The Cleveland Society for the Blind

YEARS ENDED DECEMBER 31, 2019 AND 2018

HW&Co.® CPAs & Advisors

THE CLEVELAND SOCIETY FOR THE BLIND

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 December 31, 2019 and 2018, and changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective January 1, 2019 The Cleveland Society for the Blind adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, ASC Topic 825, *Financial Instruments* and ASC Topic 958, *Not-for-Profit Entities*, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

HW & Co.

Cleveland, Ohio
March 30, 2020

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Assets:		
Cash and cash equivalents	$ 1,507,761	$ 1,803,423
Receivables, net	753,000	428,784
Promises to give, net	673,367	310,762
Inventories	86,943	79,123
Prepaid expenses	61,774	75,922
Investment in CSC Real Estate, LLC	78,166	78,166
Investments	79,188,370	68,308,361
Beneficial interest trusts	17,622,229	15,452,296
	99,971,610	86,536,837
Property and equipment:		
Land and land improvements	2,028,011	2,018,276
Buildings and improvements	13,752,799	13,706,044
Equipment, furniture, and fixtures	2,357,939	2,248,958
Construction-in-progress	37,519	5,181
	18,176,268	17,978,459
Less accumulated depreciation	7,790,785	7,302,934
	10,385,483	10,675,525
	$ 110,357,093	**$ 97,212,362**

LIABILITIES AND NET ASSETS

	2019	2018
Liabilities:		
Accounts payable	$ 299,752	$ 157,759
Accrued expenses	458,441	471,770
Obligations under annuity agreements	179,420	201,261
Deferred revenue	11,483	12,351
Total liabilities	949,096	843,141
Net assets:		
Without donor restrictions	56,423,321	50,247,588
With donor restrictions	52,984,676	46,121,633
Total net assets	109,407,997	96,369,221
	$ 110,357,093	**$ 97,212,362**

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2019

	Net assets without donor restrictions			Net assets with donor restrictions	
	General Fund	Board Designated	Total		Total
Public support and revenue					
Public support:					
Contributions and grants	$ 848,092	$ 785,689	$ 1,633,781	$ 639,023	$ 2,272,804
Fundraising, net	147,885		147,885	1,300	149,185
Restricted funds released for current program activities	261,362		261,362	(261,362)	
Total public support	1,257,339	785,689	2,043,028	378,961	2,421,989
Revenue:					
Retail sales, net	73,623		73,623		73,623
Program service fees	4,055,196		4,055,196		4,055,196
Other revenue	59,193		59,193		59,193
Total revenue	4,188,012		4,188,012		4,188,012
Investment income:					
Investment income, net	20,756	1,350,162	1,370,918	866,062	2,236,980
Investment income released per spending policy	3,426,049	(1,893,418)	1,532,631	(1,532,631)	
Earnings from beneficial trusts				1,531,295	1,531,295
Earnings from beneficial trusts released from restriction	1,531,295		1,531,295	(1,531,295)	
Total investment income	4,978,100	(543,256)	4,434,844	(666,569)	3,768,275
Total public support, revenue and investment income	10,423,451	242,433	10,665,884	(287,608)	10,378,276
Expenses:					
Program services	8,623,267		8,623,267		8,623,267
Management and general	1,149,331		1,149,331		1,149,331
Fundraising	599,226		599,226		599,226
Total expenses	10,371,824		10,371,824		10,371,824
Net unrealized gain on equity securities		6,105,562	6,105,562	4,676,619	10,782,181
Changes in net assets before other changes to net assets	51,627	6,347,995	6,399,622	4,389,011	10,788,633
Other changes to net assets:					
Net unrealized gain on debt securities		165,612	165,612	347,106	512,718
Change in value of annuity agreements				(43,007)	(43,007)
Change in value of beneficial trusts				2,169,933	2,169,933
Depreciation expense	(397,851)		(397,851)		(397,851)
Gain on disposal of assets	8,350		8,350		8,350
Changes in net assets	(337,874)	6,513,607	6,175,733	6,863,043	13,038,776
Net assets, beginning of year	4,827,388	45,420,200	50,247,588	46,121,633	96,369,221
Net assets, end of year	**$ 4,489,514**	**$ 51,933,807**	**$ 56,423,321**	**$ 52,984,676**	**$ 109,407,997**

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2018

	Net assets without donor restrictions			Net assets	
	General Fund	Board Designated	Total	with donor restrictions	Total
Public support and revenue					
Public support:					
Contributions and grants	$ 940,909	$ 907,001	$ 1,847,910	$ 368,513	$ 2,216,423
Fundraising, net	325,053		325,053	2,355	327,408
Restricted funds released for current program activities	479,910		479,910	(479,910)	
Total public support	1,745,872	907,001	2,652,873	(109,042)	2,543,831
Revenue:					
Retail sales, net	77,841		77,841		77,841
Program service fees	5,239,424		5,239,424		5,239,424
Other revenue	63,321		63,321		63,321
Total revenue	5,380,586		5,380,586		5,380,586
Investment income (loss):					
Investment income (loss), net	(3,641)	1,124,417	1,120,776	910,162	2,030,938
Investment income released per spending policy	2,908,551	(1,607,421)	1,301,130	(1,301,130)	
Earnings from beneficial trusts				1,513,181	1,513,181
Earnings from beneficial trusts released from restriction	1,513,181		1,513,181	(1,513,181)	
Total investment income (loss)	4,418,091	(483,004)	3,935,087	(390,968)	3,544,119
Total public support, revenue and investment income (loss)	11,544,549	423,997	11,968,546	(500,010)	11,468,536
Expenses:					
Program services	8,906,743		8,906,743		8,906,743
Management and general	1,259,413		1,259,413		1,259,413
Fundraising	598,558		598,558		598,558
Total expenses	10,764,714		10,764,714		10,764,714
Net unrealized loss on equity securities		(3,266,019)	(3,266,019)	(2,556,955)	(5,822,974)
Changes in net assets before other changes to net assets	779,835	(2,842,022)	(2,062,187)	(3,056,965)	(5,119,152)
Other changes to net assets:					
Net unrealized loss on debt securities		(61,339)	(61,339)	(126,845)	(188,184)
Change in value of annuity agreements				(61,094)	(61,094)
Change in value of beneficial trusts				(2,133,012)	(2,133,012)
Depreciation expense	(443,801)		(443,801)		(443,801)
Loss on disposal of assets	(20,457)		(20,457)		(20,457)
Changes in net assets	315,577	(2,903,361)	(2,587,784)	(5,377,916)	(7,965,700)
Net assets, beginning of year	4,511,811	48,323,561	52,835,372	51,499,549	104,334,921
Net assets, end of year	**$ 4,827,388**	**$ 45,420,200**	**$ 50,247,588**	**$ 46,121,633**	**$ 96,369,221**

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	$ 6,162,435	$ 987,183	$ 497,032	$ 7,646,650
Professional and contracted fees	1,551,022	102,199	64,411	1,717,632
Supplies and related	165,063	10,876	6,855	182,794
Occupancy	478,882	31,554	19,887	530,323
Program transportation	19,358	1,276	804	21,438
Staff travel	59,974	3,952	2,491	66,417
Other	105,263	6,936	4,371	116,570
Funded depreciation	81,270	5,355	3,375	90,000
Total expenses before other expenses	8,623,267	1,149,331	599,226	10,371,824
General fund depreciation	359,260	23,672	14,919	397,851
Total expenses reported by function	**$ 8,982,527**	**$ 1,173,003**	**$ 614,145**	**$ 10,769,675**

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	$ 6,285,458	$ 1,081,386	$ 526,485	$ 7,893,329
Professional and contracted fees	1,692,782	114,966	46,543	1,854,291
Supplies and related	159,104	10,806	4,375	174,285
Occupancy	482,681	32,782	13,271	528,734
Program transportation	25,267	1,716	695	27,678
Staff travel	60,000	4,075	1,650	65,725
Other	119,290	8,102	3,280	130,672
Funded depreciation	82,161	5,580	2,259	90,000
Total expenses before other expenses	8,906,743	1,259,413	598,558	10,764,714
General fund depreciation	405,146	27,516	11,139	443,801
Total expenses reported by function	**$ 9,311,889**	**$ 1,286,929**	**$ 609,697**	**$ 11,208,515**

See notes to financial statements.

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Changes in net assets	$ 13,038,776	$ (7,965,700)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	487,851	533,801
(Gain) loss on sale of assets	(8,350)	20,457
Investment in CSC Real Estate, LLC		(78,166)
Realized and unrealized (gains) and losses on investments, net	(15,063,174)	2,467,039
Change in value of beneficial trusts	(2,169,933)	2,133,012
Contributions of endowment support	(43,007)	(61,094)
Decrease (increase) in assets:		
Receivables	(324,216)	471,631
Promises to give, net	(362,605)	352,313
Inventories	(7,820)	341
Prepaid expenses	14,148	(2,406)
Increase (decrease) in liabilities:		
Accounts payable	141,993	(74,620)
Accrued expenses	(13,329)	44,828
Deferred revenue	(868)	(440,950)
Net cash used in operating activities	(4,310,534)	(2,599,514)
Cash flows from investing activities:		
Proceeds from the sale of investments	7,179,275	6,967,794
Purchase of investments	(2,996,110)	(3,484,410)
Proceeds from sale of assets	8,350	
Purchase of property and equipment	(197,809)	(378,385)
Net cash provided by investing activities	3,993,706	3,104,999
Cash flows from financing activities:		
Payments on annuity obligations	(21,841)	(20,893)
Contributions of endowment support	43,007	61,094
Net cash provided by financing activities	21,166	40,201
Net (decrease) increase in cash and cash equivalents	(295,662)	545,686
Cash and cash equivalents, beginning of period	1,803,423	1,257,737
Cash and cash equivalents, end of period	**$ 1,507,761**	**$ 1,803,423**

See notes to financial statements.

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.

Recently adopted accounting pronouncements:

Revenue from contracts with customers:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, including all related amendments (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. The Society adopted the provisions of this ASU as of January 1, 2019, and used the modified retrospective transition method; therefore, there was no cumulative effect on the opening net assets balance as a result of adopting Topic 606 as of January 1, 2019. Results for the year ended December 31, 2019 are presented under Topic 606. There were no material changes to the recording of the revenue by the Society with the implementation of this ASU.

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

Recently adopted accounting pronouncements (continued):

Financial instruments:

In January 2016, FASB issued ASU 2016-01, *Financial Instruments* (Subtopic 825-10). This new standard requires that the Society include unrealized gains and losses resulting from changes in the fair value of investments in equity securities within the performance indicator on the statement of activities and changes in net assets. The Society adopted the provisions of this ASU effective for the year ended December 31, 2019. Adoption of this ASU did not have an impact on the Society's financial position or its changes in net assets.

Clarifying the scope and accounting guidance for contributions received and contributions made:

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The objective of this ASU will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The Society adopted the provisions of this ASU for contributions received on a modified prospective basis on January 1, 2019, which means it is applied to existing contributions received or entered into after January 1, 2019.

Basis of presentation:

Financial statement presentation follows the recommendations of the FASB 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 two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions – Net assets are not subject to donor-imposed restrictions.

Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees. Such net assets are recorded as board designated.

Net assets with donor restrictions – Net assets are subject to donor-imposed restrictions or to a specific time period or purpose. Net assets with donor restrictions includes contributions the donor stipulates must be held in perpetuity and some contributions that 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 net assets with donor restrictions.

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.

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.

Liquidity and availability:

The Society's financial assets available within one year of the balance sheets as of December 31, 2019 and 2018 for general expenditures are as follows:

	2019	2018
Cash and cash equivalents	$ 1,507,761	$ 1,803,423
Accounts receivable, net	753,000	428,784
Current portion of promises to give	318,027	147,624
Investments estimated to be appropriated for current year	3,957,000	3,426,000
	$ 6,535,788	$ 5,805,831

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Society invests cash in excess of daily requirements in short-term investments. Additionally, the Society's endowment funds consist of donor-restricted endowments, whose income is not restricted for specific purposes and, therefore is available for general expenditure. Based on the Society's investment and spending policy, $3,957,000 and $3,426,000 of earnings on endowment funds are available for use at December 31, 2019 and 2018, respectively, and can be released from restriction upon need for expenditure and a board resolution. Earnings on endowment funds are included in investments. The Society also has a demand line of credit in the amount of $1,000,000, which it could draw upon to help manage unanticipated liquidity needs as they arise.

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 $7,798 and $5,758 on balances outstanding at December 31, 2019 and 2018, respectively.

Bad debt expense was $2,312 during 2019 and $15,296 during 2018.

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

Receivables (continued):

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

	2019	2018
Private pay receivables, net	$ 14,881	$ 6,582
Governmental receivables	683,310	316,229
Interest receivable	48,587	53,949
Other	6,222	52,024
	$ 753,000	$ 428,784

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 at December 31, 2019 and 2018.

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.

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:

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

Construction-in-progress at December 31, 2019 and 2018 represents costs incurred for miscellaneous components not yet placed in service and for various capital projects.

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

Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income, net includes realized gains and losses, interest, and dividends, net of investment fees and are reported within the changes in net assets of the accompanying statements of activities and changes in net assets, and are recognized in the year it is earned. Total investment management fees were $53,303 in 2019 and $54,004 in 2018.

Investment in CSC Real Estate, LLC:

The Society was named a 25% beneficiary of a trust during 2018. The only property in the trust is land in Cleveland, Ohio, where a hotel is located (the trust does not own the building). The property has a land lease with the owners of the hotel. The lease commenced April 1, 1963, with an initial term of 99 years, thus expiring April 30, 2062. Perpetual 99-year renewals are at the option of the tenant, with modest increases in rent. Rent is $18,000/year, triple net (tenant pays all taxes, insurance, etc.). The Society established CSC Real Estate, LLC (single member LLC for which the Society is the sole member) which became the partner in the Company (1800 Euclid Avenue LLC) accepting the property. During 2018, management calculated and recorded the Society's share of the estimated value of the property at the present value of the future cash flows over the initial lease term totaling $78,166. There are no changes to the estimated value of the property at December 31, 2019.

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 and changes in net assets. The Society classifies expenses directly to the categories they are attributed to based on the expense. 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:

The Society primarily generates revenues from payments received from contributions and grants, program service fees, fundraising, and retail sales

Contributions and grants received are recorded as without donor restrictions and with donor restrictions, depending on the existence and/or nature of any donor restrictions.

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

Revenue recognition (continued):

Revenue is reported at the amount that reflects the consideration to which the Society expects to be entitled in exchange for providing the goods and services. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the goods and services provided by the Society. The Society recognizes revenue in the statement of activities and changes in net assets and contract assets in the statement of financial position only when the goods and services have been sold and delivered or have been provided. Since the Society has performed its obligations under the contracts, it has unconditional rights to the consideration recorded as contract assets and therefore, classifies those billed contract assets as accounts receivable.

Revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred.

Revenues from non-exchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. In addition, the Society has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized.

Unconditional promises to give are recognized as revenues in the year 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 are recognized as revenues when services have been rendered. Program service fees received in advance are deferred to the applicable year in which the related services are performed or expenditures are incurred and represent contract liabilities which are recorded as deferred revenue in the statements of financial position.

The Society allocates the transaction price for retail sales to each distinct product based on their relative standalone selling price. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Society's performance obligation is satisfied), which typically occurs at the point of sale.

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.

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

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 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 statement of financial position 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 December 31, 2019 and 2018, 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.

Reclassifications:

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Subsequent events:

On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic with multiple jurisdictions in the United States declaring a state of emergency. Certain states, including Ohio, have issued "stay-at-home" orders for non-essential businesses as defined. As of the report date, the Society has determined it qualifies as an essential business. In the short-term management believes it has sufficient liquidity to maintain basic operations, however the Society's financial position, results of operations and cash flows could be significantly impacted long-term. Management has, and will continue to, monitor the situation and make changes to its operations in an attempt to reduce future financial impact.

The Society has evaluated subsequent events through March 30 2020, the date the financial statements were available to be issued.

2. Promises to give:

Unconditional promises to give at December 31, 2019 and 2018 are comprised of the following:

	2019	2018
Receivable in less than one year	$ 318,027	$ 147,624
Receivable in one to five years	365,570	166,200
Total unconditional promises to give	683,597	313,824
Less present value adjustment	10,230	3,062
Net unconditional promises to give	$ 673,367	$ 310,762

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 June 30, 2020. The credit agreement requires monthly payments of interest at prime (4.75% and 5.50% at December 31, 2019 and 2018, respectively) or LIBOR (1.71% and 2.52% at December 31, 2019 and 2018, respectively) plus 0.75% at the Society's option. There were no amounts outstanding on the line of credit at December 31, 2019 or 2018. The agreement includes covenants which require, among other considerations, annual audited financial statements.

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 at December 31, 2019 and 2018 are summarized below:

December 31, 2019	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Money market funds	$ 3,062,826	$ 3,062,826		
Debt securities:				
Treasury securities	15,001,086	15,001,086		
Corporate bonds	5,548,347	5,548,347		
	20,549,433	20,549,433		

4. Fair value (continued):

December 31, 2019	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Basic industry	8,433,201	8,433,201		
Capital goods	10,411,371	10,411,371		
Consumer cyclical	6,076,811	6,076,811		
Consumer staples	3,492,104	3,492,104		
Energy and utilities	7,716,303	7,716,303		
Financial	8,520,428	8,520,428		
Technology	10,396,858	10,396,858		
	55,047,076	55,047,076		
Beneficial interest trusts	17,622,229		$ 17,622,229	
Common collective trusts	414,320		414,320	
	18,036,549		18,036,549	
Net assets in fair value hierarchy	96,695,884	$ 78,659,335	$ 18,036,549	$
Investments reported at net asset value (common fund) (A)	114,715			
	$ 96,810,599			

December 31, 2018	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Money market funds	$ 2,709,916	$ 2,709,916		
Debt securities:				
Treasury securities	15,553,509	15,553,509		
Corporate bonds	4,134,477	4,134,477		
	19,687,986	19,687,986		
Equity securities:				
Basic industry	5,881,695	5,881,695		
Capital goods	9,048,765	9,048,765		
Consumer cyclical	5,429,258	5,429,258		
Consumer staples	2,262,191	2,262,191		
Energy and utilities	4,524,381	4,524,381		
Financial	8,143,886	8,143,886		
Technology	9,953,639	9,953,639		
	45,243,815	45,243,815		

4. Fair value (continued):

December 31, 2018	Fair Value	Level 1	Level 2	Level 3
Beneficial interest trusts	15,452,296		$ 15,452,296	
Common collective trusts	479,168		479,168	
	15,931,464		15,931,464	
Net assets in fair value hierarchy	83,573,181	$ 67,641,717	$ 15,931,464	$
Investments reported at net asset value (common fund) (A)	187,476			
	$ 83,760,657			

(A) In accordance with Subtopic 820-10, investments that are measured at net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2019 and 2018. There have been no changes between the methodologies used at December 31, 2019 and 2018.

The money market funds, debt securities, equity securities, and common collective trusts are valued at the quoted market prices in active markets 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.

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.

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.

5. Endowments:

The management and Board of Trustees of the Society have 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 net assets with donor restrictions (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.

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 September 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 $3,426,049 during 2019 and $2,908,551 during 2018.

5. Endowments (continued):

Spending policy (continued):

Endowment net asset composition by the type of fund as of December 31, 2019 and 2018 are as follows:

	2019	2018
Net assets without donor restrictions	$ 44,741,142	$ 38,381,902
Net assets with donor restrictions	52,069,457	45,378,755
	$ 96,810,599	$ 83,760,657

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

December 31, 2019	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment assets, beginning of year	$ 38,381,902	$ 45,378,755	$ 83,760,657
Investment return:			
Earnings beneficial trusts		1,531,295	1,531,295
Investment income	1,224,804	991,420	2,216,224
Net appreciation (realized and unrealized)	6,242,165	7,222,668	13,464,833
	7,466,969	9,745,383	17,212,352
Appropriation of beneficial trusts for expenditure		(1,531,295)	(1,531,295)
Appropriation of endowment assets for expenditure	(1,893,418)	(1,532,631)	(3,426,049)
Contributions	785,689	9,245	794,934
Endowment assets, end of year	$ 44,741,142	$ 52,069,457	$ 96,810,599

5. Endowments (continued):

December 31, 2018	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment assets, beginning of year	$ 40,559,131	$ 50,373,272	$ 90,932,403
Investment return:			
Earnings beneficial trusts		1,513,181	1,513,181
Investment income	1,124,417	910,162	2,034,579
Net depreciation (realized and unrealized)	(3,315,575)	(4,816,811)	(8,132,386)
	38,367,973	47,979,804	86,347,777
Appropriation of beneficial trusts for expenditure		(1,513,181)	(1,513,181)
Reclassification of prior year board designated contributions	714,349		714,349
Appropriation of endowment assets for expenditure	(1,607,421)	(1,301,130)	(2,908,551)
Contributions	907,001	213,262	1,120,263
Endowment assets, end of year	$ 38,381,902	$ 45,378,755	$ 83,760,657

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 December 31, 2019 and 2018, total assets of $414,320 and $479,168, respectively, were held by the Society, which are included in investments on the statement 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 December 31, 2019 and 2018, liabilities of $179,420 and $201,261, respectively, 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%.

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 December 31, 2019 and 2018, assets of $17,622,229 and $15,452,296, respectively, were held in trust funds, and are included with assets with donor restrictions. 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. Employer's matching and nonelective contributions to the plan and corresponding expenses amounted to $214,779 in 2019 and $204,859 in 2018.

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 with donor restrictions:

Net assets with donor restrictions are detailed as follows as of December 31, 2019 and 2018:

	2019	2018
Restricted according to split-interest agreements	$ 234,900	$ 277,907
Time restricted		1,538
For use within the Society's various program services	680,319	463,433
Endowment	52,069,457	45,378,755
	$ 52,984,676	$ 46,121,633