

FLORIDA KEYS SOCIETY FOR THE PREVENTION
OF CRUELTY TO ANIMALS, INC.

REPORT ON AUDITED FINANCIAL STATEMENTS

for the year ended December 31, 2016

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WILLIAM H. CROSS & CO., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Florida Keys Society for the Prevention
of Cruelty to Animals, Inc.
Key West, Florida

We have audited the accompanying financial statements of Florida Keys Society for the Prevention of Cruelty to Animals, Inc. (a not-for-profit organization) which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year 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.

Auditor's 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 risk 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 present fairly, in all material respects, the financial position of Florida Keys Society for the Prevention of Cruelty to Animals, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

William H. Cross & Co., P.A.

Orlando, Florida
April 1, 2018

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Cash and cash equivalents		\$3,810,216
Certificates of deposit-maturing through September 25, 2018		804,647
Investments, including \$23,725 beneficial interest-endowment		255,793
Accounts receivable-Monroe County		65,972
Unconditional building fund promises to give net of allowance for doubtful pledges of \$2,500		658,375
Inventory		31,202
Prepaid expenses and other		24,798
Land	\$ 938	
Improvements	13,057	
Furniture and equipment	57,211	
Vehicles	72,636	
Construction in progress	<u>668,973</u>	
	812,815	
Less accumulated depreciation	<u>121,986</u>	<u>690,829</u>
 Total assets		 <u><u>\$6,341,832</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable		\$ 16,455
Accrued payroll and related liabilities		<u>47,087</u>
 Total liabilities		 <u>63,542</u>
Net assets:		
Unrestricted		2,158,726
Temporarily restricted		4,095,839
Permanently restricted		<u>23,725</u>
 Total net assets		 <u>6,278,290</u>
 Total liabilities and net assets		 <u><u>\$6,341,832</u></u>

See accompanying notes to financial statements.

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
STATEMENT OF ACTIVITIES
for the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Restricted Temporarily</u>	<u>Restricted Permanently</u>	<u>Total</u>
Revenues:				
Monroe County contract	\$ 765,833	\$ -	\$ -	\$ 765,833
In-kind donations	26,426	-	-	26,426
Donations and grants	207,094	1,159,456	-	1,366,549
Adoption fees	26,765	-	-	26,765
Special events revenues of \$193,696 less event expenses of \$31,475	162,221	-	-	162,221
Medical fees and ID chips	10,758	-	-	10,758
Sales of merchandise of \$4,319 less cost of goods of \$4,265	54	-	-	54
Interest	12,630	-	-	12,630
Unrealized gains on investments	13,818	-	-	13,818
Gain on endowment	-	-	1,869	1,869
Released from restrictions	<u>731,807</u>	<u>(731,807)</u>	<u>-</u>	<u>-</u>
 Total revenue	 <u>1,957,406</u>	 <u>427,648</u>	 <u>1,869</u>	 <u>2,386,923</u>
Expenses:				
Shelter operations	1,230,316	-	-	1,230,316
Management and general	40,634	-	-	40,634
Fundraising	<u>126,572</u>	<u>-</u>	<u>-</u>	<u>126,572</u>
 Total expenses	 <u>1,397,522</u>	 <u>-</u>	 <u>-</u>	 <u>1,397,522</u>
 Increase in net assets	 559,884	 427,648	 1,869	 989,401
 Net assets, beginning of year	 <u>1,598,842</u>	 <u>3,668,191</u>	 <u>21,856</u>	 <u>5,288,889</u>
 Net assets, end of year	 <u>\$2,158,726</u>	 <u>\$4,095,839</u>	 <u>\$ 23,725</u>	 <u>\$6,278,290</u>

See accompanying notes to financial statements.

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2016

	<u>Shelter Operations</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 635,169	\$ 25,684	\$ -	\$ 660,853
Payroll taxes	52,694	1,965	-	54,659
Advertising	5,609	-	-	5,609
Depreciation	4,482	-	-	4,482
Dog park expenses	13	-	-	13
Dues and subscriptions	1,640	-	-	1,640
Entertainment	4,269	-	382	4,651
Fundraising expenses	-	-	122,624	122,624
Health insurance	84,855	2,303	-	87,158
Insurance, other	52,066	2,022	-	54,088
Interest	241	-	-	241
Licenses and taxes	2,084	375	-	2,459
Medicines and medical supplies	66,887	-	-	66,887
Office expense	22,382	1,783	3,566	27,731
Payroll processing	23,461	-	-	23,461
Professional services	14,905	5,200	-	20,105
Rent and storage	1,302	1,302	-	2,604
Repairs and maintenance	19,953	-	-	19,953
Supplies	47,136	-	-	47,136
ID chips	3,720	-	-	3,720
Travel and training	6,122	-	-	6,122
Utilities and telephone	38,555	-	-	38,555
Vehicle expense	10,586	-	-	10,586
Veterinarian fees	118,833	-	-	118,833
Waste disposal	13,352	-	-	13,352
	<u>\$1,230,316</u>	<u>\$ 40,634</u>	<u>\$ 126,572</u>	<u>\$ 1,397,522</u>

See accompanying notes to financial statements.

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
STATEMENT OF CASH FLOWS
for the year ended December 31, 2016

Cash flows from operating activities:		
Change in unrestricted net assets		\$ 559,884
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	\$ 4,482	
Increase in certificate of deposit	(2,248)	
Increase in investments	(19,996)	
Decrease in accounts receivable-Monroe County	18,205	
Increase in unconditional promises to give (pledges)	(556,895)	
Increase in inventory	(1,771)	
Decrease in prepaid expenses and other	4,752	
Increase in accounts payable	6,348	
Increase in accrued payroll and related liabilities	8,120	
	<u>8,120</u>	<u>(539,003)</u>
Net cash provided by operating activities		20,881
Cash flows from financing activities:		
Change in temporarily restricted net assets	427,648	
Purchase of equipment and construction in progress	(524,728)	
Change in permanently restricted net assets	1,869	
	<u>1,869</u>	
Net cash used in financing activities		<u>(95,211)</u>
Net decrease in cash and cash equivalents		(74,330)
Cash and cash equivalents at beginning of year		<u>3,884,546</u>
Cash and cash equivalents at end of year		<u><u>\$ 3,810,216</u></u>
Cash paid for interest (none capitalized)		<u>\$ 241</u>
Cash paid for income taxes		<u>\$ -</u>

See accompanying notes to financial statements.

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 2016

1. Summary of Significant Accounting Policies:

The Florida Keys Society for the Prevention of Cruelty to Animals, Inc. (Society) was incorporated under the not-for-profit statutes of Florida on January 27, 1999. The Society is a not-for-profit organization dedicated to the promotion of the humane treatment of all animals through compassionate care, adoption, education, population control and humane law enforcement. The Society has a contract effective May 1, 2014, with the Board of County Commissioners of Monroe County, Florida for the purposes of operating the Key West Animal Control Shelter and to provide complete animal control and enforcement services from mile marker 0 through mile marker 16.7, including the City of Key West for a term of 20 years including a 10 year extension thereafter. Further, effective November 1, 2105, the Society was assigned the current contract between the Safe Harbor Animal Rescue of the Keys (SHARK) and the Board of Commissioners of Monroe County, Florida to include the middle Keys (i.e. mile marker 16.7 to mile marker 70). Subsequently, effective November 15, 2017, the Board of Commissioners of Monroe County, Florida awarded a new contract for the middle Keys for a term of 5 years including a 5 year extension thereafter.

The accounting policies of the Society conform to accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - The accompanying financial statements include the accounts of the Florida Keys Society for the Prevention of Cruelty to Animals, Inc. only. The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor imposed stipulations that may or will be met, either by actions of the Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor imposed stipulations that will never expire or be fulfilled such as amounts restricted by donors for permanent endowments.

The costs of providing the shelter operations program and administration have been detailed in the statement of functional expenses and summarized on a functional basis in the statement of activities. Salaries and other expenses which are associated with shelter operations or administration are charged directly to each. Salaries and other expenses which benefit both are allocated based on the relative benefit provided to each.

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 for the year ended December 31, 2016

1. Summary of Significant Accounting Policies, Continued:

Support and Revenue – Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises were received.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions that are met in the same period when the grant or contribution is made are recorded as unrestricted support and revenue.

Cash and Cash Equivalents – All highly liquid investments with an original maturity of three months or less are deemed to be cash equivalents for the purposes of reporting cash flows.

The Society maintains cash accounts with local and national financial institutions for donations received or designated for the Shelter building fund. There is no third party requirement to hold the cash in separate bank accounts but this is being done to ensure it is used for the purposes intended. All cash accounts are included in the statement of cash flows. At December 31, 2016, the balances totaled \$3,835,668, of which \$3,599,206 is in fully insured savings accounts. The remaining balance of \$236,462 generally exceeds \$250,000 of FDIC insurance.

Investments – Prior to 2016, the Society entered into agreements with The Community Foundation of the Florida Keys, Inc. (Foundation) to create an Agency Fund primarily to cover the costs related to building a new animal control shelter building and create an endowment for future operations (see Note 3). The Foundation's investments in mutual and money market funds are not backed by a bank nor are they insured by the Federal Deposit Insurance Corporation (FDIC). This agreement may be terminated by either party giving thirty (30) days written notice.

Investments consist of the following as of December 31, 2016:

	<u>Fair Value</u>	<u>Net Unrealized Gain</u>
Mutual and money market funds - Building Fund	<u>\$232,068</u>	<u>\$13,818</u>
Mutual and money market funds - Endowment	<u>\$ 23,725</u>	<u>\$ 1,428</u>

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 for the year ended December 31, 2016

1. Summary of Significant Accounting Policies, Continued:

Receivables – Accounts receivables are presented on the statement of financial position net of an allowance for doubtful accounts based on the Society's assessment of collectibility. As of December 31, 2016, the Society considers all accounts receivables to be collectible and an allowance has not been recorded. Unconditional promises to give have been recorded net of an allowance of \$2,500 based on collectability through the current issue date of these statements.

Inventory – Inventory consists of supplies on hand to operate the animal control shelter and some items held for resale. Inventory is stated at the lower of cost or net realizable value.

Property and equipment – Purchased property and equipment are recorded at cost when the expenditure is in excess of \$150. Major renewals and betterments are capitalized while minor renewals and betterments are expensed as incurred. Depreciation expense is provided using the straight line method over the estimated useful lives of the respective assets. A summary of the estimated useful lives for the principal classifications of property and equipment is as follows:

<u>Classification</u>	<u>Useful Lives</u>
Improvements	5-15 years
Furniture and equipment	5 years
Vehicles	5 years

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are acquired. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Income tax status – The Society has been recognized by the Internal Revenue Service as tax exempt under Section 501(c)(3) of the Internal Revenue Code. The Society has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Society had no excise or unrelated business income taxes for the year ended December 31, 2016.

Grants and contracts - Grants and contracts restricted for specific purposes are considered conditional contributions and revenue is reported when qualifying expenses have been incurred. Amounts earned but not received are reported as receivable. Amounts received but not earned are recorded as deferred revenue. Unconditional grants and contributions are recorded as revenue in the period received.

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 for the year ended December 31, 2016

1. Summary of Significant Accounting Policies, Continued:

Donated services, materials and facilities – Contributions of donated materials and supplies are recorded at their fair values in the period received. The criteria for recording donated services are those that (a) create or enhance nonfinancial assets or (b) require specialized skills, and would typically need to be purchased if not provided by donation and they are recorded in the period received. Donated facilities are recorded at their fair value when received if a market exists for such a facility.

2. Compensated Leave:

Employees are entitled to paid compensated leave depending on length of service. The liability for leave is based upon the actual unused leave at the applicable rate of pay for each employee. Employees may carry over to the following calendar year the total of any annual leave time that they have earned during the current calendar year plus forty (40) hours of annual leave from the prior calendar year. Any annual leave in excess of that amount is forfeited.

3. Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

Pet food pantry for Salvation Army fund	\$ 418
Oscar's fund	37,337
Dog park fund	18,135
Shelter building fund	4,039,264
Elderly foundation	<u>685</u>
Total temporarily restricted net assets	<u>\$4,095,839</u>

During the year ended December 31, 2016, the Society received donations of \$1,159,456 that were recorded as temporarily restricted revenues in the statement of activities; further, temporarily restricted net assets of \$731,807 were released from donor restrictions by incurring expenses satisfying the specified purpose.

Permanently restricted net assets are available for the purpose of establishing a one million dollar endowment fund. During 2012, the Society made an initial transfer of \$5,000 to The Community Foundation of the Florida Keys (Foundation) for the creation of a permanent endowment fund. Net unrealized gains for a total of \$1,869 were added to the endowment fund during the year. Payouts from the Foundation will not begin until after the construction of the new building.

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
for the year ended December 31, 2016

4. Board Designations:

The Board has authorized certain prior unrestricted net assets be designated for the building fund. These monies are reserved in the investment account and other bank accounts along with temporarily restricted net assets designated for the building fund. The balance in these accounts at December 31, 2016, was:

Temporarily restricted	\$4,039,264
Board designated	<u>938,547</u>
	<u>\$4,977,810</u>

5. In-Kind Donations:

Donated materials – The Society receives donations of supplies for use in its mission. These donations were recorded at their fair market value of \$23,926. Donations of items for fundraising events are not recorded as a matter of policy.

Donated services – The Society receives donated services from a variety of unpaid volunteers assisting the Society in fundraising, program services, and general activities that are not recorded, as they do not meet the criteria for recording. The Society received \$2,500 of qualifying donated services that were recorded as revenue in the statement of activities during the year.

Donated facilities – The Society receives use of the animal control shelter facilities located at 5230 College Road on Stock Island under their contract to operate the Key West Animal Shelter. Since a market for the rental of such a facility does not exist, no amounts are recorded in the financial statements.

6. Funding Concentration:

The Society currently operates the Key West and Middle Keys Animal Control Shelters under long-term contracts with the Board of County Commissioners of Monroe County, Florida. These contracts provide a significant amount of the Shelter's support. As of December 31, 2016, the Society's receivable from Monroe County under these contracts was \$65,972 for the month of December, 2016.

7. Fair Values of Financial Instruments:

The Society's financial instruments include cash, receivables and unconditional promises to give (pledges). Due to the relatively short maturities of these instruments the carrying amounts reported in the statement of financial position approximate their fair value.

8. Subsequent Event:

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through April 1, 2018, the date the financial statements were issued. On October 19, 2016, the Society amended and restated their contract dated May 1, 2014, to provide funding (not to exceed \$1,500,000) for the construction of the new Animal Control Shelter. Funding will be available for the period of October 1, 2016, through to September 30, 2018. As of April 1, 2018, \$750,000 has been released.