



AUDITED FINANCIAL STATEMENTS

**YEARS ENDED
SEPTEMBER 30, 2015 and 2014**

THE CLEVELAND SOCIETY FOR THE BLIND

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Cleveland Society for the Blind
Cleveland, Ohio

We have audited the accompanying financial statements of The Cleveland Society for the Blind (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, 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.

Auditors' 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 audits 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland Society for the Blind as of September 30, 2015 and 2014, and the 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.

Barnes Wendling CPAs

Cleveland, Ohio
January 7, 2016

THE CLEVELAND SOCIETY FOR THE BLIND

Statements of Financial Position

	September 30,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 52,937	\$ 214,805
Receivables, net	570,373	674,407
Promises to give, net	266,050	264,188
Inventories	74,379	102,278
Prepaid expenses	104,510	67,380
Assets restricted for custodial funds	91,461	93,725
Investments	62,611,188	65,507,274
Beneficial interest trusts	15,487,493	16,511,863
Property and Equipment		
Land and land improvements	1,935,762	1,908,392
Buildings and improvements	13,506,827	13,452,565
Equipment, furniture, and fixtures	2,913,562	2,803,838
Construction in progress	7,441	3,685
	<u>18,363,592</u>	<u>18,168,480</u>
Less accumulated depreciation	6,871,377	6,393,858
	<u>11,492,215</u>	<u>11,774,622</u>
	<u>\$ 90,750,606</u>	<u>\$ 95,210,542</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ 50,000	\$ 744,000
Accounts payable	222,812	145,431
Accrued expenses	328,583	360,141
Custodial accounts	91,461	93,725
Obligations under annuity agreements	290,147	317,372
	<u>983,003</u>	<u>1,660,669</u>
TOTAL LIABILITIES	983,003	1,660,669
Net Assets		
Unrestricted	43,853,792	45,278,735
Temporarily restricted	15,837,663	17,264,417
Permanently restricted	30,076,148	31,006,721
Total net assets	<u>89,767,603</u>	<u>93,549,873</u>
	<u>\$ 90,750,606</u>	<u>\$ 95,210,542</u>

See Notes to Financial Statements

THE CLEVELAND SOCIETY FOR THE BLIND

Statement of Activities and Changes in Net Assets Year Ended September 30, 2015

	Unrestricted		
	General Fund	Board Designated	Total
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions and grants	\$ 782,366	\$ 250,367	\$ 1,032,733
Fundraising, net	106,961		106,961
Restricted funds released for current activities	624,056		624,056
Total public support	<u>1,513,383</u>	<u>250,367</u>	<u>1,763,750</u>
Revenue:			
Retail sales, net	163,438		163,438
Program service fees	2,992,963		2,992,963
Other revenue	21,046		21,046
Total revenue	<u>3,177,447</u>		<u>3,177,447</u>
Investment income:			
Investment income	4,476	1,149,118	1,153,594
Investment income released per spending policy	2,896,274	(1,600,636)	1,295,638
Earnings from beneficial trusts			
Earnings from beneficial trusts released from restriction	1,437,848		1,437,848
Total investment income	<u>4,338,598</u>	<u>(451,518)</u>	<u>3,887,080</u>
Total public support and revenue and investment income	9,029,428	(201,151)	8,828,277
EXPENSES			
Program services:			
Early intervention, preschool, and other school services	1,028,401		1,028,401
Adult clinical, training, and social work services	2,394,972		2,394,972
Employment operations and placement	2,727,415		2,727,415
Highbrook Lodge Camp and other recreational services	632,576		632,576
Assistive technology and other services	362,215		362,215
Management and general	1,213,947		1,213,947
Fundraising	542,875		542,875
Total expenses	<u>8,902,401</u>		<u>8,902,401</u>
Changes in net assets before other changes to net assets	127,027	(201,151)	(74,124)
OTHER CHANGES TO NET ASSETS			
Net unrealized loss on investment transactions		(1,202,245)	(1,202,245)
Change in value of annuity agreements			
Change in value of beneficial trusts			
Depreciation expense	(387,518)		(387,518)
Gain on sale of land	238,944		238,944
Changes in net assets	(21,547)	(1,403,396)	(1,424,943)
Net assets, beginning of year	<u>4,204,754</u>	<u>41,073,981</u>	<u>45,278,735</u>
NET ASSETS, end of year	<u>\$ 4,183,207</u>	<u>\$ 39,670,585</u>	<u>\$ 43,853,792</u>

See Notes to Financial Statements

<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 298,326	\$ 93,797	\$ 1,424,856
210,392		317,353
(624,056)		
<u>(115,338)</u>	<u>93,797</u>	<u>1,742,209</u>
		163,438
		2,992,963
		<u>21,046</u>
		<u>3,177,447</u>
930,156		2,083,750
(1,295,638)		
	1,437,848	1,437,848
	<u>(1,437,848)</u>	
<u>(365,482)</u>		<u>3,521,598</u>
(480,820)	93,797	8,441,254
		1,028,401
		2,394,972
		2,727,415
		632,576
		362,215
		1,213,947
		<u>542,875</u>
		<u>8,902,401</u>
(480,820)	93,797	(461,147)
(973,160)		(2,175,405)
27,226		27,226
	(1,024,370)	(1,024,370)
		(387,518)
		<u>238,944</u>
(1,426,754)	(930,573)	(3,782,270)
<u>17,264,417</u>	<u>31,006,721</u>	<u>93,549,873</u>
<u>\$ 15,837,663</u>	<u>\$ 30,076,148</u>	<u>\$ 89,767,603</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Statement of Activities and Changes in Net Assets Year Ended September 30, 2014

	Unrestricted		Total
	General Fund	Board Designated	
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions and grants	\$ 935,135	\$ 300,700	\$ 1,235,835
Fundraising, net	138,836		138,836
Restricted funds released for current activities	491,099		491,099
Total public support	<u>1,565,070</u>	<u>300,700</u>	<u>1,865,770</u>
Revenue:			
Retail sales, net	138,284		138,284
Program service fees	2,391,853		2,391,853
Other revenue	20,973		20,973
Total revenue	<u>2,551,110</u>		<u>2,551,110</u>
Investment income:			
Investment income (loss)	480	1,738,941	1,739,421
Investment income released per spending policy	2,684,353	(1,483,517)	1,200,836
Earnings from beneficial trusts			
Earnings from beneficial trusts released from restriction	1,350,561		1,350,561
Total investment income	<u>4,035,394</u>	<u>255,424</u>	<u>4,290,818</u>
Total public support and revenue and investment income	8,151,574	556,124	8,707,698
EXPENSES			
Program services:			
Early intervention, preschool, and other school services	1,070,491		1,070,491
Adult clinical, training, and social work services	2,157,176		2,157,176
Employment operations and placement	2,111,592		2,111,592
Highbrook Lodge Camp and other recreational services	629,155		629,155
Assistive technology and other services	333,437		333,437
Management and general	1,057,563		1,057,563
Fundraising	631,013		631,013
Total expenses	<u>7,990,427</u>		<u>7,990,427</u>
Changes in net assets before other changes to net assets	161,147	556,124	717,271
OTHER CHANGES TO NET ASSETS			
Net unrealized gain on investment transactions		1,338,266	1,338,266
Change in value of annuity agreements			
Change in value of beneficial trusts			
Additional spending policy transfers to reduce debt	250,000	(250,000)	-0-
Depreciation expense	(365,195)		(365,195)
Loss on sale of life estate property	(160,752)		(160,752)
Changes in net assets	(114,800)	1,644,390	1,529,590
Net assets, beginning of year	<u>4,319,554</u>	<u>39,429,591</u>	<u>43,749,145</u>
NET ASSETS, end of year	<u>\$ 4,204,754</u>	<u>\$ 41,073,981</u>	<u>\$ 45,278,735</u>

See Notes to Financial Statements

Temporarily Restricted	Permanently Restricted	Total
\$ 460,458	\$ 18,869	\$ 1,715,162
277,010		415,846
(491,099)		
<u>246,369</u>	<u>18,869</u>	<u>2,131,008</u>
		138,284
		2,391,853
		20,973
		<u>2,551,110</u>
1,407,589		3,147,010
(1,200,836)		
	1,350,561	1,350,561
	(1,350,561)	
<u>206,753</u>	<u></u>	<u>4,497,571</u>
453,122	18,869	9,179,689
		1,070,491
		2,157,176
		2,111,592
		629,155
		333,437
		1,057,563
		631,013
		<u>7,990,427</u>
453,122	18,869	1,189,262
1,083,262		2,421,528
36,667		36,667
	721,576	721,576
		(365,195)
		(160,752)
<u>1,573,051</u>	<u>740,445</u>	<u>3,843,086</u>
<u>15,691,366</u>	<u>30,266,276</u>	<u>89,706,787</u>
<u>\$ 17,264,417</u>	<u>\$ 31,006,721</u>	<u>\$ 93,549,873</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Statements of Functional Expenses

	Year Ended September 30, 2015			
	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 4,953,592	\$ 1,027,236	\$ 356,219	\$ 6,337,047
Professional and contracted fees	1,332,340	113,487	157,316	1,603,143
Supplies and related	215,899	18,390	7,369	241,658
Occupancy	366,249	31,197	12,501	409,947
Program transportation	34,870	2,970	1,190	39,030
Staff travel	71,849	6,120	2,452	80,421
Other	90,373	7,698	3,084	101,155
Funded depreciation	80,407	6,849	2,744	90,000
Total expenses before other expenses	7,145,579	1,213,947	542,875	8,902,401
General fund depreciation	346,212	29,490	11,816	387,518
Total expenses reported by function	<u>\$ 7,491,791</u>	<u>\$ 1,243,437</u>	<u>\$ 554,691</u>	<u>\$ 9,289,919</u>



	Year Ended September 30, 2014			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 4,733,223	\$ 934,189	\$ 560,513	\$ 6,227,925
Professional and contracted fees	698,374	54,928	31,388	784,690
Supplies and related	200,444	15,765	9,009	225,218
Occupancy	355,621	27,970	15,983	399,574
Program transportation	40,548	3,189	1,822	45,559
Staff travel	95,903	7,543	4,310	107,756
Other	96,748	7,609	4,348	108,705
Funded depreciation	80,990	6,370	3,640	91,000
Total expenses before other expenses	<u>6,301,851</u>	<u>1,057,563</u>	<u>631,013</u>	<u>7,990,427</u>
General fund depreciation	<u>325,023</u>	<u>25,564</u>	<u>14,608</u>	<u>365,195</u>
Total expenses reported by function	<u>\$ 6,626,874</u>	<u>\$ 1,083,127</u>	<u>\$ 645,621</u>	<u>\$ 8,355,622</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Statements of Cash Flows

	Years Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	(\$ 3,782,270)	\$ 3,843,086
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	477,518	456,195
Gain on sale of land	(238,944)	-0-
Loss on sale of life estate property	-0-	160,752
Realized and unrealized gains on investments	(1,346,193)	(6,919,099)
Change in value of beneficial trusts	1,024,370	(721,576)
Contributions of endowment support	(93,797)	(18,869)
(Increase) decrease in assets:		
Receivables	104,034	80,220
Promises to give, net	(1,862)	(158,085)
Inventories	27,899	(22,317)
Prepaid expenses	(37,130)	43,396
Increase (decrease) in liabilities:		
Accounts payable	77,381	(67,158)
Accrued expenses	(31,558)	(44,119)
Net cash used in operating activities	(3,820,552)	(3,367,574)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	13,834,619	11,639,112
Net proceeds from sale of life estate property	-0-	203,050
Purchase of investments	(9,592,340)	(7,323,165)
Proceeds from sale of land	255,700	-0-
Purchase of property and equipment	(211,867)	(199,431)
Net cash provided by investing activities	4,286,112	4,319,566
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of line of credit	(694,000)	(746,000)
Payments on annuity obligations	(27,225)	(36,667)
Contributions of endowment support	93,797	18,869
Net cash used in financing activities	(627,428)	(763,798)
Net increase (decrease) in cash and cash equivalents	(161,868)	188,194
Cash and cash equivalents at beginning of year	214,805	26,611
Cash and cash equivalents at end of year	\$ 52,937	\$ 214,805

See Notes to Financial Statements

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES

Nature of Activities

The Cleveland Society for the Blind ("Society"), also known as The 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

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

Unrestricted Net Assets

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

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE B - 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.

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 \$31,642 and \$25,527 on balances outstanding at September 30, 2015 and 2014, respectively.

Bad debt expense was \$48,236 and \$-0- for the years ended September 30, 2015 and 2014, respectively.

Receivables at September 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Private pay receivables, net	\$ 29,582	\$ 72,945
Governmental receivables	409,570	485,244
Grants receivable	33,075	33,750
Interest receivable	67,297	65,488
Other	<u>30,849</u>	<u>16,980</u>
	<u>\$ 570,373</u>	<u>\$ 674,407</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Bad debt expense related to pledges was \$-0- for the years ended September 30, 2015 and 2014. Based on management's assessment of collection history with its donors, it has concluded an allowance is not deemed necessary as of September 30, 2015 and 2014.

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:

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

Construction in progress at September 30, 2015 and 2014 represents costs incurred for miscellaneous components not yet placed in service and for various capital projects.

Functional Allocation of Expenses

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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

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

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

Investment Income

Investment income includes realized gains and losses, interest, and dividends, which are reported net of investment fees reported within the changes in net assets of the accompanying statements of activities and is recognized in the period it is earned. Total investment management fees were \$59,529 and \$64,521 for the years ended September 30, 2015 and 2014, respectively.

Donated Services

A number of volunteers have donated time to the Society's program services and fund-raising 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, donations to the Society qualify for charitable contribution deduction under Section 170(b)(1)(a).

The Society is no longer subject to tax examinations for years before 2011 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 CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Positions (Continued)

The Society evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Society's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of September 30, 2015 and 2014, 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 amounts reported in the September 30, 2014 financial statements have been reclassified to conform with the September 30, 2015 financial statement presentation. These reclassifications had no effect on total assets, total liabilities, or net assets.

Subsequent Events

The Society has evaluated subsequent events through January 7, 2016, the date the financial statements were available to be issued.

NOTE C - PROMISES TO GIVE

Unconditional promises to give at September 30, 2015 and 2014 are comprised of the following:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 169,000	\$ 84,037
Receivable in one to five years	<u>97,500</u>	<u>181,000</u>
Total unconditional promises to give	266,500	265,037
Less present value adjustment	<u>450</u>	<u>849</u>
Net unconditional promises to give	<u>\$ 266,050</u>	<u>\$ 264,188</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE D - LINE OF CREDIT

The Society has a line of credit with a bank, secured by unrestricted endowment investments which provides for maximum borrowing of \$2,000,000 through December 31, 2015. The credit agreement requires monthly payments of interest at Prime (3.25% at September 30, 2015) or LIBOR (0.125% at September 30, 2015) plus 0.75%. The balance of the line of credit at September 30, 2015 and 2014 was \$50,000 and \$744,000, respectively. The agreement includes covenants which require, among other considerations, annual audited financial statements. Subsequent to the balance sheet date, the line of credit was amended to lower the maximum borrowing amount to \$1,000,000 through December 31, 2016.

NOTE E - FAIR VALUE MEASUREMENTS

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 CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE E - FAIR VALUE MEASUREMENTS (CONTINUED)

The Society's investments and beneficial interest trusts accounted for at fair value as of September 30, 2015 are summarized below:

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE E - FAIR VALUE MEASUREMENTS (CONTINUED)

The Society's investments and beneficial interest trusts accounted for at fair value as of September 30, 2014 are summarized below:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and equivalents:				
Money market funds	\$ 233,480	\$ 233,480		
Available-for-sale debt securities:				
Treasury securities	11,907,874	11,907,874		
Corporate bonds	<u>6,134,359</u>	<u>6,134,359</u>		
	18,042,233	18,042,233		
Available-for-sale equity securities:				
Basic industry	3,224,722	3,224,722		
Capital goods	5,067,420	5,067,420		
Consumer cyclical	9,213,491	9,213,491		
Consumer staples	4,606,746	4,606,746		
Energy and utilities	4,146,071	4,146,071		
Financial	9,674,166	9,674,166		
Technology	<u>10,134,840</u>	<u>10,134,840</u>		
	46,067,456	46,067,456		
Beneficial interest trusts	16,511,863		\$16,511,863	
Common collective trusts	624,751		624,751	
Common fund	<u>539,354</u>			\$ 539,354
	<u>17,675,968</u>		<u>17,136,614</u>	<u>539,354</u>
Total	<u>\$82,019,137</u>	<u>\$64,343,169</u>	<u>\$17,136,614</u>	<u>\$ 539,354</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE E - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodologies used for assets measured at fair value as of September 30, 2015 and 2014. There have been no changes in the methodologies used as of September 30, 2015 and 2014.

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

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

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

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

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

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE E - FAIR VALUE MEASUREMENTS (CONTINUED)

The table below sets forth a summary of changes in fair value of the Society's level 3 assets for the year ended September 30, 2014:

	<u>Common Fund</u>
Fair value, beginning of year	\$1,083,037
Gains realized and unrealized	120,386
Sales	(<u>664,069</u>)
Fair value, end of year	<u>\$ 539,354</u>

NOTE F - ENDOWMENTS

The Society's endowment includes both donor-restricted funds and funds designated by the Board of Directors 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 Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE F - ENDOWMENTS (CONTINUED)

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

Investment Return Objectives, Risk Parameters, and Strategies

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

Spending Policy

The Society has a policy of appropriating for distribution each year 5% of its board designated and permanently restricted endowment fund's average fair value of the prior 36 months ending June 30th preceding the fiscal year in which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Society expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. As a result of its spending policy the Society transferred \$2,896,274 and \$2,684,353 for the years ended September 30, 2015 and 2014, respectively. The Society transferred an additional \$250,000 to reduce its borrowing obligations during the year ended September 30, 2014.

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE F - ENDOWMENTS (CONTINUED)

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

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

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

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE F - ENDOWMENTS (CONTINUED)

Endowment net asset composition by the type of fund as of September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$16,342,061	\$31,006,721	\$47,348,782
Board designated	<u>\$34,894,788</u>	_____	_____	<u>34,894,788</u>
	<u>\$34,894,788</u>	<u>\$16,342,061</u>	<u>\$31,006,721</u>	<u>\$82,243,570</u>

Changes in endowment net assets for the year ended September 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$33,551,098	\$15,052,046	\$30,266,276	\$78,869,420
Investment return:				
Earnings beneficial trusts			1,350,561	1,350,561
Investment income	1,738,941	1,407,589		3,146,530
Net appreciation (realized and unrealized)	<u>1,338,266</u>	<u>1,083,262</u>	<u>721,576</u>	<u>3,143,104</u>
Total investment return	3,077,207	2,490,851	2,072,137	7,640,195
Appropriation of beneficial trusts for expenditure			(1,350,561)	(1,350,561)
Appropriation of endowment assets for expenditure	(1,483,517)	(1,200,836)		(2,684,353)
Appropriation of endowment assets for loan reduction	(250,000)			(250,000)
Contributions	_____	_____	<u>18,869</u>	<u>18,869</u>
Endowment net assets, end of year	<u>\$34,894,788</u>	<u>\$16,342,061</u>	<u>\$31,006,721</u>	<u>\$82,243,570</u>

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE G - SPLIT INTEREST AGREEMENTS

Charitable Gift Annuities and Charitable Remainder Trusts

The Society is the beneficiary of several charitable gift annuities and a charitable remainder trust that are managed by third-party trustees. The assets held in trust are recorded at fair value at the date of initial recognition. At September 30, 2015 and 2014, total assets of \$564,773 and \$624,751 were held by the Society, which are included in investments on the statements of financial position.

Under the terms of the trust agreements, designated beneficiaries are to receive regular payments from the trust assets for the beneficiaries remaining life. Upon death of the beneficiaries, the assets are to be retained for the Society's use. At September 30, 2015 and 2014, liabilities of \$290,147 and \$317,372 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%.

Beneficial Interest Trusts

The Society is the beneficiary of a number of perpetual trusts held by banks from which trust income is received annually for the Society's use. The assets are held by third-party trustees. Under the terms of the trusts, the Society has the irrevocable right to receive a certain percentage of the income earned on the trust assets in perpetuity. As of September 30, 2015 and 2014, assets of \$15,487,493 and \$16,511,863 were held in trust funds, and are permanently restricted net assets. The assets are recorded at fair value, which is estimated to approximate the present value of expected future distributions from the trusts. The change in value of the perpetual trusts is recognized as revenue in the statement of activities and changes in net assets.

NOTE H - DEFINED CONTRIBUTION RETIREMENT PLANS

The Society sponsors a defined contribution retirement plan under Internal Revenue Code 401(k) that covers essentially all employees. For the years ended September 30, 2015 and 2014, employers matching and non-elective contributions to the plan and corresponding expenses amounted to \$54,420 and \$163,154, respectively.

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

THE CLEVELAND SOCIETY FOR THE BLIND

Notes to Financial Statements Years Ended September 30, 2015 and 2014

NOTE I - 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.

NOTE J - NET ASSETS CLASSIFICATIONS

Temporarily restricted net assets have donor restrictions, and are available for the following uses at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Restricted according to split-interest agreements	\$ 274,626	\$ 307,378
Time restricted	69,550	94,150
For use within the Society's various program services and Vision 21	490,068	520,828
Endowment	<u>15,003,419</u>	<u>16,342,061</u>
	<u>\$15,837,663</u>	<u>\$17,264,417</u>

Permanently restricted net assets are restricted by donor stipulations that the assets be invested to provide a permanent source of income for the Society's various program services and general operations. Permanently restricted net assets totaled \$30,076,148 and \$31,006,721 for the years ended September 30, 2015 and 2014, respectively.

NOTE K - SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash Paid for Interest

During the years ended September 30, 2015 and 2014, the Society paid interest charges of \$3,255 and \$11,684, respectively.