

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

REPORT ON AUDITED FINANCIAL STATEMENTS

for the year ended December 31, 2018

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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 statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses 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, 2018, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 of the financial statements, in 2018, Florida Keys Society for the Prevention of Cruelty to Animals, Inc. adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

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

Orlando, Florida
September 11, 2019

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

Cash and cash equivalents		\$ 543,973
Certificates of deposit-maturing through September 25, 2020		240,707
Investments, beneficial interest-endowment		24,619
Accounts receivable-Monroe County (\$160,917); other (\$2,423)		163,340
Unconditional building fund promises to give net of allowance for doubtful pledges of \$-0-		7,500
Inventory		64,474
Prepaid expenses and other		40,478
Land	\$ 938	
Building	8,391,036	
Improvements	13,057	
Furniture and equipment	405,856	
Vehicles	72,636	
	8,883,523	
Less accumulated depreciation	132,503	8,751,020
Total assets		\$9,836,111

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable		\$ 63,953
Accrued payroll and related liabilities		58,547
Retainage payable		112,373
Total liabilities		234,873
Net assets:		
Without donor restrictions		9,536,424
With donor restrictions		64,814
Total net assets		9,601,238
Total liabilities and net assets		\$9,836,111

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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Monroe County contract	\$ 861,849	\$ -	\$ 861,849
In-kind donations	46,491	-	46,491
Donations and grants	423,598	630,080	1,053,678
Adoption fees	18,969	-	18,969
Special events revenues of \$221,693 less event expenses of \$45,174	176,519	-	176,519
Medical fees and ID chips	6,255	-	6,255
Sales of merchandise of \$4,930 less cost of goods of \$2,782	2,148	-	2,148
Interest	9,262	-	9,262
Loss on endowment	(2,603)	-	(2,603)
Released from restrictions	<u>2,397,449</u>	<u>(2,397,449)</u>	<u>-</u>
Total revenue	<u>3,939,937</u>	<u>(1,767,369)</u>	<u>2,172,568</u>
Expenses:			
Shelter operations	1,232,187	-	1,232,187
Management and general	40,963	-	40,963
Fundraising	<u>109,118</u>	<u>-</u>	<u>109,118</u>
Total expenses	<u>1,382,268</u>	<u>-</u>	<u>1,382,268</u>
Increase (decrease) in net assets	2,557,669	(1,767,369)	790,300
Net assets, beginning of year	<u>6,978,755</u>	<u>1,832,183</u>	<u>8,810,938</u>
Net assets, end of year	<u><u>\$ 9,536,424</u></u>	<u><u>\$ 64,814</u></u>	<u><u>\$ 9,601,238</u></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, 2018

	<u>Shelter Operations</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses:				
Salaries and wages	\$ 644,617	\$ 16,788	16,788	\$ 678,193
Health insurance	53,606	1,886	1,886	57,378
Payroll taxes	77,556	1,324	1,324	80,204
Total salaries and related expenses	775,779	19,998	19,998	815,775
Direct expenses:				
Advertising	4,800	-	-	4,800
Depreciation	5,259	-	-	5,259
Dog park	94	-	-	94
Dues and subscriptions	1,020	-	-	1,020
Entertainment	2,077	792	1,118	3,987
Fundraising expenses	-	-	82,650	82,650
ID chips	4,739	-	-	4,739
Insurance, other	53,695	1,937	-	55,632
Interest	161	-	-	161
Licenses and taxes	2,531	-	-	2,531
Medicines and medical supplies	56,568	-	-	56,568
Office expense, credit card and bank fees	7,614	123	2,965	10,702
Office expense, other	11,882	1,584	2,376	15,842
Payroll processing	23,719	-	-	23,719
Professional services	32,175	3,517	-	35,692
Rent and storage	1,302	1,302	-	2,604
Repairs and maintenance	8,492	-	-	8,492
Supplies	35,672	-	-	35,672
Training with related travel	12,694	11,710	11	24,415
Utilities and telephone	44,393	-	-	44,393
Vehicles	10,826	-	-	10,826
Veterinarian fees	122,869	-	-	122,869
Waste disposal	13,826	-	-	13,826
Total expenses	<u>\$1,232,187</u>	<u>\$ 40,963</u>	<u>\$ 109,118</u>	<u>\$ 1,382,268</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, 2018

Cash flows from operating activities:		
Change in net assets without donor restrictions		\$ 2,557,669
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	\$ 5,258	
Decrease in certificate of deposit	109,512	
Decrease in investments	2,603	
Decrease in accounts receivable-Monroe County	814,101	
Decrease in unconditional promises to give (pledges)	500	
Increase in inventory	(33,487)	
Increase in prepaid expenses and other	(15,839)	
Decrease in accounts payable	(656,115)	
Increase in accrued payroll and related liabilities	4,690	
Decrease in retainage payable	<u>(299,355)</u>	<u>(68,132)</u>
Net cash provided by operating activities		2,489,537
Cash flows from financing activities:		
Purchase of equipment and building	(2,389,616)	
Change in net assets with donor restrictions	<u>(1,767,369)</u>	
Net cash used in financing activities		<u>(4,156,985)</u>
Net decrease in cash and cash equivalents		(1,667,448)
Cash and cash equivalents at beginning of year		<u>2,211,421</u>
Cash and cash equivalents at end of year		<u>\$ 543,973</u>
Cash paid for interest (none capitalized)		
		<u>\$ 161</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, 2018

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. Effective November 15, 2017, the Board of Commissioners of Monroe County, Florida awarded a new contract for the middle Keys (i.e. mile marker 16.7 to mile marker 70) 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:

Net assets without donor restrictions - Net assets are available for use in general operations and not subject to donor restrictions. The Board has designated, from net assets without donor restrictions, net assets to be used for the construction of the new building completed December, 2018, for a Board designated endowment.

Net assets with donor restrictions - Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor (such as the construction of the building). Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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, 2018

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 net assets without donor restrictions.

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, 2018, the balances totaled \$543,973, which is in fully insured savings accounts; however, during the year balances routinely exceeded \$250,000 of FDIC insurance.

Investments – During 2012, the Society entered into agreements with The Community Foundation of the Florida Keys, Inc. (Foundation) to create an Agency Fund primarily to create an endowment for future operations (see Note 5). 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, 2018:

	<u>Fair Value</u>	<u>Net Unrealized Loss</u>
Mutual and money market funds - Endowment	<u>\$24,619</u>	<u>\$(3,309)</u>

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 collectability. As of December 31, 2018, 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 \$-0- 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.

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 for the year ended December 31, 2018

1. Summary of Significant Accounting Policies, Continued:

Property and equipment – Purchased property and equipment are recorded at cost when the expenditure is in excess of \$2,500. 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>
Shelter building	39.5 years
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 without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

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, 2018.

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.

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.

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 for the year ended December 31, 2018

1. Summary of Significant Accounting Policies, Continued:

Change in Accounting Principles – In 2018, the Society adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position – The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restriction and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities and Functional Expenses – Expenses are reported by nature and function.

Notes to Financial Statements – Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position. This change has no impact on previously reported total change in net assets.

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. Net Assets:

The net assets of the Society are summarized as follows as of December 31, 2018:

Net assets without donor restrictions and non-designated	\$9,181,108
Net assets without donor restrictions but board designated	<u>355,316</u>
Total without donor restrictions	<u>9,536,424</u>

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specified purpose, passage of time or both	
Oscar Fund for extensive medical needs	44,623
Dog Park Fund to cover expenses of Key West dog park	<u>20,191</u>
Total with donor restrictions	<u>64,814</u>
Total net assets	<u>\$9,601,238</u>

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 for the year ended December 31, 2018

3. Net Assets, Continued:

During the year, net assets released from donor restrictions resulted from the satisfying of the following donor restrictions:

Construction of new shelter building	\$2,389,534
Medical needs, regular and extensive	6,421
Senior animal adoptions to senior adopters	205
Dog Park expenses	94
Miscellaneous small funds	<u>1,195</u>
Total released	<u>\$2,397,449</u>

4. Liquidity and Availability of Resources:

The Society's financial assets available within one year of the consolidated statement of financial position sheet date, for general expenditure such as operating expenses, as follows as of December 31, 2018:

Cash and cash equivalents	\$543,973
Certificates of deposit	190,170
Accounts receivable	<u>163,340</u>
Total	897,483
Less amounts unavailable for general expenditures within one year, due to:	
Purpose restricted	<u>64,814</u>
Total financial assets available	<u>\$832,669</u>

The financial assets in the table above have been reduced by amounts not available for general use because of donor restrictions for specific purposes.

5. Endowments:

The Society's endowment consists of an agency fund established in 2012 by the Board of Directors at The Community Foundation of the Florida Keys, Inc. (Foundation) with an initial transfer of \$5,000. The agency fund was created to function as a permanent but board-designated endowment fund for future operations. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board has designated the donations and earnings received since its inception to remain a part of the endowment fund. Because there are no specific donor restricted donations in the fund as of December 31, 2018, the entire balance of the endowment fund is a part of net assets without donor restrictions.

Continued

FLORIDA KEYS SOCIETY FOR THE PREVENTION OF CRUELTY TO ANIMALS, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
for the year ended December 31, 2018

5. Endowments, Continued:

Changes in the endowment fund for the year ended December 31, 2018, was:

Endowment net assets without donor restrictions, beginning of year	\$27,222
Net loss on endowment	<u>(2,603)</u>
Endowment fund at December 31, 2018	<u>\$24,619</u>

6. 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 \$30,491. 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 \$16,000 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.

7. 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, 2018, the Society's receivable from Monroe County under these contracts was a total of \$160,917, and was comprised of amounts for the months of December \$74,244, November \$85,520, and miscellaneous expenses for May, June and July, 2018 \$1,153.

8. 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.

9. Subsequent Event:

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through September 11, 2019, the date the financial statements were issued.