

The Cleveland Film Society

**Financial Statements
September 30, 2020**

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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Society's 2019 financial statements, and our report dated March 18, 2020, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ciuni + Panichi, Inc.

Cleveland, Ohio
March 31, 2021

The Cleveland Film Society

Statement of Financial Position

September 30, 2020 (with comparative totals for 2019)

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 673,271	\$ 97,176
Promises to give:		
Without donor restrictions	69,500	122,437
With donor restrictions	-	25,000
Inventory	11,683	2,588
Investments	725,892	690,372
Prepaid expenses	13,777	23,761
Total current assets	<u>1,494,123</u>	<u>961,334</u>
Property and equipment, net	247,316	321,597
Endowment:		
Restricted investments	<u>515,821</u>	<u>501,499</u>
	<u>763,137</u>	<u>823,096</u>
	\$ <u>2,257,260</u>	\$ <u>1,784,430</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities:		
Line of credit	\$ 200,000	\$ -
Accounts payable and accrued expenses	26,937	58,667
Deferred revenue	54,478	82,614
Loans payable	155,500	-
Total current liabilities	<u>436,915</u>	<u>141,281</u>
Net assets:		
Without donor restrictions:		
Undesignated	494,524	302,650
Board-designated	810,000	810,000
Total without donor restrictions	<u>1,304,524</u>	<u>1,112,650</u>
With donor restrictions	<u>515,821</u>	<u>530,499</u>
Total net assets	<u>1,820,345</u>	<u>1,643,149</u>
	\$ <u>2,257,260</u>	\$ <u>1,784,430</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, 2020 (with comparative totals for 2019)

	2020			2019 Total
	Without Donor Services	With Donor and General	Total	
Public support, revenues, and gains:				
Contributions and grants (includes \$401,603 and \$1,335,522 of in-kind contributions in 2020 and 2019, respectively)	\$ 2,191,197	\$ -	\$ 2,191,197	\$ 3,531,027
Memberships	297,301	-	297,301	416,835
Ticket sales	78,154	-	78,154	607,518
Merchandise sales	14,899	-	14,899	39,418
Net investment income	20,156	14,322	34,478	23,217
Fees	200,519	-	200,519	157,655
Rental income	7,173	-	7,173	41,260
Other	7,500	-	7,500	871
Net assets released from restrictions	29,000	(29,000)	-	-
Total public support, revenues, and gains	2,845,899	(14,678)	2,831,221	4,817,801
Expenses:				
Program services (includes \$401,353 and \$1,320,090 of in-kind contributions in 2020 and 2019, respectively)	2,078,215	-	2,078,215	4,255,598
Supporting services:				
Fundraising	327,274	-	327,274	324,745
Management and general (includes \$250 and \$15,432 of in-kind contributions in 2020 and 2019, respectively)	248,536	-	248,536	237,180
Total supporting services	575,810	-	575,810	561,925
Total expenses	2,654,025	-	2,654,025	4,817,523
Change in net assets	191,874	(14,678)	177,196	278
Net assets – beginning of year	1,112,650	530,499	1,643,149	1,642,871
Net assets – end of year	\$ 1,304,524	\$ 515,821	\$ 1,820,345	\$ 1,643,149

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, 2020 (with comparative totals for 2019)

	<u>Supporting Services</u>				
	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>2020 Total Expenses</u>	
Personnel	\$ 564,955	\$ 263,061	\$ 129,235	\$ 957,251	\$ 916,079
Professional services (includes \$5,185 and \$63,127 of in-kind contributions in 2020 and 2019, respectively)	45,024	-	67,049	112,073	140,623
Temporary services	203,200	-	-	203,200	528,937
Occupancy	47,682	22,202	10,907	80,791	84,257
Communications	7,608	3,543	1,741	12,892	13,234
Office expense	53,522	24,922	12,244	90,688	99,070
Insurance	9,473	4,411	2,167	16,051	14,756
Postage/delivery	39,392	2,188	2,188	43,768	50,927
Printing (includes \$3,331 and \$13,253 of in-kind contributions in 2020 and 2019, respectively)	143,388	-	-	143,388	165,981
Meetings	8,344	3,886	1,909	14,139	23,741
Staff development	3,454	1,608	790	5,852	9,761
Travel (includes \$24,199 and \$69,293 of in-kind contributions in 2020 and 2019, respectively)	91,385	-	-	91,385	265,993
Charges and fees	26,156	1,453	1,451	29,060	31,893
Marketing and publicity (includes \$362,738 and \$591,470 of in-kind contributions in 2020 and 2019, respectively)	501,235	-	-	501,235	802,023
Event production (includes \$6,150 and \$598,379 of in-kind contributions in 2020 and 2019, respectively)	333,397	-	-	333,397	1,661,667
Bad debt expense	-	-	14,660	14,660	8,450
Interest expense	-	-	4,195	4,195	131
	<u>\$ 2,078,215</u>	<u>\$ 327,274</u>	<u>\$ 248,536</u>	<u>\$ 2,654,025</u>	<u>\$ 4,817,523</u>
Percentage of total expenses	<u>78.30</u> %	<u>12.33</u> %	<u>9.36</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, 2020 (with comparative totals for 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 177,196	\$ 278
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Bad debt	14,660	8,450
Depreciation	133,752	56,037
Net realized and unrealized gain on investments	(39,458)	(27,571)
Decrease (increase) in operating assets:		
Accounts receivable	-	32,173
Promises to give	63,277	(130,759)
Inventory	(9,095)	-
Prepaid expenses	9,984	5,080
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(31,730)	(9,421)
Deferred revenue	(28,136)	24,154
Net cash provided (used) by operating activities	290,450	(41,579)
Cash flows from investing activities:		
Purchases of investments	(1,365,364)	(25,978)
Proceeds from sales of investments	1,354,980	4,354
Purchases of property and equipment	(59,471)	(28,882)
Net cash used by investing activities	(69,855)	(50,506)
Cash flows from financing activities:		
Principal payments on long-term debt	-	(25,202)
Proceeds from line of credit	200,000	-
Proceeds from loans	155,500	-
Net cash provided (used) by financing activities	355,500	(25,202)
Net increase (decrease) in cash and cash equivalents	576,095	(117,287)
Cash and cash equivalents, beginning of year	97,176	214,463
Cash and cash equivalents, end of year	\$ 673,271	\$ 97,176
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 4,195	\$ 131

The accompanying notes are an integral part of these financial statements

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

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”). During fiscal 2020, the Festival was cancelled due to concerns surrounding the COVID-19 pandemic. CIFF44 Streams, a virtual Film Festival, was held in its place.

Basis of Presentation

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

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 Society 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 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, 2020

Note 1: Summary of Significant Accounting Policies (continued)

COVID-19 Impact

The Society was impacted by the onset of the COVID-19 pandemic. 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.

CIFF44 Reinvented was designed early in the pandemic. The endeavor included releasing the CIFF44 trailer; selling CIFF44 limited edition merchandise; launching a virtual Challenge Match annual campaign; producing season two of CIFF Speaks podcasts; participating in the IF/Then Shorts American Midwest Pitch Competition Online; orchestrating the start of FilmSlam Streams; compiling CIFF Alum Streams (a listing of films from past Festivals that are available for streaming); and presenting the centerpiece of CIFF44 Reinvented: CIFF44 Streams – a fully virtual Film Festival. During a two-week period (April 15-28, 2020), 325 feature and short films resulted in 42,107 streams. The Society plans to hold another fully virtual Festival (CIFF45) in fiscal 2021.

The Society contacted donors with sponsorships and gifts restricted for CIFF44 and asked for these sponsorships and gifts to be converted to general operating support. The Society also drew \$200,000 on the line of credit during fiscal 2020.

The Society received \$147,500 in Paycheck Protection Program (PPP) funding on April 16, 2020. The terms of the funding agreement indicate that the Society must utilize the proceeds to fund/offset qualifying expenses over an 8 or 24-week period and that they maintain their full-time equivalent employment as specified in the terms of the agreement. The terms of the agreement specify that the Society must repay any unforgiven principal of the loan plus interest, which accrues at 1% annually. The loan matures on April 16, 2022. The loan and interest may be forgiven if the Society meets the conditions for such forgiveness outlined in the PPP. Subsequent to September 30, 2020, the Society received forgiveness of \$139,500. The \$8,000 unforgiven represents a reduction for an Economic Industry Disaster Loan advance received by the Society during fiscal 2020. The Society repaid the \$8,000 during fiscal 2021. However, guidance on PPP forgiveness has been updated and the Society received reimbursement for the \$8,000 subsequent to September 30, 2020.

The quantitative impact of COVID-19 cannot be reasonably estimated at September 30, 2020.

Adopted Accounting Pronouncements

In June 2018, the FASB issued Accounting Standards Update (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 other revenue recognition guidance. 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. On October 1, 2019, the Society adopted this ASU. The Society's financial statements have been updated to reflect the implementation of this standard on a modified-prospective basis. There was no impact on beginning net assets as a result of this implementation.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 1: Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncements (continued)

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 standard requires that total cash presented on the statement of cash flows reflect all cash and cash equivalents shown on the statement of financial position with a reconciliation of items incorporated into that total shown either on the statement of cash flows or in the notes to the financial statements. On October 1, 2019, the Society adopted this ASU. There was no impact on beginning net assets as a result of this implementation.

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, 2019, 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, 2020, 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.

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.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 1: 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 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.

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.

The Society recognizes unconditional promises to give as revenue in the period in which the promise is received. If there are no donor-imposed restrictions on the use of funds, then those revenues are classified as without donor restrictions. If a donor-imposed restriction exists, then it must be determined if this restriction is with regard to time or purpose, or in perpetuity and classified in the financial statements as net assets with donor restrictions. A donor-imposed restriction is present when the contributor of funds designates a specific purpose or time period in which the funds may be used. At the time when this donor-imposed restriction has been satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

If donor-imposed conditions exist, revenue is recognized when the conditions are substantially met. A donor-imposed condition exists when (a) one or more barriers must be overcome before a recipient is entitled to the assets transferred or promised, and (b) a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets exists. When the conditions are substantially met, revenue is recognized as support without donor restrictions or revenue with donor restrictions if donor-imposed stipulations are present.

The pledges are recorded at their fair value when promised. 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.

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, 2020, management estimated that no allowance for doubtful accounts was required. All promises to give at September 30, 2020 were scheduled to be collected within one year.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 1: Summary of Significant Accounting Policies (continued)

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, along with realized gains and losses, and interest and dividends, net of investment fees, 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. The Society capitalizes purchases of property and equipment greater than \$1,000. Purchased property and equipment are stated at cost.

Digital projection equipment was being depreciated over three years with a salvage value of \$255,200. In fiscal 2020, the Society estimated that the digital projection equipment life should be extended by three years, with a salvage value of \$-0-. This represents a significant estimate that is subject to material change within one year.

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.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 1: Summary of Significant Accounting Policies (continued)

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, 2020, the Society's cash in bank balances may have exceeded the federally insured limits.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred.

Advertising expense amounted to \$501,235 for the year ended September 30, 2020, \$362,738 of which was provided through in-kind contributions.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. In June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which further delayed the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). The new standard establishes a right-of-use model that requires a lessee to record a right-of-use 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 statements of activities and functional expenses. FASB issued ASU 2020-05 that deferred the effective date for the Society until annual periods beginning after December 15, 2021.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The objective of this ASU is to improve the effectiveness of disclosures in the notes to the financial statements. This ASU is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. Early adoption of this ASU is permitted.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which clarifies the presentation of contributed nonfinancial assets as a separate line item in the statement of activities. This ASU is effective for fiscal years beginning after June 15, 2021, and interim periods within fiscal years beginning after June 15, 2022.

Management is currently evaluating the impact of these ASUs on its financial statements.

Subsequent Events

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through March 31, 2021, the date the financial statements were available to be issued.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 2: Promises to Give

As of, and for the year ended, September 30, 2020, \$500 of unconditional promises to give receivable and \$438,917 of contributions and grants revenue were from related parties, including members of the Board of Directors and their respective companies.

Note 3: Property and Equipment

At September 30, 2020, property and equipment consisted of:

Furniture and fixtures	\$ 102,733
Computers and equipment	207,074
Website development	259,350
Digital production equipment	516,050
Leasehold improvements	<u>15,849</u>
Total property and equipment, at cost	1,101,056
Less: accumulated depreciation	<u>(853,740)</u>
Total property and equipment, net	\$ <u>247,316</u>

The Society's digital projection equipment was leased to a downtown Cleveland cinema. The Society received \$7,173 from the lease in fiscal year 2020. The lease terminated on August 31, 2020.

Note 4: Obligations Under Leases

Rental expense related to operating leases for facilities and office equipment (telephone, postage machine, and copier) was \$71,251 for the year ended September 30, 2020.

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:

2021	\$ 53,355
2022	50,938
2023	50,938
2024	45,714
2025	-
Thereafter	<u>-</u>
Total future minimum lease payments	\$ <u>200,945</u>

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 5: Loans Payable

During the year ended September 30, 2020, the Society received an \$8,000 EIDL loan from the U.S. Small Business Administration (SBA). Interest accrues on the loan at 2.75%. The loan is payable in 30 annual installments, ending in July 2050. At September 30, 2020, \$8,000 remained outstanding. The loan is reflected as a current liability as the Society repaid the loan in fiscal 2021.

The Society also received a \$147,500 PPP loan from the SBA during fiscal 2020. The terms of the agreement specify that the Society must repay any unforgiven principal of the loan plus interest, which accrues at 1% annually. The loan matures on April 16, 2022. The loan and interest may be forgiven if the Society meets the conditions for such forgiveness outlined in the PPP. The loan is reflected as a current liability as the Society received forgiveness of \$139,500 in fiscal 2021, and anticipates that the remaining \$8,000 will be forgiven as discussed in Note 1. Subsequent to September 30, 2020, the Society received reimbursement of the \$8,000.

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% (4.25% at September 30, 2020), and is due on demand subject to periodic reviews. The agreement requires that the Society maintains an operating account with the bank. During fiscal 2020, \$200,000 was drawn on the line. No amounts were available at September 30, 2020.

Note 7: Investments and Fair Value Measurements

During the year ended September 30, 2020, the Society had the following investment-related activities:

Net realized and unrealized gain on investments	\$ 39,458
Investment management fees	<u>(4,980)</u>
Total net investment income	\$ <u><u>34,478</u></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.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 7: Investments and Fair Value Measurements (continued)

Financial assets measured at fair value on a recurring basis at September 30, 2020 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 2020</u>
Investments held at the Cleveland Foundation:				
Money market pool	\$ -	\$ 452,857	\$ -	\$ 452,857
Flagship pool	-	-	548,997	548,997
Balanced pool	-	-	<u>239,859</u>	<u>239,859</u>
	\$ <u>-</u>	\$ <u>452,857</u>	\$ <u>788,856</u>	\$ <u>1,241,713</u>

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

The table below sets forth a summary of changes in the fair value of the Society's Level 3 assets for the year ended September 30, 2020:

Balance, beginning of period	\$ 1,191,871
Contributions	15,364
Transfers to money market pool	(900,000)
Transfers from money market pool	450,000
Change in market value	<u>31,621</u>
Balance, end of period	\$ <u>788,856</u>

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 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 Cleveland Film Society

Notes to Financial Statements

September 30, 2020

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

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, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>515,821</u>	\$ <u>515,821</u>

Changes in Endowment Net Assets for the fiscal year ended September 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 501,499	\$ 501,499
Contributions	-	-	-
Net realized and unrealized gain on investments	-	16,391	16,391
Investment management fees	<u>-</u>	<u>(2,069)</u>	<u>(2,069)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>515,821</u>	\$ <u>515,821</u>

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Notes to Financial Statements

September 30, 2020

Note 9: Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30, 2020:

Subject to expenditure for specified purpose or period:	
Accumulated earnings on endowments	\$ 55,321
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>
Total endowments restricted in perpetuity	<u>460,500</u>
Total net assets with donor restrictions	\$ <u>515,821</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, 2020, the Society incurred \$36,937 in matching expense.

The Cleveland Film Society

Notes to Financial Statements

September 30, 2020

Note 11: Liquidity and Availability of Resources

The Society's financial assets available within one year of September 30, 2020 for general expenditure are as follows:

Cash and cash equivalents	\$ 673,271
Promises to give	69,500
Investments- without restrictions	725,892
Investments- restricted for endowment	<u>515,821</u>
	1,984,484
Less:	
Amounts unavailable	
Board designated reserve fund	(810,000)
Investments- restricted for endowment	<u>(515,821)</u>
	<u>(1,325,821)</u>
Total financial assets available within one year	\$ <u>658,663</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, 2020, the Society had \$-0- 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 February 12, 2021, the Society applied for and received a second PPP loan for \$128,750. The terms of the funding agreement indicate that the Society must utilize the proceeds to fund/offset qualifying expenses over an 8 or 24-week period and that they maintain their full-time equivalent employment as specified in the terms of the agreement. The terms of the agreement specify that the Society must repay any unforgiven principal of the loan plus interest, which accrues at 1% annually. The loan matures on February 12, 2023. The loan and interest may be forgiven if the Society meets the conditions for such forgiveness outlined in the PPP.

Subsequent to September 30, 2020, the Society repaid \$100,000 on the outstanding line of credit. The line of credit was also renewed, with maximum borrowings available reduced to \$100,000.