



CPAs & Advisors

The Cleveland Society for the Blind

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

THE CLEVELAND SOCIETY FOR THE BLIND

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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Independent Auditor's Report

Board of Trustees
The Cleveland Society for the Blind
Cleveland, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of The Cleveland Society for the Blind ("Society"), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and changes in net assets, 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 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 Society'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 Society'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 The Cleveland Society for the Blind as of September 30, 2016, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Cleveland Society for the Blind as of September 30, 2015 and for the year then ended were audited by other auditors, whose report dated January 7, 2016, expressed an unmodified opinion on those statements.

HW&Co.

Cleveland, Ohio
January 12, 2017

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2016 AND 2015

ASSETS

	2016	2015
Assets:		
Cash and cash equivalents	\$ 349,594	\$ 52,937
Receivables, net	687,154	570,373
Promises to give, net	679,450	266,050
Inventories	92,443	74,379
Prepaid expenses	82,862	104,510
Assets restricted for custodial funds	104,565	91,461
Investments	65,844,431	62,611,188
Beneficial interest trusts	15,875,788	15,487,493
Property and equipment:		
Land and land improvements	1,948,362	1,935,762
Buildings and improvements	13,531,201	13,506,827
Equipment, furniture, and fixtures	2,487,534	2,913,562
Construction-in-progress	4,808	7,441
	17,971,905	18,363,592
Less accumulated depreciation	6,794,673	6,871,377
	11,177,232	11,492,215
	\$ 94,893,519	\$ 90,750,606

LIABILITIES AND NET ASSETS

Liabilities:		
Line of credit		\$ 50,000
Accounts payable	\$ 128,279	222,812
Accrued expenses	368,770	328,583
Custodial accounts	104,565	91,461
Obligations under annuity agreements	263,705	290,147
	865,319	983,003
Net assets:		
Unrestricted	47,514,700	43,853,792
Temporarily restricted	15,717,956	15,837,663
Permanently restricted	30,795,544	30,076,148
	94,028,200	89,767,603
	\$ 94,893,519	\$ 90,750,606

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	General Fund	Board Designated			
Public support and revenue					
Public support:					
Contributions and grants	\$ 715,154	\$ 478,272	\$ 1,193,426	\$ 891,271	\$ 2,325,798
Fundraising, net	164,638		164,638	216,775	381,413
Restricted funds released for current activities	<u>562,031</u>		<u>562,031</u>	<u>(652,031)</u>	<u>90,000</u>
Total public support	1,441,823	478,272	1,920,095	456,015	2,707,211
Revenue:					
Retail sales, net	126,354		126,354		126,354
Program service fees	3,356,545		3,356,545		3,356,545
BE stand revenue, net	44,302		44,302		44,302
Other revenue	<u>24,257</u>		<u>24,257</u>		<u>24,257</u>
Total revenue	3,551,458		3,551,458		3,551,458
Investment income:					
Investment income	844	1,860,858	1,861,702	388,924	2,250,626
Investment income released per spending policy	3,114,409	(1,721,189)	1,393,220	(1,393,220)	
Earnings from beneficial trusts				1,475,784	1,475,784
Earnings from beneficial trusts released from restriction	<u>1,475,784</u>		<u>1,475,784</u>	<u>(1,475,784)</u>	
Total investment income	<u>4,591,037</u>	<u>139,669</u>	<u>4,730,706</u>	<u>(1,004,296)</u>	<u>3,726,410</u>
Total public support, revenue and investment income	9,584,318	617,941	10,202,259	(548,281)	9,985,079
Expenses:					
Program services	7,520,490		7,520,490		7,520,490
Management and general	1,128,844		1,128,844		1,128,844
Fundraising	<u>564,494</u>		<u>564,494</u>		<u>564,494</u>
Total expenses	<u>9,213,828</u>		<u>9,213,828</u>		<u>9,213,828</u>
Changes in net assets before other changes to net assets	370,490	617,941	988,431	(548,281)	771,251
Other changes to net assets:					
Net unrealized gain on investment transactions		3,059,378	3,059,378	402,132	3,461,510
Change in value of annuity agreements				26,442	26,442
Change in value of beneficial trusts				388,295	388,295
Depreciation expense	(382,625)		(382,625)		(382,625)
Loss on disposal of assets	<u>(4,276)</u>		<u>(4,276)</u>		<u>(4,276)</u>
Changes in net assets	(16,411)	3,677,319	3,660,908	(119,707)	4,260,597
Net assets, beginning of year	<u>4,183,207</u>	<u>39,670,585</u>	<u>43,853,792</u>	<u>15,837,663</u>	<u>89,767,603</u>
Net assets, end of year	<u><u>\$ 4,166,796</u></u>	<u><u>\$ 43,347,904</u></u>	<u><u>\$ 47,514,700</u></u>	<u><u>\$ 15,717,956</u></u>	<u><u>\$ 30,795,544</u></u>

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	General Fund	Board Designated			
Public support and revenue					
Public support:					
Contributions and grants	\$ 782,366	\$ 250,367	\$ 1,032,733	\$ 298,326	\$ 1,424,856
Fundraising, net	106,961		106,961	210,392	317,353
Restricted funds released for current activities	<u>624,056</u>		<u>624,056</u>	<u>(624,056)</u>	
Total public support	1,513,383	250,367	1,763,750	(115,338)	1,742,209
Revenue:					
Retail sales, net	120,991		120,991		120,991
Program service fees	2,992,963		2,992,963		2,992,963
BE stand revenue, net	39,437		39,437		39,437
Other revenue	<u>24,056</u>		<u>24,056</u>		<u>24,056</u>
Total revenue	3,177,447		3,177,447		3,177,447
Investment income:					
Investment income	4,476	1,149,118	1,153,594	930,156	2,083,750
Investment income released per spending policy	2,896,274	(1,600,636)	1,295,638	(1,295,638)	
Earnings from beneficial trusts				1,437,848	1,437,848
Earnings from beneficial trusts released from restriction	<u>1,437,848</u>		<u>1,437,848</u>	<u>(1,437,848)</u>	
Total investment income	<u>4,338,598</u>	<u>(451,518)</u>	<u>3,887,080</u>	<u>(365,482)</u>	<u>3,521,598</u>
Total public support, revenue and investment income	9,029,428	(201,151)	8,828,277	(480,820)	8,441,254
Expenses:					
Program services	7,145,579		7,145,579		7,145,579
Management and general	1,213,947		1,213,947		1,213,947
Fundraising	<u>542,875</u>		<u>542,875</u>		<u>542,875</u>
Total expenses	<u>8,902,401</u>		<u>8,902,401</u>		<u>8,902,401</u>
Changes in net assets before other changes to net assets	127,027	(201,151)	(74,124)	(480,820)	(461,147)
Other changes to net assets:					
Net unrealized loss on investment transactions		(1,202,245)	(1,202,245)	(973,160)	(2,175,405)
Change in value of annuity agreements				27,226	27,226
Change in value of beneficial trusts				(1,024,370)	(1,024,370)
Depreciation expense	(387,518)		(387,518)		(387,518)
Gain on sale of land	<u>238,944</u>		<u>238,944</u>		<u>238,944</u>
Changes in net assets	(21,547)	(1,403,396)	(1,424,943)	(1,426,754)	(3,782,270)
Net assets, beginning of year	<u>4,204,754</u>	<u>41,073,981</u>	<u>45,278,735</u>	<u>17,264,417</u>	<u>31,006,721</u>
Net assets, end of year	<u><u>\$ 4,183,207</u></u>	<u><u>\$ 39,670,585</u></u>	<u><u>\$ 43,853,792</u></u>	<u><u>\$ 15,837,663</u></u>	<u><u>\$ 30,076,148</u></u>

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED SEPTEMBER 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 5,453,849	\$ 982,800	\$ 484,479	\$ 6,921,128
Professional and contracted fees	1,081,528	76,429	41,874	1,199,831
Supplies and related	192,960	13,636	7,471	214,067
Occupancy	436,384	30,838	16,896	484,118
Program transportation	37,319	2,637	1,445	41,401
Staff travel	101,179	7,150	3,917	112,246
Other	136,145	9,621	5,271	151,037
Funded depreciation	81,126	5,733	3,141	90,000
Total expenses before other expenses	7,520,490	1,128,844	564,494	9,213,828
General fund depreciation	344,898	24,373	13,354	382,625
Total expenses reported by function	<u>\$ 7,865,388</u>	<u>\$ 1,153,217</u>	<u>\$ 577,848</u>	<u>\$ 9,596,453</u>

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED SEPTEMBER 30, 2015

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 4,953,592	\$ 1,027,236	\$ 356,219	\$ 6,337,047
Professional and contracted fees	1,332,340	113,487	157,316	1,603,143
Supplies and related	215,899	18,390	7,369	241,658
Occupancy	366,249	31,197	12,501	409,947
Program transportation	34,870	2,970	1,190	39,030
Staff travel	71,849	6,120	2,452	80,421
Other	90,373	7,698	3,084	101,155
Funded depreciation	80,407	6,849	2,744	90,000
	<u>7,145,579</u>	<u>1,213,947</u>	<u>542,875</u>	<u>8,902,401</u>
Total expenses before other expenses				
General fund depreciation	346,212	29,490	11,816	387,518
	<u>346,212</u>	<u>29,490</u>	<u>11,816</u>	<u>387,518</u>
Total expenses reported by function	<u><u>\$ 7,491,791</u></u>	<u><u>\$ 1,243,437</u></u>	<u><u>\$ 554,691</u></u>	<u><u>\$ 9,289,919</u></u>

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Changes in net assets	\$ 4,260,597	\$ (3,782,270)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	472,625	477,518
Loss (gain) on sale of assets	4,276	(238,944)
Bad debts	44,698	48,236
Realized and unrealized gains on investments	(7,187,920)	(1,346,193)
Change in value of beneficial trusts	(388,295)	1,024,370
Contributions of endowment support	(241,101)	(93,797)
Decrease (increase) in assets:		
Receivables	(161,479)	55,798
Promises to give, net	(413,400)	(1,862)
Inventories	(18,064)	27,899
Prepaid expenses	21,648	(37,130)
Increase (decrease) in liabilities:		
Accounts payable	(94,533)	77,381
Accrued expenses	40,187	(31,558)
	<u>(3,660,761)</u>	<u>(3,820,552)</u>
Net cash used in operating activities		
	<u>(3,660,761)</u>	<u>(3,820,552)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	8,073,941	13,834,619
Purchase of investments	(4,119,264)	(9,592,340)
Proceeds from sale of assets	2,500	255,700
Purchase of property and equipment	(164,418)	(211,867)
	<u>3,792,759</u>	<u>4,286,112</u>
Net cash provided by investing activities		
	<u>3,792,759</u>	<u>4,286,112</u>
Cash flows from financing activities:		
Net repayments of line of credit	(50,000)	(694,000)
Payments on annuity obligations	(26,442)	(27,225)
Contributions of endowment support	241,101	93,797
	<u>164,659</u>	<u>(627,428)</u>
Net cash provided by (used in) financing activities		
	<u>164,659</u>	<u>(627,428)</u>
Net increase (decrease) in cash and cash equivalents	296,657	(161,868)
Cash and cash equivalents, beginning of year	<u>52,937</u>	<u>214,805</u>
Cash and cash equivalents, end of year	<u>\$ 349,594</u>	<u>\$ 52,937</u>

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. Description of Society and summary of significant accounting policies:

Nature of activities:

The Cleveland Society for the Blind (“Society”), also known as Cleveland Sight Center, is a private not-for-profit (Ohio) Corporation formed in 1906 to provide services to children, vocational age adults, and senior citizens who are blind or visually impaired. The Society is primarily supported through donor contributions, earnings from beneficial trusts, earnings from an endowment based on a spending policy, and program service fees.

Basis of accounting:

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Furthermore, the accounting policies adhered to by the Society are generally consistent with the *Audit and Accounting Guide Not-for-Profit Entities* issued by the American Institute of Certified Public Accountants.

Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its accounting standards for not-for-profit entities. Under these standards, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Unrestricted net assets are not subject to donor-imposed restrictions.

Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees. Such net assets are recorded as board designated.

Temporarily restricted net assets – Temporarily restricted net assets are subject to donor-imposed restrictions. These restrictions may be removed by the passage of time or actions of the Society to meet the restrictions. Earnings accumulated on donor restricted endowments and not appropriated by the Board of Trustees for expenditure are also included in temporarily restricted net assets.

Permanently restricted net assets – Permanently restricted net assets are those contributions the donor stipulates must be held in perpetuity.

Use of estimates:

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. Description of Society and summary of significant accounting policies (continued):

Cash and cash equivalents:

The Society considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The cash accounts are insured by the Federal Deposit Insurance Corporation. The Society's cash balances may exceed the insured amount from time to time. All cash held in the investment accounts is deemed an investment and is not insured by the Federal Deposit Insurance Corporation.

Receivables:

Receivables are stated at the amount management expects to collect from balances outstanding at year end. Accounts receivable are expected to be received within 30 days from the date billed. Interest is not charged on past due receivables. Management individually reviews all outstanding receivables. Based on management's assessment of collectability, the allowance for doubtful accounts is \$10,143 and \$31,642 on balances outstanding at September 30, 2016 and 2015, respectively.

Bad debt expense was \$44,698 and \$48,236 for the years ended September 30, 2016 and 2015, respectively.

Receivables at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Private pay receivables, net	\$ 20,990	\$ 29,582
Governmental receivables	517,597	409,570
Grants receivable	33,075	33,075
Interest receivable	64,815	67,297
Other	<u>50,677</u>	<u>30,849</u>
	<u>\$ 687,154</u>	<u>\$ 570,373</u>

Promises to give:

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give are recognized as pledges receivable and a related contribution when made. Pledges which span over multiple years are discounted at an adjusted risk free rate at the time of the pledge (historically between 1.00% and 4.66%). Management individually reviews pledges and those deemed uncollectible are written off to bad debt expense. There was no bad debt expense related to pledges for the years ended September 30, 2016 and 2015.

Inventories:

Inventories consist of retail merchandise and are stated at cost, determined by the first-in, first-out method, but not in excess of net realizable value.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. Description of Society and summary of significant accounting policies (continued):

Property and equipment:

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The policy of the Society is to capitalize assets greater than \$1,000 in value. Depreciation is computed using primarily the straight-line method over the expected useful lives of the assets, as follows:

	<u>Years</u>
Land improvements	10-30 years
Buildings and improvements	5-50 years
Equipment, furniture, and fixtures	2-10 years

Construction-in-progress at September 30, 2016 and 2015 represents costs incurred for miscellaneous components not yet placed in service and for various capital projects.

Functional allocation of expenses:

The costs of providing the Society's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Functional expenses are allocated based on an analysis by management of employee time spent within each functional area. Overhead costs are allocated pro-rata to total employees within each functional area.

Revenue recognition:

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted revenues, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues in the period promised. Promises to give are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year.

Program service fees and retail sales are recognized as revenues when services have been rendered.

Investment income:

Investment income includes realized gains and losses, interest, and dividends, which are reported net of investment fees reported within the changes in net assets of the accompanying statements of activities and is recognized in the period it is earned. Total investment management fees were \$63,297 and \$59,529 for the years ended September 30, 2016 and 2015, respectively.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. Description of Society and summary of significant accounting policies (continued):

Donated services:

A number of volunteers have donated time to the Society's program services and fundraising campaigns. However, these services are not reflected in the financial statements since the services did not require specialized skills.

Tax positions:

The Society is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes, and is not a private foundation under Section 509(a)(2). In addition, the Society qualifies for charitable contribution deduction under Section 170(b)(1)(a).

The Society is no longer subject to tax examinations for years before 2012 by taxing authorities in jurisdictions where the Society has filed returns. The Society did not identify any material unrecognized tax benefits upon evaluation of tax positions taken and therefore, there was no material effect on the Society's financial condition or results of operations.

The Society evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Society's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of September 30, 2016 and 2015, the Society had no accrued taxes, interest or penalties related to uncertain tax positions. The Society estimates the unrecognized tax benefit will not change significantly within the next twelve months.

New accounting pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the FASB Accounting Standards Codification (ASC). The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps, (1) identify the contract(s), (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, ASU 2015-14 was issued to defer the effective dates of the revenue standard for one additional year. For nonpublic companies, ASU No. 2014-09, *Revenue from Contracts with Customers* is effective for annual reporting periods beginning after December 15, 2018 and therefore, the Society will be required to adopt and implement this ASU for the year ending September 30, 2020. Management has not yet assessed the effect of this ASU on their financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. Description of Society and summary of significant accounting policies (continued):

New accounting pronouncements (continued):

In August 2016, FASB issued ASU No. 2016-14, Not-for-Profit Entities, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The objective of this ASU is to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entities' liquidity, financial performance and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017; therefore the Society will be required to adopt and implement this ASU for the year ending September 30, 2019.

Reclassifications:

Certain amounts reported in the 2015 financial statements have been reclassified to conform with the September 30, 2016 financial statement presentation. These reclassifications had no effect on total assets, total liabilities, or net assets.

Subsequent events:

The Society has evaluated subsequent events through January 12, 2017, the date the financial statements were available to be issued.

2. Promises to give:

Unconditional promises to give at September 30, 2016 and 2015 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 300,000	\$ 169,000
Receivable in one to five years	<u>387,500</u>	<u>97,500</u>
Total unconditional promises to give	687,500	266,500
Less present value adjustment	<u>8,050</u>	<u>450</u>
Net unconditional promises to give	<u>\$ 679,450</u>	<u>\$ 266,050</u>

3. Line of credit:

The Society has a line of credit with a bank, secured by unrestricted endowment investments which provides for maximum borrowing of \$1,000,000 through December 31, 2016. The credit agreement requires monthly payments of interest at prime (3.50% at September 30, 2016) or LIBOR (0.53% at September 30, 2016) plus 0.75%. There were no amounts outstanding on the line of credit at September 30, 2016. The balance of the line of credit at September 30, 2015 was \$50,000. The agreement includes covenants which require, among other considerations, annual audited financial statements. Subsequent to the balance sheet date, the line of credit was extended through December 31, 2017.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

4. Fair value:

Financial and nonfinancial assets and liabilities are required to be remeasured on an annual basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy based upon the inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

Level 2 – Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not sufficiently active to qualify as Level 1, other observable inputs, or inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Society’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Society’s investments and beneficial interest trusts accounted for at fair value as of September 30, 2016 are summarized below:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents:				
Money market funds	\$ 659,667	\$ 659,667		
Available-for-sale debt securities:				
Treasury securities	13,211,623	13,211,623		
Corporate bonds	<u>4,172,091</u>	<u>4,172,091</u>		
	17,383,714	17,383,714		
Available-for-sale equity securities:				
Basic industry	5,158,915	5,158,915		
Capital goods	6,565,892	6,565,892		
Consumer cyclical	8,910,854	8,910,854		
Consumer staples	4,689,923	4,689,923		
Energy and utilities	4,220,931	4,220,931		
Financial	7,503,877	7,503,877		
Technology	<u>9,848,838</u>	<u>9,848,838</u>		
	46,899,230	46,899,230		
Beneficial interest trusts	15,875,788		\$ 15,875,788	
Common collective trusts	556,234		556,234	
Common fund	<u>345,586</u>			<u>\$ 345,586</u>
	<u>16,777,608</u>		<u>16,432,022</u>	<u>345,586</u>
	<u>\$ 81,720,219</u>	<u>\$ 64,942,611</u>	<u>\$ 16,432,022</u>	<u>\$ 345,586</u>

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

4. Fair value (continued):

The Society's investments and beneficial interest trusts accounted for at fair value as of September 31, 2015 are summarized below:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Money market funds	\$ 22,178	\$ 22,178		
Available-for-sale debt securities:				
Treasury securities	14,484,058	14,484,058		
Corporate bonds	3,621,014	3,621,014		
	18,105,072	18,105,072		
Available-for-sale equity securities:				
Basic industry	3,914,212	3,914,212		
Capital goods	5,218,949	5,218,949		
Consumer cyclical	8,263,335	8,263,335		
Consumer staples	3,479,299	3,479,299		
Energy and utilities	4,784,036	4,784,036		
Financial	10,002,985	10,002,985		
Technology	7,828,423	7,828,423		
	43,491,239	43,491,239		
Beneficial interest trusts	15,487,493		\$ 15,487,493	
Common collective trusts	564,773		564,773	
Common fund	427,926			\$ 427,926
	16,480,192		16,052,266	427,926
	\$ 78,098,681	\$ 61,618,489	\$ 16,052,266	\$ 427,926

The following is a description of the valuation methodologies used for assets measured at fair value as of September 30, 2016 and 2015. There have been no changes in the methodologies used as of September 30, 2016 and 2015.

The money market funds, available-for-sale debt securities, available-for-sale equity securities, and common collective trusts are valued at the net asset value of shares held by the Society at year end.

The beneficial interest trusts are valued at the fair value of the assets contributed to the trust, which is estimated to approximate the present value of expected future distributions from the trusts.

Common fund is valued at the net asset value of units reported to investors through Common fund website, investor statements, and audited financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

4. Fair value (continued):

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

The table below sets forth a summary of changes in fair value of the Society's Level 3 assets for the year ended September 30, 2016:

	<u>Common Fund</u>
Fair value, beginning of year	\$ 427,926
Losses realized and unrealized	(13,140)
Distributions	<u>(69,200)</u>
Fair value, end of year	<u>\$ 345,586</u>

The table below sets forth a summary of changes in fair value of the Society's Level 3 assets for the year ended September 30, 2015:

	<u>Common Fund</u>
Fair value, beginning of year	\$ 539,354
Gains realized and unrealized	75,244
Distributions	<u>(186,672)</u>
Fair value, end of year	<u>\$ 427,926</u>

5. Endowments:

The Society's endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The management and Board of Trustees of the Society has interpreted the Unified Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Ohio, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

5. Endowments (continued):

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Society, and (7) the Society's investment policies.

Investment return objectives, risk parameters, and strategies:

The Society has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes cash, equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy:

The Society has a policy of appropriating for distribution each year 5% of its board designated and permanently restricted endowment fund's average fair value of the prior 36 months ending June 30th preceding the fiscal year in which the distribution is planned. In establishing this policy, the Society considered the long term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Society expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. As a result of its spending policy the Society transferred \$3,114,409 and \$2,896,274 for the years ended September 30, 2016 and 2015, respectively.

Endowment net asset composition by the type of fund as of September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$ 14,401,255	\$ 30,795,544	\$ 45,106,799
Board designated	\$ 36,440,072			36,440,072
	<u>\$ 36,440,072</u>	<u>\$ 14,401,255</u>	<u>\$ 30,795,544</u>	<u>\$ 81,546,871</u>

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

5. Endowments (continued):

Changes in endowment net assets for the year ended September 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 33,241,025	\$ 15,003,419	\$ 30,076,148	\$ 78,320,592
Investment return:				
Earnings beneficial trusts			1,475,784	1,475,784
Investment income	1,860,858	388,924		2,249,782
Net appreciation (realized and unrealized)	<u>3,059,378</u>	<u>402,132</u>	<u>388,295</u>	<u>3,849,805</u>
	38,161,261	15,794,475	31,940,227	85,895,963
Appropriation of beneficial trusts for expenditure			(1,475,784)	(1,475,784)
Appropriation of endowment assets for expenditure	(1,721,189)	(1,393,220)		(3,114,409)
Contributions	<u> </u>	<u> </u>	<u>331,101</u>	<u>241,101</u>
Endowment assets, end of year	<u>\$ 36,440,072</u>	<u>\$ 14,401,255</u>	<u>\$ 30,795,544</u>	<u>\$ 81,546,871</u>

Endowment net asset composition by the type of fund as of September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$ 15,003,419	\$ 30,076,148	\$ 45,079,567
Board designated	<u>\$ 33,241,025</u>	<u> </u>	<u> </u>	<u>33,241,025</u>
	<u>\$ 33,241,025</u>	<u>\$ 15,003,419</u>	<u>\$ 30,076,148</u>	<u>\$ 78,320,592</u>

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

5. Endowments (continued):

Changes in endowment net assets for the year ended September 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 34,894,788	\$ 16,342,061	\$ 31,006,721	\$ 82,243,570
Investment return:				
Earnings beneficial trusts			1,437,848	1,437,848
Investment income	1,149,118	930,156		2,079,274
Net depreciation (realized and unrealized)	<u>(1,202,245)</u>	<u>(973,160)</u>	<u>(1,024,370)</u>	<u>(3,199,775)</u>
	(53,127)	(43,004)	413,478	317,347
Appropriation of beneficial trusts for expenditure			(1,437,848)	(1,437,848)
Appropriation of endowment assets for expenditure	(1,600,636)	(1,295,638)		(2,896,274)
Contributions	<u> </u>	<u> </u>	<u>93,797</u>	<u>93,797</u>
Endowment assets, end of year	<u>\$ 33,241,025</u>	<u>\$ 15,003,419</u>	<u>\$ 30,076,148</u>	<u>\$ 78,320,592</u>

6. Split interest agreements:

Charitable gift annuities and charitable remainder trusts:

The Society is the beneficiary of several charitable gift annuities and a charitable remainder trust that are managed by third-party trustees. The assets held in trust are recorded at fair value at the date of initial recognition. At September 30, 2016 and 2015, total assets of \$556,234 and \$564,773 were held by the Society, which are included in investments on the statements of financial position.

Under the terms of the trust agreements, designated beneficiaries are to receive regular payments from the trust assets for the beneficiaries remaining life. Upon death of the beneficiaries, the assets are to be retained for the Society's use. At September 30, 2016 and 2015, liabilities of \$263,705 and \$290,147 were recognized as obligations under annuity agreements. The liabilities represent the present value of the expected beneficiary payments calculated based on the estimated life of the beneficiary and a discount rate. The discount rates used to calculate the present value range from 2.7% to 9.8%.

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

6. Split interest agreements (continued):

Beneficial interest trusts:

The Society is the beneficiary of a number of perpetual trusts held by banks from which trust income is received annually for the Society's use. The assets are held by third-party trustees. Under the terms of the trusts, the Society has the irrevocable right to receive a certain percentage of the income earned on the trust assets in perpetuity. As of September 30, 2016 and 2015, assets of \$15,875,788 and \$15,487,493 were held in trust funds, and are permanently restricted net assets. The assets are recorded at fair value, which is estimated to approximate the present value of expected future distributions from the trusts. The change in value of the perpetual trusts is recognized as revenue in the statement of activities and changes in net assets.

7. Defined contribution retirement plans:

The Society sponsors a defined contribution retirement plan under Internal Revenue Code 401(k) that covers essentially all employees. For the years ended September 30, 2016 and 2015, employers matching and nonelective contributions to the plan and corresponding expenses amounted to \$161,681 and \$54,420, respectively.

The Society sponsors a 403(b) retirement plan, which was frozen in 1997. Since the plan was frozen, no contributions were made since then.

8. Contingencies:

Grants, bequests, and endowments require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Management believes the Society has fulfilled the conditions set forth within all grant instruments.

9. Net assets classifications:

Temporarily restricted net assets have donor restrictions, and are available for the following uses at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Restricted according to split-interest agreements	\$ 294,564	\$ 274,626
Time restricted	49,550	69,550
For use within the Society's various program services and Vision 21	972,587	490,068
Endowment	<u>14,401,255</u>	<u>15,003,419</u>
	<u>\$ 15,717,956</u>	<u>\$ 15,837,663</u>

THE CLEVELAND SOCIETY FOR THE BLIND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

9. Net assets classifications (continued):

Permanently restricted net assets are restricted by donor stipulations that the assets be invested to provide a permanent source of income for the Society's various program services and general operations. Permanently restricted net assets totaled \$30,795,544 and \$30,076,148 for the years ended September 30, 2016 and 2015, respectively.

10. Supplemental cash flow disclosures:

Cash paid for interest:

There was no interest paid during the year ended September 30, 2016. The Society paid interest charges of \$3,255 during the year ended September 30, 2015.