The Cleveland Society for the Blind

YEAR ENDED DECEMBER 31, 2018

THE CLEVELAND SOCIETY FOR THE BLIND

YEAR ENDED DECEMBER 31, 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 statement of financial position as of December 31, 2018, 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 December 31, 2018, 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.

HW & Co.

Cleveland, Ohio
April 2, 2019

THE CLEVELAND SOCIETY FOR THE BLIND

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

Assets:		
Cash and cash equivalents	$	1,803,423
Receivables, net		428,784
Promises to give, net		310,762
Inventories		79,123
Prepaid expenses		75,922
Investment in CSC Real Estate, LLC		78,166
Investments		68,308,361
Beneficial interest trusts		15,452,296
Property and equipment:		
Land and land improvements		2,018,276
Buildings and improvements		13,706,044
Equipment, furniture, and fixtures		2,248,958
Construction-in-progress		5,181
		17,978,459
Less accumulated depreciation		7,302,934
		10,675,525
	$	**97,212,362**

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	$	157,759
Accrued expenses		471,770
Obligations under annuity agreements		201,261
Deferred revenue		12,351
Total liabilities		843,141
Net assets:		
Without donor restrictions		50,247,588
With donor restrictions		46,121,633
Total net assets		96,369,221
	$	**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, 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	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
Changes in net assets before other changes to net assets	779,835	423,997	1,203,832	(500,010)	703,822
Other changes to net assets:					
Net unrealized loss on investment transactions		(3,327,358)	(3,327,358)	(2,683,800)	(6,011,158)
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, 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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities:		
Changes in net assets	$	(7,965,700)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation		533,801
Loss on sale of assets		20,457
Investment in CSC Real Estate, LLC		(78,166)
Realized and unrealized gains and losses on investments, net		2,467,039
Change in value of beneficial trusts		2,133,012
Contributions of endowment support		(61,094)
Decrease (increase) in assets:		
Receivables		471,631
Promises to give, net		352,313
Inventories		341
Prepaid expenses		(2,406)
Increase (decrease) in liabilities:		
Accounts payable		(74,620)
Accrued expenses		44,828
Deferred revenue		(440,950)
Net cash used in operating activities		(2,599,514)
Cash flows from investing activities:		
Proceeds from the sale of investments		6,967,794
Purchase of investments		(3,484,410)
Purchase of property and equipment		(378,385)
Net cash provided by investing activities		3,104,999
Cash flows from financing activities:		
Payments on annuity obligations		(20,893)
Contributions of endowment support		61,094
Net cash provided by financing activities		40,201
Net increase in cash and cash equivalents		545,686
Cash and cash equivalents, beginning of period		1,257,737
Cash and cash equivalents, end of period	**$**	**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 new accounting pronouncement:

During 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update* (ASU) No. 2016-14, *Not-for-Profit Entities,* (Topic 958) *Presentation of Financial Statements for Not-for-Profit Entities.* FASB issued the ASU to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit's liquidity, financial performance and cash flows. The Society adopted the provisions of this ASU effective for the year ended December 31, 2018. With the provision of the ASU being applied, net assets have been presented "with donor restrictions" and "without donor restrictions" in the statement of financial position as of December 31, 2018 and in the statement of activities and changes in net assets for the year ended December 31, 2018.

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.

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

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.

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 sheet as of December 31, 2018 for general expenditures are as follows:

Cash and cash equivalents	$ 1,803,423
Accounts receivable, net	428,784
Current portion of promises to give	147,624
Investments estimated to be appropriated for current year	3,426,000
	$ 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, $3,426,000 of earnings on endowment funds are available for use 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 $5,758 on balances outstanding at December 31, 2018.

Bad debt expense was $15,296 during 2018.

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

Receivables (continued):

Receivables at December 31, 2018 consist of the following:

Private pay receivables, net	$ 6,582
Governmental receivables	316,229
Interest receivable	53,949
Other	52,024
	$ 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, 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, 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 $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.

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:

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.

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 and retail sales 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.

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 2015 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 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, 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.

New accounting pronouncements:

In May 2014, the FASB issued 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. 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 December 31, 2019.

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

New accounting pronouncements (continued):

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and 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. This ASU is effective for the Society's financial statements for the year ending December 31, 2019.

Management is in the process of evaluating the impact these ASUs will have on their financial statements, and will adopt the provisions at December 31, 2019.

Subsequent events:

The Society has evaluated subsequent events through April 2, 2019, the date the financial statements were available to be issued.

2. Promises to give:

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

Receivable in less than one year	$ 147,624
Receivable in one to five years	166,200
Total unconditional promises to give	313,824
Less present value adjustment	3,062
Net unconditional promises to give	$ 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 April 30, 2019. The credit agreement requires monthly payments of interest at prime (5.50% at December 31, 2018) or LIBOR (2.52% at December 31, 2018) plus 0.75% at the Society's option. There were no amounts outstanding on the line of credit at December 31, 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:

4. Fair value (continued):

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, 2018 are summarized below:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Money market funds	$ 2,709,916	$ 2,709,916		
Available-for-sale debt securities:				
Treasury securities	15,553,509	15,553,509		
Corporate bonds	4,134,477	4,134,477		
	19,687,986	19,687,986		
Available-for-sale 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		
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			

4. Fair value (continued):

(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, 2018. There have been no changes in the methodologies used at December 31, 2018.

The money market funds, available-for-sale debt securities, available-for-sale 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.

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.

5. Endowments (continued):

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 December 31st 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 $2,908,551 during 2018.

Endowment net asset composition by the type of fund as of December 31, 2018:

Net assets without donor restrictions	$ 38,381,902
Net assets with donor restrictions	45,378,755
	$ 83,760,657

5. Endowments (continued):

Spending policy (continued):

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

	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, 2018, total assets of $479,168 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, 2018, liabilities of $201,261 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, 2018, assets of $15,452,296 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. As of December 31, 2018, employers matching and nonelective contributions to the plan and corresponding expenses amounted to $204,859.

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 December 31, 2018:

Restricted according to split-interest agreements	$ 277,907
Time restricted	1,538
For use within the Society's various program services	463,433
Endowment	45,378,755
	$ 46,121,633