

The Cleveland Film Society

**Financial Statements
September 30, 2017**

Independent Auditor's Report

Board of Directors
The Cleveland Film Society

We have audited the accompanying financial statements of The Cleveland Film Society (the "Society"), which comprise of the statement of financial position as of September 30, 2017, 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 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.

Board of Directors
The Cleveland Film Society

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of September 30, 2017, and the 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.

Report on Summarized Comparative Information

We have previously audited the Society's 2016 financial statements, and our report dated March 22, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ciuni + Panichi, Inc.

Cleveland, Ohio
March 27, 2018

The Cleveland Film Society

Statement of Financial Position

September 30, 2017 (with comparative totals for 2016)

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 393,034	\$ 455,734
Accounts receivable	16,087	16,086
Promises to give:		
Unrestricted	110,151	72,817
Temporarily restricted	-	40,000
Inventory	11,308	5,791
Investments	601,535	370,570
Prepaid expenses	21,784	10,741
Total current assets	<u>1,153,899</u>	<u>971,739</u>
Property and equipment, net	354,864	410,876
Endowment:		
Restricted investments	<u>488,601</u>	<u>460,000</u>
	<u>843,465</u>	<u>870,876</u>
	\$ <u>1,997,364</u>	\$ <u>1,842,615</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Current portion of long-term debt	\$ 103,579	\$ 101,573
Accounts payable and accrued expenses	108,110	26,874
Deferred revenue	60,959	63,045
Total current liabilities	<u>272,648</u>	<u>191,492</u>
Long-term debt, net of current portion	<u>26,135</u>	<u>129,608</u>
Total liabilities	<u>298,783</u>	<u>321,100</u>
Net assets:		
Unrestricted:		
Undesignated	220,480	160,515
Board-designated	<u>989,500</u>	<u>851,000</u>
Total unrestricted	1,209,980	1,011,515
Temporarily restricted	28,601	50,000
Permanently restricted	<u>460,000</u>	<u>460,000</u>
Total net assets	<u>1,698,581</u>	<u>1,521,515</u>
	\$ <u>1,997,364</u>	\$ <u>1,842,615</u>

The accompanying notes are an integral part of these financial statements

The Cleveland Film Society

Statement of Activities

For the year ended September 30, 2017 (with comparative totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public support and revenues:					
Contributions and grants (includes \$986,133 and \$1,366,433 of in-kind contributions in 2017 and 2016, respectively)	\$ 2,934,800	\$ -	\$ -	\$ 2,934,800	\$ 3,418,714
Memberships	456,629	-	-	456,629	418,805
Ticket sales	719,738	-	-	719,738	723,084
Merchandise sales	50,145	-	-	50,145	46,241
Net investment income	73,044	28,601	-	101,645	46,161
Fees	150,008	-	-	150,008	125,459
Rental income	64,340	-	-	64,340	63,392
Net assets released from restrictions	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenues	4,498,704	(21,399)	-	4,477,305	4,841,856
Expenses:					
Program services (includes \$980,593 and \$1,339,790 of in-kind contributions in 2017 and 2016, respectively)	3,752,652	-	-	3,752,652	4,069,706
Supporting services:					
Fundraising	300,358	-	-	300,358	300,544
Management and general (includes \$5,540 and \$23,320 of in-kind contributions in 2017 and 2016, respectively)	<u>247,229</u>	<u>-</u>	<u>-</u>	<u>247,229</u>	<u>261,892</u>
Total supporting services	<u>547,587</u>	<u>-</u>	<u>-</u>	<u>547,587</u>	<u>562,436</u>
Total expenses	<u>4,300,239</u>	<u>-</u>	<u>-</u>	<u>4,300,239</u>	<u>4,632,142</u>
Change in net assets	198,465	(21,399)	-	177,066	209,714
Net assets – beginning of year	<u>1,011,515</u>	<u>50,000</u>	<u>460,000</u>	<u>1,521,515</u>	<u>1,311,801</u>
Net assets – end of year	\$ <u>1,209,980</u>	\$ <u>28,601</u>	\$ <u>460,000</u>	\$ <u>1,698,581</u>	\$ <u>1,521,515</u>

The accompanying notes are an integral part of these financial statements

The Cleveland Film Society

Statement of Functional Expenses

For the year ended September 30, 2017 (with comparative totals for 2016)

	Program Services	Supporting Services		2017 Total Expenses	2016 Total Expenses
		Fundraising	Management and General		
Personnel	\$ 503,369	\$ 233,389	\$ 115,014	\$ 851,772	\$ 831,344
Professional services (includes \$5,540 and \$28,637 of in-kind contributions in 2017 and 2016, respectively)	6,487	-	74,212	80,699	146,175
Temporary services	444,192	-	-	444,192	433,825
Occupancy	44,205	20,496	10,100	74,801	74,777
Communications	9,330	4,326	2,132	15,788	11,628
Office expense	56,028	25,978	12,802	94,808	112,769
Insurance	7,381	3,422	1,687	12,490	15,733
Postage/delivery	42,379	2,354	2,354	47,087	50,269
Printing (includes \$18,993 and \$15,779 of in-kind contributions in 2017 and 2016, respectively)	161,534	-	-	161,534	155,221
Meetings	14,649	6,792	3,348	24,789	23,351
Staff development	4,393	2,037	1,003	7,433	800
Travel (includes \$40,165 and \$52,718 of in-kind contributions in 2017 and 2016, respectively)	257,992	-	-	257,992	247,817
Charges and fees	28,144	1,564	1,563	31,271	27,204
Marketing and publicity (includes \$528,891 and \$670,419 of in-kind contributions in 2017 and 2016, respectively)	780,931	-	-	780,931	946,128
Event production (includes \$392,544 and \$595,557 of in-kind contributions in 2017 and 2016, respectively)	1,391,638	-	-	1,391,638	1,546,731
Bad debt expense	-	-	19,148	19,148	2,500
Interest expense	-	-	3,866	3,866	5,870
	<u>\$ 3,752,652</u>	<u>\$ 300,358</u>	<u>\$ 247,229</u>	<u>\$ 4,300,239</u>	<u>\$ 4,632,142</u>
Percentage of total expenses	<u>87.27%</u>	<u>6.98%</u>	<u>5.75%</u>	<u>100.00%</u>	

The accompanying notes are an integral part of these financial statements

The Cleveland Film Society

Statement of Cash Flows

For the year ended September 30, 2017 (with comparative totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 177,066	\$ 209,714
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Donated property and equipment	-	(3,323)
Contributions restricted for endowment	-	(35,000)
Bad debt	19,148	2,500
Depreciation	95,503	127,947
Net realized and unrealized gain on investments	(112,496)	(56,525)
(Increase) decrease in operating assets:		
Accounts receivable	(1)	(1,287)
Promises to give	(16,482)	(9,322)
Inventory	(5,517)	13,466
Prepaid expenses	(11,043)	37,517
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	81,236	(10,018)
Deferred revenue	(2,086)	(1,237)
Net cash provided by operating activities	225,328	274,432
Cash flows from investing activities:		
Purchases of investments	(157,921)	(44,705)
Proceeds from sales of investments	10,851	10,366
Purchases of property and equipment	(39,491)	(117,563)
Net cash used by investing activities	(186,561)	(151,902)
Cash flows from financing activities:		
Principal payments on long-term debt	(101,467)	(99,463)
Collections of contributions restricted for endowment	-	35,000
Net cash used by financing activities	(101,467)	(64,463)
Net (decrease) increase in cash and cash equivalents	(62,700)	58,067
Cash and cash equivalents, beginning of year	455,734	397,667
Cash and cash equivalents, end of year	\$ 393,034	\$ 455,734
 Supplemental cash flow information:		
Cash paid during the year for interest	\$ 3,866	\$ 5,870

The accompanying notes are an integral part of these financial statements

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies

Nature of Activities

The Cleveland Film Society (the “Society”) is a nonprofit organization, organized to promote artistically and culturally significant film arts through education and exhibition to enrich the life of the Cleveland, Ohio, community. The Society’s mission is primarily achieved through the Cleveland International Film Festival (the “Festival”). The Society has negotiated to hold the Festival principally at a downtown Cleveland cinema. The ability to negotiate such contracts is critical to enable the Society to conduct its main program activity. During fiscal 2017, the Society entered into a one-year agreement with a downtown Cleveland cinema to host the 42nd Festival.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, and 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 that are not subject to donor-imposed restrictions. This includes net assets that are board-designated.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions 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. If donor-imposed restrictions are met in the same year as they are imposed, the related contributions, grants, and/or investment income are reported as unrestricted revenue.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that they be maintained by the Society in perpetuity. Permanently restricted net assets include endowment funds received by the Society for which only the income can be expended. Income received from permanently restricted net assets is available for the designated purpose as specified by the donor.

The Society follows authoritative guidance issued by the Financial Accounting Standards Board (FASB) which established the FASB Accounting Standards Codification (ASC) as the single source of authoritative accounting principles generally accepted in the United States of America.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society’s financial statements for the year ended September 30, 2016, from which the summarized information was derived.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between programs and supporting services.

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 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.

Cash Equivalents

The Society considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, excluding those restricted for endowment.

Receivables and Credit Policies

Accounts receivable include amounts due for lease payments to the Society for the renting of their digital projection equipment as well as maintenance payments on the same equipment.

Management reviews the balance in accounts receivable and estimates the portion, if any, of the balance that will not be collected. At September 30, 2017, management estimated that no allowance for doubtful accounts was required.

Contributions and Pledges Receivable

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

Unconditional pledges receivable are recognized as revenues in the period the promise is received. Conditional pledges receivable are recognized when the conditions upon which they depend are substantially met. The pledges are stated at their fair market value. Pledges that are to be received over a period of years are discounted to their fair value assuming their respective payment terms and an appropriate discount rate as of the date the pledge is received. The discount is amortized into contribution revenue over the term of the respective pledge agreement.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable (continued)

Management periodically reviews the status of outstanding promises to give and estimates the amount, if any, that may not be collected. A reserve is established, if necessary, and individual amounts deemed uncollectible are written-off against that reserve. At September 30, 2017, management estimated that no allowance for doubtful accounts was required. All promises to give at September 30, 2017 were scheduled to be collected within one year.

Investments

The Investments Topic of the ASC requires that covered investments be reported in the statement of financial position at fair value with any realized and unrealized gains and losses reported in the statement of activities. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law restricts their use.

The Society invests in a professionally managed portfolio through the Cleveland Foundation. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in net investment income in the statement of activities.

Inventory

Inventory is stated at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventory is made up of Festival branded apparel and merchandise, including T-shirts, sweatshirts, hats, bags, magnets, and buttons.

Property and Equipment

Property and equipment are depreciated utilizing the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements are amortized utilizing the straight-line method over the remaining term of the lease. Digital projection equipment is being depreciated over three years. The Society capitalizes purchases of property and equipment greater than \$1,000. Purchased property and equipment are stated at cost.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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 for 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 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 placed in service as instructed by the donor. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

In-Kind Contributions

In-kind contributions are reflected as revenues at their estimated fair value at the date of donation. The Society reports gifts of equipment, professional services, materials, and other non-monetary contributions as unrestricted revenue and expense in the accompanying statement of activities unless accompanied by explicit donor-imposed restrictions, in which case, the contributions would be recorded as either temporarily or permanently restricted revenues in accordance with the donor restrictions.

Contributed Services

The Society recognizes contributions of services received when those services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation.

Income Taxes

The Society is tax-exempt, under Section 501(c)(3) of the Internal Revenue Code of 1986. No provision for federal income taxes has been reported in the accompanying financial statements.

The Society accounts for income taxes in accordance with the "Income Taxes" topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Society classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of September 30, 2017, the Society has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

The Society files its Federal Form 990 in the U.S. federal jurisdiction and an on-line charitable registration in the office of the state's attorney general for the State of Ohio.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments which potentially subject the Society to concentrations of credit risk consist of cash, investments, and pledges receivable.

Credit risk with respect to pledges receivable is limited due to the number and credit worthiness of the foundations, corporations, and individuals who comprise the contributor base.

The Society has significant investment balances and is therefore subject to concentrations of credit risk. Investments are managed by a community foundation whose performance is periodically reviewed by the Society's Finance Committee. Though the market value of investments is subject to fluctuations, the Finance Committee believes that the investment policy of the community foundation is prudent for the long-term welfare of the Society.

At various times during the year ended September 30, 2017, the Society's cash in bank balances may have exceeded the federally insured limits.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred.

Advertising expense amounted to \$780,931 for the year ended September 30, 2017, \$518,249 of which was provided through in-kind contributions.

Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities and Health Care Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the current reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled "net assets without donor restriction" and "net assets with donor restrictions," (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to summarize the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (f) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of this ASU on the financial statements.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Society until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The objective of this ASU is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption of this ASU is permitted. Management is currently evaluating the impact of this ASU on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the presentation of restricted cash as included in the cash balances in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of this ASU is permitted. Management is currently evaluating the impact of this ASU on the financial statements.

Subsequent Events

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through March 27, 2018, the date the financial statements were available to be issued.

Note 2: Promises to Give

As of, and for the year ended, September 30, 2017, \$6,950 of unconditional promises to give receivable and \$565,365 of contributions and grants revenue were from related parties, including members of the Board of Directors and their respective companies. On November 14, 2016, the Cuyahoga Arts and Culture, a regional arts and cultural district and a political subdivision of the State of Ohio, approved the Society to receive \$164,506 for 2017 operations. All of the revenue was recognized during 2017, and as of September 30, 2017, all but \$16,451 had been paid against the pledge. On November 13, 2017, the Cuyahoga Arts and Culture approved the Society to receive \$151,303 for 2018 operations.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 3: Property and Equipment

At September 30, 2017, property and equipment consisted of:

Furniture and fixtures	\$ 36,683
Computers and equipment	145,921
Website development	234,550
Digital production equipment	513,650
Leasehold improvements	<u>15,849</u>
Total property and equipment, at cost	946,653
Less: accumulated depreciation	<u>(591,789)</u>
Total property and equipment, net	\$ <u>354,864</u>

Note 4: Obligations Under Leases

Rental expense related to operating leases for facilities and office equipment (telephone, postage machine, and copier) was \$65,458 for the year ended September 30, 2017.

On March 6, 2018, the Society extended the term of its facilities lease agreement for the period September 1, 2019 through August 31, 2024. The lease agreement provides for a Consumer Price Index adjustment each September 1st, capped at 3.5%. The minimum future lease payments schedule below includes the effects of this extension.

Minimum future operating lease payments for all non-cancelable leases with a term greater than one year are as follows for the years ending September 30:

2018	\$ 44,400
2019	44,678
2020	49,870
2021	49,870
2022	49,870
Thereafter	<u>95,584</u>
Total future minimum lease payments	\$ <u>334,272</u>

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 5: Loan Payable

On December 19, 2013, the Society entered into a fixed-interest rate loan for \$500,000 with The George Gund Foundation to purchase digital projection equipment. Interest accrues on the loan at 2%. Principal and interest payments of \$26,351 are due quarterly beginning March 31, 2014 through December 31, 2018. The loan may be prepaid without penalty. The loan is secured by the digital projection equipment. The digital projection equipment purchased will be leased to a downtown Cleveland cinema.

Required principal payments based on the fixed-interest rate loan agreement for the years ending September 30 are as follows:

2018	\$ 103,579
2019	<u>26,135</u>
	\$ <u>129,714</u>

The Society will receive \$50,000 per year in proceeds from the lease for fiscal year 2018 and \$25,000 in fiscal year 2019. At September 30, 2017, the total cost of the digital projection equipment is \$513,650 and the carrying amount is \$255,256.

Note 6: Line of Credit

The Society has a \$100,000 line of credit with a bank. The line of credit is unsecured, bears interest at the bank's prime rate plus 1% (5.25% at September 30, 2017), and is due on demand subject to periodic reviews with the next review scheduled during or before May 2018. The agreement requires that the Society maintains an operating account with the bank. At September 30, 2017, no amounts were outstanding on the line and no amounts were drawn during the year then ended.

Note 7: Investments and Fair Value Measurements

During the year ended September 30, 2017, the Society had the following investment-related activities:

Net realized and unrealized gain on investments	\$ 112,496
Investment management fees	<u>(10,851)</u>
Total investment income, net	\$ <u>101,645</u>

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 7: Investments and Fair Value Measurements (continued)

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the Society uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information which has been internally developed.

Financial assets measured at fair value on a recurring basis at September 30, 2017 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 2017</u>
Investments held at the Cleveland Foundation	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,090,136</u>	\$ <u>1,090,136</u>
	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,090,136</u>	\$ <u>1,090,136</u>

Investments held at the Cleveland Foundation are valued based upon the Society’s proportionate share of the underlying assets within the fund managed by the Cleveland Foundation.

The table below sets forth a summary of the changes in the fair value of the Society’s Level 3 financial assets for the years ended September 30, 2017:

	<u>Investments held at the Cleveland Foundation</u>
Balance, September 30, 2016	\$ 830,570
Purchases	157,921
Administrative fees	(10,851)
Distributions	-
Net realized and unrealized gain on investments	<u>112,496</u>
Balance, September 30, 2017	\$ <u>1,090,136</u>

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 8: Net Asset Classification of Endowment Funds

The Society's endowment fund consists of one fund with the Cleveland Foundation established to fund three annual awards. These awards are to include appropriate commemoration of the donors and their lives. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Society holds the endowment funds at the Cleveland Foundation and seeks to preserve the corpus of the gifts while providing sufficient income to meet the terms of the endowments.

The Board of Directors of the Society has interpreted the State Prudent Management of Institutional Fund Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund 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, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in the accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, 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 fund.
- 2) The purpose of the Society and the donor-restricted endowment funds.
- 3) General economic conditions.
- 4) The investment policies of the Society.

The Society's endowments were established to fund three annual awards that are presented at the Cleveland International Film Festival. The investment income earned on the endowments each year is utilized to fund the awards.

During the year ended September 30, 2017, the Society had the following endowment-related activities:

	Donor-Restricted Endowment Funds
Net realized and unrealized gain on investments	\$ 52,351
Amounts appropriated from endowment	(18,700)
Investment management fees	<u>(5,050)</u>
Total change in endowment funds	\$ <u>28,601</u>

The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 8: Net Asset Classification of Endowment Funds (continued)

Endowment Net Asset Composition
by type of fund as of September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ <u> -</u>	\$ <u> 28,601</u>	\$ <u> 460,000</u>	\$ <u> 488,601</u>

Changes in Endowment Net Assets
for the fiscal year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 460,000	\$ 460,000
Contributions	-	-	-	-
Net realized and unrealized gain on investments	-	52,351	-	52,351
Investment management fees	-	(5,050)	-	(5,050)
Appropriations from endowment	<u> -</u>	<u> (18,700)</u>	<u> -</u>	<u> (18,700)</u>
Endowment net assets, end of year	\$ <u> -</u>	\$ <u> 28,601</u>	\$ <u> 460,000</u>	\$ <u> 488,601</u>

Appropriations from endowments were used for the following purposes during the year ended September 30, 2017:

Greg Gund Memorial Standing Up Competition Endowment	\$ 7,500
George Gund III Memorial Central and Eastern European Competition Endowment	10,200
David Ream Best Comedy Short Award Endowment	<u> 1,000</u>
	\$ <u> 18,700</u>

Note 9: Net Assets

During the year ended September 30, 2017, the Society's net assets released from restrictions were utilized for the following purposes:

41 st Festival Guest Filmmakers Program	\$ <u> 50,000</u>
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The Cleveland Film Society

Notes to Financial Statements

September 30, 2017

Note 9: Net Assets (continued)

Permanently restricted net assets at September 30, 2017 were comprised of the following:

Greg Gund Memorial Standing Up Competition Endowment	\$ 175,000
George Gund III Memorial Central and Eastern European Competition Endowment	250,000
David Ream Best Comedy Short Award Endowment	<u>35,000</u>
	<u>\$ 460,000</u>

Temporarily restricted net assets at September 30, 2017 consisted of accumulated earnings on the permanently restricted endowments.

Board-designated net assets of \$989,500 constitute a working capital reserve fund. The fund was initially funded through a challenge grant from a community foundation. The community foundation agreed to provide \$150,000 in matching funds if the Society was able to raise \$150,000 in contributions to be designated, by the Society's Board, as a working capital reserve fund. As this working capital reserve fund does not contain donor restrictions on use or to any particular future periods, or into perpetuity, the fund has been classified as board-designated within unrestricted net assets. During the fiscal year ended September 30, 2017, the board designated an additional \$138,500 to the working capital reserve fund.

Note 10: Retirement Plan

Full-time employees with greater than one year of employment with the Society are eligible to participate in a 403(b) tax-deferred retirement plan. The Society matches 100% of employee contributions up to 6% of the employee's gross wages. For the year ended September 30, 2017, the Society incurred \$36,091 in matching expense.