

# **The Cleveland Film Society**

**Financial Statements  
September 30, 2019**

## Independent Auditor's Report

Board of Directors  
The Cleveland Film Society

We have audited the accompanying financial statements of The Cleveland Film Society (a nonprofit corporation, the "Society"), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
The Cleveland Film Society

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, Cleveland Film Society adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities* during the year ended September 30, 2019. This ASU changes the reporting requirements for nonprofit organizations and their required disclosures. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Society's 2018 financial statements, and our report dated March 20, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cimini + Panichi, PC*

Cleveland, Ohio  
March 18, 2020

# The Cleveland Film Society

## Statement of Financial Position

September 30, 2019 (with comparative totals for 2018)

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 97,176	\$ 214,463
Accounts receivable	-	32,173
Promises to give:		
Without donor restrictions	122,437	25,128
With donor restrictions	25,000	-
Inventory	2,588	2,588
Investments	690,372	632,806
Prepaid expenses	23,761	28,841
Total current assets	<u>961,334</u>	<u>935,999</u>
Property and equipment, net	321,597	348,752
Endowment:		
Restricted investments	<u>501,499</u>	<u>509,870</u>
	<u>823,096</u>	<u>858,622</u>
	\$ <u>1,784,430</u>	\$ <u>1,794,621</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Current portion of long-term debt	\$ -	\$ 25,202
Accounts payable and accrued expenses	58,667	68,088
Deferred revenue	82,614	58,460
Total liabilities	<u>141,281</u>	<u>151,750</u>
Net assets:		
Without donor restrictions:		
Undesignated	302,650	323,001
Board-designated	<u>810,000</u>	<u>810,000</u>
Total without donor restrictions	1,112,650	1,133,001
With donor restrictions	<u>530,499</u>	<u>509,870</u>
Total net assets	<u>1,643,149</u>	<u>1,642,871</u>
	\$ <u>1,784,430</u>	\$ <u>1,794,621</u>

The accompanying notes are an integral part of these financial statements

# The Cleveland Film Society

## Statement of Activities

For the year ended September 30, 2019 (with comparative totals for 2018)

	2019			2018 <u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
Public support, revenues, and gains:				
Contributions and grants (includes \$1,335,522 and \$1,096,683 of in-kind contributions in 2019 and 2018, respectively)	\$ 3,502,027	\$ 29,000	\$ 3,531,027	\$ 3,125,290
Memberships	416,835	-	416,835	435,170
Ticket sales	607,518	-	607,518	560,102
Merchandise sales	39,418	-	39,418	43,394
Net investment income	13,088	10,129	23,217	85,406
Fees	157,655	-	157,655	156,460
Rental income	41,260	-	41,260	64,340
Other	871	-	871	7,393
Net assets released from restrictions	<u>18,500</u>	<u>(18,500)</u>	<u>-</u>	<u>-</u>
Total public support, revenues, and gains	4,797,172	20,629	4,817,801	4,477,555
Expenses:				
Program services (includes \$1,320,090 and \$1,086,358 of in-kind contributions in 2019 and 2018, respectively)	4,255,598	-	4,255,598	3,969,037
Supporting services:				
Fundraising	324,745	-	324,745	314,812
Management and general (includes \$15,432 and \$10,325 of in-kind contributions in 2019 and 2018, respectively)	<u>237,180</u>	<u>-</u>	<u>237,180</u>	<u>249,416</u>
Total supporting services	<u>561,925</u>	<u>-</u>	<u>561,925</u>	<u>564,228</u>
Total expenses	<u>4,817,523</u>	<u>-</u>	<u>4,817,523</u>	<u>4,533,265</u>
Change in net assets	(20,351)	20,629	278	(55,710)
Net assets – beginning of year	<u>1,133,001</u>	<u>509,870</u>	<u>1,642,871</u>	<u>1,698,581</u>
Net assets – end of year	\$ <u>1,112,650</u>	\$ <u>530,499</u>	\$ <u>1,643,149</u>	\$ <u>1,642,871</u>

The accompanying notes are an integral part of these financial statements

# The Cleveland Film Society

## Statement of Functional Expenses

For the year ended September 30, 2019 (with comparative totals for 2018)

	<u>Program Services</u>	<u>Supporting Services</u>		<u>2019 Total Expenses</u>	<u>2018 Total Expenses</u>
		<u>Fundraising</u>	<u>Management and General</u>		
Personnel	\$ 539,033	\$ 252,992	\$ 124,054	\$ 916,079	\$ 880,628
Professional services (includes \$63,127 and \$2,075 of in-kind contributions in 2019 and 2018, respectively)	73,370	-	67,253	140,623	92,559
Temporary services	528,937	-	-	528,937	479,646
Occupancy	49,578	23,269	11,410	84,257	77,624
Communications	7,787	3,655	1,792	13,234	16,382
Office expense	58,294	27,360	13,416	99,070	111,285
Insurance	8,683	4,075	1,998	14,756	16,276
Postage/delivery	45,835	2,546	2,546	50,927	49,933
Printing (includes \$13,253 and \$17,610 of in-kind contributions in 2019 and 2018, respectively)	165,981	-	-	165,981	162,168
Meetings	13,969	6,557	3,215	23,741	24,334
Staff development	5,743	2,696	1,322	9,761	4,738
Travel (includes \$69,293 and \$88,981 of in-kind contributions in 2019 and 2018, respectively)	265,993	-	-	265,993	306,537
Charges and fees	28,705	1,595	1,593	31,893	28,595
Marketing and publicity (includes \$591,470 and \$701,477 of in-kind contributions in 2019 and 2018, respectively)	802,023	-	-	802,023	930,358
Event production (includes \$598,379 and \$286,540 of in-kind contributions in 2019 and 2018, respectively)	1,661,667	-	-	1,661,667	1,340,929
Bad debt expense	-	-	8,450	8,450	9,452
Interest expense	-	-	131	131	1,821
	<u>\$ 4,255,598</u>	<u>\$ 324,745</u>	<u>\$ 237,180</u>	<u>\$ 4,817,523</u>	<u>\$ 4,533,265</u>
Percentage of total expenses	<u>88.34%</u>	<u>6.74%</u>	<u>4.92%</u>	<u>100.00%</u>	

The accompanying notes are an integral part of these financial statements

# The Cleveland Film Society

## Statement of Cash Flows

**For the year ended September 30, 2019 (with comparative totals for 2018)**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 278	\$ (55,710)
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Bad debt	8,450	9,452
Depreciation	56,037	72,162
Net realized and unrealized gain on investments	(27,571)	(91,065)
Decrease (increase) in operating assets:		
Accounts receivable	32,173	(16,086)
Promises to give	(130,759)	75,571
Inventory	-	8,720
Prepaid expenses	5,080	(7,057)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(9,421)	(40,022)
Deferred revenue	<u>24,154</u>	<u>(2,499)</u>
Net cash used by operating activities	(41,579)	(46,534)
 Cash flows from investing activities:		
Purchases of investments	(25,978)	(109,815)
Proceeds from sales of investments	4,354	148,340
Purchases of property and equipment	<u>(28,882)</u>	<u>(66,050)</u>
Net cash used by investing activities	(50,506)	(27,525)
 Cash flows from financing activities:		
Principal payments on long-term debt	<u>(25,202)</u>	<u>(104,512)</u>
Net cash used by financing activities	<u>(25,202)</u>	<u>(104,512)</u>
 Net decrease in cash and cash equivalents	(117,287)	(178,571)
 Cash and cash equivalents, beginning of year	<u>214,463</u>	<u>393,034</u>
 Cash and cash equivalents, end of year	\$ <u><u>97,176</u></u>	\$ <u><u>214,463</u></u>
 <b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ 131	\$ 1,821

The accompanying notes are an integral part of these financial statements

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 1: Summary of Significant Accounting Policies

#### Nature of Activities

The Cleveland Film Society (the “Society”) is a nonprofit organization, organized to promote artistically and culturally significant film arts through education and exhibition to enrich the life of the Cleveland, Ohio, community. The Society’s mission is primarily achieved through the Cleveland International Film Festival (the “Festival”). The Society has negotiated to hold the Festival principally at a downtown Cleveland cinema. The ability to negotiate such contracts is critical to enable the Society to conduct its main program activity. During fiscal 2019, the Society entered into a one-year agreement with a downtown Cleveland cinema to host the 44th Festival held during fiscal year 2020.

#### Basis of Presentation

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

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions/stipulations and are therefore available for use at the discretion of the Board of Directors and/or management for general operating purposes. These include net assets designated by the Board of Directors to be set aside for specific purposes over which the Board retains control and may, at its discretion, subsequently be used for other purposes.

*Net Assets With Donor Restrictions* – Net assets with donor restrictions are subject to donor-imposed restrictions/stipulations that may or will be met, either by actions of the Society and/or the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. If donor-imposed restrictions are met in the same year as they are imposed, the related contributions, grants, and/or investment income are reported as revenue without donor restrictions. Some net assets with donor restrictions include a stipulation that assets be maintained by the Society in perpetuity while permitting the Society to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board-approved spending policy. These include endowment funds received by the Society which are to be invested to generate income to support the purpose of the particular funds.



# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 1: Summary of Significant Accounting Policies (continued)

#### Adopted Accounting Pronouncement

The FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities* in August 2016. This ASU changes the current reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled “net assets without donor restriction” and “net assets with donor restrictions,” (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to summarize the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (f) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Society’s financial statements have been updated to reflect the implementation of this standard. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now combined and reported as net assets with donor restrictions. There was no effect on total net assets as a result of the adoption of this standard.

#### Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society’s financial statements for the year ended September 30, 2018, from which the summarized information was derived.

#### Income Taxes

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

The Society accounts for income taxes in accordance with the “Income Taxes” topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Society classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of September 30, 2019, the Society has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

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

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 1: Summary of Significant Accounting Policies (continued)

#### Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Costs that benefit multiple functional areas have been allocated across programs and other supporting services based on the employee salary allocations.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash Equivalents

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

#### Receivables and Credit Policies

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

Management reviews the balance in accounts receivable and estimates the portion, if any, of the balance that will not be collected. At September 30, 2019, management estimated that no allowance for doubtful accounts was required.

#### Contributions and Pledges Receivable

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

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

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 1: Summary of Significant Accounting Policies (continued)

#### Contributions and Pledges Receivable (continued)

Management periodically reviews the status of outstanding promises to give and estimates the amount, if any, that may not be collected. A reserve is established, if necessary, and individual amounts deemed uncollectible are written-off against that reserve. At September 30, 2019, management estimated that no allowance for doubtful accounts was required. All promises to give at September 30, 2019 were scheduled to be collected within one year.

#### Investments

The Investments Topic of the ASC requires that covered investments be reported in the statement of financial position at fair value with any realized and unrealized gains and losses reported in the statement of activities. Investment income and gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless a donor or law restricts their use.

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

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

#### Inventory

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

#### Property and Equipment

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

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### **Note 1: Summary of Significant Accounting Policies (continued)**

#### Property and Equipment (continued)

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Society reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

#### In-Kind Contributions

In-kind contributions are reflected as revenues at their estimated fair value at the date of donation. The Society reports gifts of equipment, professional services, materials, and other non-monetary contributions as revenue and expense without donor restrictions in the accompanying statement of activities unless accompanied by explicit donor-imposed restrictions, in which case, the contributions would be recorded as revenue with donor restrictions in accordance with the donor restrictions.

#### Contributed Services

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

#### Concentrations of Credit Risk

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

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

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

At various times during the year ended September 30, 2019, the Society's cash in bank balances may have exceeded the federally insured limits.

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 1: Summary of Significant Accounting Policies (continued)

#### Advertising and Promotion

Advertising and promotion costs are expensed as incurred.

Advertising expense amounted to \$802,023 for the year ended September 30, 2019, \$591,470 of which was provided through in-kind contributions.

#### Recent Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In addition, in November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses, Derivatives and Hedging, and Leases*, which delayed the effective date of ASU 2016-02 for the Society to years beginning after December 15, 2020. Management is currently evaluating the impact of this ASU on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* to provide clarity in the requirements for the presentation of restricted cash on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Management does not expect this ASU to have significant impact on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange transactions subject to the guidance issued under ASU 2014-09. This ASU gives further guidance related to when a contribution is deemed to be conditional such that recognition of revenue should be delayed until conditions are substantially met. This ASU is effective for fiscal years beginning after December 15, 2018 for recipients of funds and for fiscal years beginning after December 15, 2019 for resource providers. Early adoption is permitted. Management is currently evaluating the impact of this ASU on its financial statements.

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 1: Summary of Significant Accounting Policies (continued)

#### Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported financial position or net assets.

#### Subsequent Events

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through March 18, 2020, the date the financial statements were available to be issued.

### Note 2: Promises to Give

As of, and for the year ended, September 30, 2019, \$3,400 of unconditional promises to give receivable and \$550,036 of contributions and grants revenue were from related parties, including members of the Board of Directors and their respective companies.

On December 5, 2018, the Cuyahoga Arts and Culture, a regional arts and cultural district and a political subdivision of the State of Ohio, approved the Society to receive \$151,303 for 2019 operations. All of the revenue was recognized during 2019, and as of September 30, 2019, all but \$15,130 had been paid against the pledge.

### Note 3: Property and Equipment

At September 30, 2019, property and equipment consisted of:

Furniture and fixtures	\$ 102,733
Computers and equipment	147,603
Website development	259,350
Digital production equipment	516,050
Leasehold improvements	<u>15,849</u>
Total property and equipment, at cost	1,041,585
Less: accumulated depreciation	<u>(719,988)</u>
Total property and equipment, net	\$ <u><u>321,597</u></u>

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 4: Obligations Under Leases

Rental expense related to operating leases for facilities and office equipment (telephone, postage machine, and copier) was \$66,261 for the year ended September 30, 2019.

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

2020	\$	53,355
2021		53,355
2022		50,938
2023		50,938
2024		45,714
Thereafter		<u>-</u>
Total future minimum lease payments	\$	<u>254,300</u>

### Note 5: Loan Payable

On December 19, 2013, the Society entered into a fixed-interest rate loan for \$500,000 with The George Gund Foundation to purchase digital projection equipment. Interest accrued on the loan at 2%. Principal and interest payments of \$26,351 were due quarterly beginning March 31, 2014 through December 31, 2018. The loan was secured by the digital projection equipment. The digital projection equipment purchased is leased to a downtown Cleveland cinema.

Required principal payments were based on the fixed-interest rate loan agreement. The Society made its final loan payment in December 2018.

The Society will receive \$24,750 from the lease in fiscal year 2020. The lease will terminate on August 31, 2020. At September 30, 2019, the total cost of the digital projection equipment is \$516,050 and the carrying amount is \$255,200.

### Note 6: Line of Credit

The Society has a \$200,000 line of credit with a bank. The line of credit is unsecured, bears interest at the bank's prime rate plus 1% (6.00% at September 30, 2019), and is due on demand subject to periodic reviews. The agreement requires that the Society maintains an operating account with the bank. At September 30, 2019, no amounts were outstanding on the line and no amounts were drawn during the year then ended.

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 7: Investments and Fair Value Measurements

During the year ended September 30, 2019, the Society had the following investment-related activities:

Net realized and unrealized gain on investments	\$ 27,571
Investment management fees	<u>(4,354)</u>
Total net investment income	\$ <u>23,217</u>

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

Financial assets measured at fair value on a recurring basis at September 30, 2019 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 2019</u>
Investments held at the Cleveland Foundation	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,191,871</u>	\$ <u>1,191,871</u>
	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,191,871</u>	\$ <u>1,191,871</u>

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

Purchases of Level 3 assets during the year ended September 30, 2019 were as follows:

Investments held at the Cleveland Foundation	\$ <u>25,978</u>
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### Note 8: Net Asset Classification of Endowment Funds

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



# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

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

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

The Board of Directors of the Society has interpreted the State of Ohio enacted version of the Uniform Prudent Management of Institutional Fund Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies within net assets with donor restrictions (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanent endowment made in the accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

#### Endowment Net Asset Composition by type of fund as of September 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>501,499</u>	\$ <u>501,499</u>

#### Changes in Endowment Net Assets for the fiscal year ended September 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 509,870	\$ 509,870
Contributions	-	-	-
Net realized and unrealized gain on investments	-	12,029	12,029
Investment management fees	-	(1,900)	(1,900)
Appropriations from endowment	<u>-</u>	<u>(18,500)</u>	<u>(18,500)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>501,499</u>	\$ <u>501,499</u>

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

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

Appropriations from endowments were used for the following purposes during the year ended September 30, 2019:

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

### Note 9: Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30, 2019

Subject to expenditure for specified purpose or period:

CIFF 44	\$ 4,000
CIFF 44 Film Slam	25,000
Accumulated earnings on endowments	<u>40,999</u>
	69,999

Endowments restricted in perpetuity:

Greg Gund Memorial Standing Up Competition Endowment	175,000
George Gund III Memorial Central and Eastern European Competition Endowment	250,000
David Ream Best Comedy Short Award Endowment	<u>35,500</u>
	<u>460,500</u>
	\$ <u>530,499</u>

Board-designated net assets of \$810,000 constitute a working capital reserve fund. The fund was initially funded through a challenge grant from a community foundation. The community foundation agreed to provide \$150,000 in matching funds if the Society was able to raise \$150,000 in contributions to be designated, by the Society's Board, as a working capital reserve fund. As this working capital reserve fund does not contain donor restrictions on use or to any particular future periods, or into perpetuity, the fund has been classified as board-designated.

### Note 10: Retirement Plan

Full-time employees with greater than one year of employment with the Society are eligible to participate in a 403(b) tax-deferred retirement plan. The Society matches 100% of employee contributions up to 6% of the employee's gross wages. For the year ended September 30, 2019, the Society incurred \$35,810 in matching expense.

# The Cleveland Film Society

## Notes to Financial Statements

September 30, 2019

### Note 11: Liquidity and Availability of Resources

The Society's financial assets available within one year of September 30, 2019 for general expenditure are as follows:

Cash and cash equivalents	\$ 97,176
Promises to give	147,437
Investments- without restrictions	690,382
Investments- restricted for endowment	<u>501,499</u>
	1,436,494
Less:	
Amounts unavailable	
Restricted by donors- purpose restrictions	(25,000)
Restricted by donors- time restrictions	(4,000)
Board designated reserve fund	(810,000)
Investments- restricted for endowment	<u>(501,499)</u>
	<u>(1,340,499)</u>
Total financial assets available within one year	\$ <u>95,995</u>

The Society maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

To help manage liquidity needs, the Society has a committed line of credit of \$200,000 that it can draw upon if necessary. At September 30, 2019, the Society had \$200,000 available under the line of credit. Additionally, the Board of Directors, at its discretion, may repurpose funds from the Board-designated working capital reserve for the purpose of general expenditures.

### Note 12: Subsequent Events

On December 6, 2019, the Society entered into a memorandum of understanding with Playhouse Square Foundation for the purpose of presenting the Cleveland International Film Festival in the theatres at Playhouse Square. The Festival will be presented at Playhouse Square beginning in fiscal year 2021.

In early calendar 2020, the world began dealing with the effects of the Coronavirus (COVID-19). Serious disruptions to daily activities and the financial markets have been experienced, including event postponements and cancellations, as well as significant declines in the investment markets.

On March 11, 2020, as a result of concerns about the spread of COVID-19, local health officials advised the need to cancel the Festival, two weeks prior to the scheduled Opening Night. The Society's Board and management are evaluating the financial impact of the cancellation. The Society has drawn \$200,000 on its line of credit to cover immediate cash needs and expects to utilize a substantial portion of its Board-designated working capital reserve to cover the anticipated deficits. The Society expects to have sufficient reserves to cover any deficits and proceed with the Festival in 2021.