \$1,835,000 as a distribution from an estate that had been delayed due to litigation relating to compensation of the trustee.

On April 27, 2020, CFFK received a \$25,000 Paycheck Protection Program Loan from the Small Business Administration. This loan may be forgiven if it is used by CFFK for payroll and utility costs during the eight weeks following the receipt of the loan.

Other than as discussed in the notes above, no material events have occurred since December 31, 2019 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, 2019 and 2018 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 June 6, 2020.

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, Buzzi & Associates, LLC.

June 6, 2020