

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

FINANCIAL STATEMENTS

September 30, 2020 and 2019

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

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INDEPENDENT AUDITOR'S REPORT

February 25, 2021

To the Board of Trustees
The Pewabic Society, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Pewabic Society, Inc. (the "Society," a Michigan non-profit Corporation), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, as well as the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we express no such opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (continued)

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.

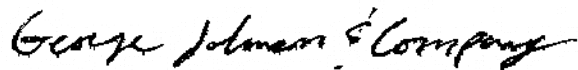
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pewabic Society, Inc. as of September 30, 2020 and 2019, 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.

Adoption of New Accounting Pronouncements

As discussed in Note A, effective October 1, 2019, the Society has adopted the provisions contained in Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,020,267	\$ 190,223
Accounts receivable (net of allowance of \$339 and \$1,221 in 2020 and 2019, respectively)	3,050	10,993
Pledges receivable – current portion (net of allowance of \$7,660 and \$14,828 in 2020 and 2019, respectively) (Note D)	60,940	54,447
Grants receivable (no allowance considered necessary)	152,635	224,399
Inventories (Note E)	398,719	426,396
Prepaid expenses	15,562	865
Total Current Assets	<u>1,651,173</u>	<u>907,323</u>
Other Assets:		
Property and equipment, net (Note F)	3,181,030	3,292,457
Beneficial interest in assets held by Community Foundation for Southeast Michigan, at fair value (Note G)	110,301	107,817
Pledges receivable (net of current portion) (net of discount of \$2,619 and \$10,559 in 2020 and 2019, respectively) (Note D)	5,381	68,441
Museum collection (Note A)	154,776	154,156
Trademarks	4,015	4,015
Total Other Assets	<u>3,455,503</u>	<u>3,626,886</u>
Total Assets	<u>\$ 5,106,676</u>	<u>\$ 4,534,209</u>

See notes to financial statements.

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 100,193	\$ 110,177
Notes payable – current portion (Note J)	391,318	32,315
Lease payable – current portion (Note K)	2,259	2,187
Accrued payroll and vacation (Note L)	176,205	178,347
Customer deposits	195,979	115,401
Deferred revenue	10,385	38,445
Refundable advance (Note M)	402,200	-0-
Gift certificates	40,809	33,702
	<u>1,319,348</u>	<u>510,574</u>
Long-Term Liabilities:		
Notes payable (net of current portion) (Note J)	384,066	627,640
Lease payable (net of current portion) (Note K)	3,562	4,991
	<u>387,628</u>	<u>632,631</u>
	<u>1,706,976</u>	<u>1,143,205</u>
Net Assets:		
Net assets without donor restrictions:		
Board-designated (Note C)	2,003,446	2,632,502
Undesignated	1,278,595	527,548
	<u>3,282,041</u>	<u>3,160,050</u>
	<u>117,659</u>	<u>230,954</u>
	<u>3,399,700</u>	<u>3,391,004</u>
	<u>\$ 5,106,676</u>	<u>\$ 4,534,209</u>

See notes to financial statements.

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Gains:						
Public support:						
Contributions	\$ 358,468	\$ 162,697	\$ 521,165	\$ 335,644	\$ 375,293	\$ 710,937
Memberships and events	202,252		202,252	250,231		250,231
Net assets released from restrictions (Note B)	275,992	(275,992)	-0-	671,719	(671,719)	-0-
Total Public Support	836,712	(113,295)	723,417	1,257,594	(296,426)	961,168
Revenue and gains:						
Gallery sales and commissioned projects (net of returns)	2,112,202		2,112,202	2,509,074		2,509,074
Educational and exhibitions	189,671		189,671	274,909		274,909
Other revenue and gains	23,324		23,324	35,046		35,046
Total Revenue and Gains	2,325,197	-0-	2,325,197	2,819,029	-0-	2,819,029
Total Public Support, Revenue, and Gains	3,161,909	(113,295)	3,048,614	4,076,623	(296,426)	3,780,197
Expenses:						
Program services:						
Gallery	1,348,957		1,348,957	1,711,703		1,711,703
Education	469,170		469,170	676,423		676,423
Art design studio	748,483		748,483	544,810		544,810
Exhibitions	32,718		32,718	54,104		54,104
Museum	4,848		4,848	4,984		4,984
Total Program Services	2,604,176	-0-	2,604,176	2,992,024	-0-	2,992,024
Supporting services:						
Development, membership, and campus expansion	244,289		244,289	402,573		402,573
Administrative and general	191,453		191,453	338,780		338,780
Total Supporting Services	435,742	-0-	435,742	741,353	-0-	741,353
Total Expenses	\$ 3,039,918	\$ -0-	\$ 3,039,918	\$ 3,733,377	\$ -0-	\$ 3,733,377

See notes to financial statements.

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended September 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Change in Net Assets	\$ 121,991	\$ (113,295)	\$ 8,696	\$ 343,246	\$ (296,426)	\$ 46,820
Net Assets, Beginning of Year	3,160,050	230,954	3,391,004	2,816,804	527,380	3,344,184
Net Assets, End of Year	\$ 3,282,041	\$ 117,659	\$ 3,399,700	\$ 3,160,050	\$ 230,954	\$ 3,391,004

See notes to financial statements.

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2020
(With Comparative Totals for the Year Ended September 30, 2019)

	2020									Total Expenses	
	Program Services					Supporting Services				2020	2019
	Gallery	Education	Art Design Studio	Exhibitions	Museum	Total Program Services	Development, Membership, and Campus Expansion	Administrative and General	Total Supporting Services		
Salaries and benefits	\$ 401,191	\$ 295,528	\$ 265,010	\$ -0-	\$ -0-	\$ 961,729	\$ 180,744	\$ 105,996	\$ 286,740	\$ 1,248,469	\$ 1,308,101
Cost of goods sold	632,090		386,165			1,018,255				1,018,255	1,245,059
Contractual services	58,859	40,625	17,263	1,562		118,309	4,191	21,448	25,639	143,948	274,800
Promotion	76,506	5,477	37,583	50		119,616	9,798		9,798	129,414	232,176
Office expenses	84,096	41,346	27,465	3,096	2,507	158,510	2,370	16,765	19,135	177,645	255,824
Maintenance	6,867	6,966	306	1,893		16,032	2,397	6,627	9,024	25,056	48,885
Exhibitions				15,107		15,107				15,107	33,726
Depreciation	23,738	48,112		4,081	2,341	78,272	5,168	13,038	18,206	96,478	74,352
Interest expense	2,287	2,203		630		5,120	798	2,015	2,813	7,933	9,031
Other expenses	63,323	28,913	14,691	6,299		113,226	38,823	25,564	64,387	177,613	251,423
Total Expenses	\$ 1,348,957	\$ 469,170	\$ 748,483	\$ 32,718	\$ 4,848	\$ 2,604,176	\$ 244,289	\$ 191,453	\$ 435,742	\$ 3,039,918	\$ 3,733,377

See notes to financial statements.

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2019

	<u>Program Services</u>					<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Gallery</u>	<u>Education</u>	<u>Art Design Studio</u>	<u>Exhibitions</u>	<u>Museum</u>	<u>Total Program Services</u>	<u>Development, Membership, and Campus Expansion</u>	<u>Administrative and General</u>	<u>Total Supporting Services</u>	
Salaries and benefits	\$ 423,648	\$ 406,371	\$ 86,143	\$ -0-	\$ 477	\$ 916,639	\$ 243,875	\$ 147,587	\$ 391,462	\$ 1,308,101
Cost of goods sold	871,542		373,517			1,245,059				1,245,059
Contractual services	64,615	109,264	12,248	3,764		189,891	29,645	55,264	84,909	274,800
Promotion	146,224	1,267	49,512	475	50	197,528	24,062	10,586	34,648	232,176
Office expenses	121,107	64,877	19,405	823	3,644	209,856	10,982	34,986	45,968	255,824
Maintenance	11,860	13,678	2,850	3,269		31,657	4,140	13,088	17,228	48,885
Exhibitions				33,726		33,726				33,726
Depreciation	16,963	37,065		3,231	813	58,072	4,092	12,188	16,280	74,352
Interest expense	2,540	2,446		700		5,686	886	2,459	3,345	9,031
Other expenses	53,204	41,455	1,135	8,116		103,910	84,891	62,622	147,513	251,423
Total Expenses	\$ 1,711,703	\$ 676,423	\$ 544,810	\$ 54,104	\$ 4,984	\$ 2,992,024	\$ 402,573	\$ 338,780	\$ 741,353	\$ 3,733,377

See notes to financial statements.

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 649,496	\$ 919,607
Cash received from memberships and events	202,252	250,231
Cash received from gallery sales and commissioned projects	2,179,770	2,560,764
Cash received from educational services and exhibitions	189,671	274,909
Cash received from other sources	20,840	31,875
Cash paid for employee compensation	(1,250,611)	(1,287,427)
Cash paid to suppliers and vendors	(1,528,459)	(2,373,325)
Cash paid for interest	(15,039)	(14,618)
	<u>447,920</u>	<u>362,016</u>
Net Cash Flows from Operating Activities		
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(133,528)	(204,649)
Acquisition of additions to museum collection	(620)	(3,100)
	<u>(134,148)</u>	<u>(207,749)</u>
Net Cash Flows from Investing Activities		
Cash Flows from Financing Activities:		
Proceeds received from Paycheck Protection Program loan (Note M)	402,200	-0-
Proceeds issued on notes payable	150,000	-0-
Payments on lines of credit	-0-	(24,108)
Payments on notes payable	(34,571)	(85,154)
Payments on lease payable	(1,357)	(1,769)
	<u>516,272</u>	<u>(111,031)</u>
Net Cash Flows from Financing Activities		
Change in Cash and Cash Equivalents	830,044	43,236
Cash and Cash Equivalents, Beginning of Year	<u>190,223</u>	<u>146,987</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,020,267</u>	<u>\$ 190,223</u>
Schedule of Noncash Transactions:		
Equipment acquired under lease payable	<u>\$ -0-</u>	<u>\$ 8,947</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Pewabic Society, Inc. (the “Society”) is a Michigan non-profit Corporation established to preserve the heritage of the arts and craft movement in America through the handcrafting of ceramic art, through its stewardship of the National Historic Landmark Pottery Building, which is a living museum, and through education programs. The Society’s mission is focused on: (a) creating ceramic art, which continues the legacy of artist and founder Mary Chase Stratton, (b) designing and fabricating architectural tile, (c) educating students of all ages in the ceramic arts, and (d) creating artistic and audience development for ceramic artists through its galleries, exhibitions program, and special events. The Society’s revenue is derived principally from contributions, gallery sales, education, and commissioned tile projects; these revenue sources sustain the Society’s mission.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Adoption of New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction by clarifying how an entity determines whether a resource provider is participating in an exchange transaction and clarifying the definition of “commensurate value”. ASU 2018-08 also modifies the definition of a “donor-imposed condition” so that the determination is based on whether an agreement includes both a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. ASU 2018-08 also permits an organization to elect a policy in which contributions that are restricted by the donor and that were initially conditional contributions are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contributions are recognized without also having to elect that policy for other contributions that are restricted by the donor. The Society adopted the provisions of ASU 2018-08 as of October 1, 2019. The adoption of this pronouncement did not impact the Society’s net assets or financial statements.

Financial Statement Presentation

The Society reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the statements of cash flows, the Society considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are comprised primarily of amounts due on gallery and educational accounts. The Society provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. The allowance for doubtful accounts is established based on a specific assessment of the accounts receivable balance at the end of the year. All amounts deemed to be uncollectible after management has made reasonable collection attempts are charged against the allowance for doubtful accounts in the period the determination is made.

Pledges Receivable

The Society's pledges receivable are comprised primarily of amounts committed from individuals and foundations for the Society's activities. Support is recognized when a pledge representing an unconditional promise to give is received; in the absence of such promise, support is recognized when the intent to give is collected. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Grants Receivable

The Society receives grants from various funding sources. An allowance for doubtful accounts is established on a specific assessment of the amounts still owed at the end of the year. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period the determination is made. Management did not consider an allowance for doubtful accounts necessary as of September 30, 2020 and 2019.

Inventories

Inventories consist of work-in-process and finished products and are stated at the lower of cost, determined by the first-in, first-out method, or market. The Society makes an allocation of manufacturing expenses to work-in-process and finished products, as well as charging direct labor costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at approximate fair value at the date of the gift. Improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which range from three to 25 years.

Museum Collection

The Society's museum collection consists of various art objects that are held for exhibition on site. Purchased items are capitalized at cost, while donated items are recorded at estimated fair value at the date of receipt from the donor.

Contributed Services

Many individuals volunteer their time that assists the Society in running its programs and fund raising campaigns. The Society received no contributed services meeting the requirements for recognition in the financial statements during the years ended September 30, 2020 and 2019.

Donated Items and Materials

Donated items and materials totaled \$10,835 and \$21,034 for the years ended September 30, 2020 and 2019, respectively.

Public Support and Revenue

Contributions

Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. The Society reports contributions of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Support and Revenue (Continued)

Gallery Sales

Sales of gallery items are recognized as revenue, net of returns, at the time of sale.

Commissioned Projects

Revenue from commissioned projects is recognized at the time the project is completed, net of returns, and is either picked up or shipped, as applicable.

Educational

Revenue from educational activities is recognized in the period in which the activity occurs.

Deferred Revenue

Deferred revenue represents advance payments primarily relating to educational classes. Such deferred amounts are recognized as revenue in the period in which the classes occur.

Customer Deposits

The Society receives up-front payments on commissioned projects and records such payments as customer deposit liabilities. Such deposits are recognized as revenue in the period in which the corresponding project is completed and shipped or picked up.

Functional Allocation of Expenses

The Society allocates its expenses on a functional basis among its program and supporting services. Costs directly attributable to a program or supporting service are recorded in the appropriate function. Certain costs not directly attributable to a function are allocated to functions, based on studies of the time the Society's employees devoted to the specific activities.

Advertising

The Society uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2020 and 2019 was \$129,415 and \$232,176, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Society's investments are stated at fair value. Fair value is defined as 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 (an exit price). See Note G for information about the valuation of investments in endowment funds.

Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are based on average costs. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation and depreciation include the Society's gains and losses on investments bought and sold, as well as held, during the year.

Tax-Exempt Status

No provision has been established for income taxes since the Society is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code ("IRC") and is not classified as a private foundation by the Internal Revenue Service. The Society's management is not aware of any uncertain tax positions or unrecognized tax benefits as of September 30, 2020 or 2019.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Society uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The Society utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Society applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Society has the ability to access
- Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Concentration of Credit Risk

Financial instruments which potentially subject the Society to concentrations of credit risk consist principally of cash, cash equivalents, and grants and accounts receivable.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed the federally insured limit of \$250,000 per depositor at each financial institution. Cash and cash equivalents on deposit in excess of the federally insured limit as of September 30, 2020 approximated \$722,000. Grants receivable are due from various funding sources. Accounts receivable are due from various entities primarily for amounts due on commissioned and gallery projects, as well as educational projects.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE A — NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Society has evaluated subsequent events through February 25, 2021, the date that the accompanying financial statements were available to be issued.

NOTE B — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available as of September 30, 2020 and 2019 for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Restricted for specific purposes:		
Educational projects	\$ 97,659	\$ 210,954
Investment in perpetuity	<u>20,000</u>	<u>20,000</u>
	<u><u>\$ 117,659</u></u>	<u><u>\$ 230,954</u></u>

The interest income from investments to be held in perpetuity is available to the Society for educational programs.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished for the following purposes:		
Educational projects	\$ 209,025	\$ 189,650
Capital projects	66,967	25,320
Fabrication Expansion	<u>-0-</u>	<u>456,749</u>
	<u><u>\$ 275,992</u></u>	<u><u>\$ 671,719</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE C — BOARD-DESIGNATED NET ASSETS

The Society's Board of Trustees has designated \$2,003,446 and \$2,632,502 of net assets without donor restrictions as of September 30, 2020 and 2019, respectively, as not being available for general operations without prior Board approval. The Board-designated net asset balance approximates the net book value of property, less long-term and other debt.

NOTE D — PLEDGES RECEIVABLE

Pledges receivable include pledges for support of current operations and for the Fabrication Expansion. Pledges receivable as of September 30, 2020 and 2019 are due as follows:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 68,600	\$ 69,275
One to five years	<u>8,000</u>	<u>79,000</u>
	76,600	148,275
Less:		
Allowance for doubtful pledges	(7,660)	(14,828)
Unamortized discount (at four percent)	<u>(2,619)</u>	<u>(10,559)</u>
Net Pledges Receivable	<u>\$ 66,321</u>	<u>\$ 122,888</u>

There were no conditional promises to receive as of September 30, 2020.

NOTE E — INVENTORIES

Inventories consist of the following components as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Work-in-process	\$ 128,257	\$ 141,569
Finished goods	<u>270,462</u>	<u>284,827</u>
	<u>\$ 398,719</u>	<u>\$ 426,396</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE F — PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 1,508,322	\$ 1,508,322
Buildings	1,365,573	1,365,573
Building improvements	793,462	784,441
Construction in progress	80,000	-0-
Machinery and equipment	<u>1,341,331</u>	<u>1,296,824</u>
	5,088,688	4,955,160
Less: Accumulated depreciation	<u>(1,907,658)</u>	<u>(1,662,703)</u>
	<u><u>\$ 3,181,030</u></u>	<u><u>\$ 3,292,457</u></u>

Total depreciation expense, including depreciation included in cost of goods sold, was \$244,955 and \$163,495 for the years ended September 30, 2020 and 2019, respectively.

NOTE G — CHARITABLE ENDOWMENT FUNDS

The Society has established the Pewabic Pottery Fund and the Pewabic Education Fund (collectively, the “Endowment Funds”) as component funds of the Community Foundation for Southeast Michigan (the “Foundation”). The Endowment Funds are assets of the Foundation. The Endowment Funds’ assets are primarily invested in registered investment companies, collective trust funds, private placement funds, and limited partnerships.

The Foundation actively solicits contributions that can be designated to the Society. The Foundation transfers earnings on the Endowment Funds to the Society periodically in the form of grants so long as the Society continues to meet its tax-exempt purpose. The portion of the Endowment Funds that was funded by the Society, plus the net earnings on those balances, represents a reciprocal transfer and is, therefore, included in the Society’s financial statements. The Pewabic Pottery Fund provides general support for the Society, while the Pewabic Education Fund provides support to the Society’s educational programs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE G — CHARITABLE ENDOWMENT FUNDS (CONTINUED)

The portion of each fund included in the Society’s financial statements, and the portion of each fund excluded from the Society’s financial statements, as of September 30, 2020 and 2019 are as follows:

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2020			
Portion included in Society's financial statements	\$ 73,152	\$ 37,149	\$ 110,301
Portion excluded from Society's financial statements	<u>39,259</u>		<u>39,259</u>
Total Fair Value of Endowment Funds	<u><u>\$ 112,411</u></u>	<u><u>\$ 37,149</u></u>	<u><u>\$ 149,560</u></u>
2019			
Portion included in Society's financial statements	\$ 71,475	\$ 36,342	\$ 107,817
Portion excluded from Society's financial statements	<u>38,307</u>		<u>38,307</u>
Total Fair Value of Endowment Funds	<u><u>\$ 109,782</u></u>	<u><u>\$ 36,342</u></u>	<u><u>\$ 146,124</u></u>

The portion of the Endowment Funds included in the Society’s financial statements as of September 30, 2020 and 2019 is classified as follows:

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2020			
Without donor restrictions	\$ 73,152	\$ 17,149	\$ 90,301
With donor restrictions		<u>20,000</u>	<u>20,000</u>
	<u><u>\$ 73,152</u></u>	<u><u>\$ 37,149</u></u>	<u><u>\$ 110,301</u></u>

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE G — CHARITABLE ENDOWMENT FUNDS (CONTINUED)

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2019			
Without donor restrictions	\$ 71,475	\$ 16,342	\$ 87,817
With donor restrictions		<u>20,000</u>	<u>20,000</u>
	<u>\$ 71,475</u>	<u>\$ 36,342</u>	<u>\$ 107,817</u>

Reconciliations of the fair value of the assets in the Endowment Funds included in the Society's financial statements for the years ended September 30, 2020 and 2019, which also represent the fair value reconciliations of the Society's Level 3 assets that are measured at fair value on a recurring basis for those years, are as follows:

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>	
	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2020					
Changes in Endowment Funds' (Level 3) Assets:					
Net realized and unrealized gains	\$ 4,983	\$ 2,533	\$ 7,516	\$ -0-	\$ 7,516
Less:					
Grants paid to Society	(2,984)	(1,556)	(4,540)		(4,540)
Administrative expenses	<u>(322)</u>	<u>(170)</u>	<u>(492)</u>		<u>(492)</u>
Change in Endowment Funds' (Level 3) Assets	1,677	807	2,484	-0-	2,484
Balance, Beginning of Year	<u>71,475</u>	<u>16,342</u>	<u>87,817</u>	<u>20,000</u>	<u>107,817</u>
Balance, End of Year	<u>\$ 73,152</u>	<u>\$ 17,149</u>	<u>\$ 90,301</u>	<u>\$ 20,000</u>	<u>\$ 110,301</u>
Net gains for the year included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of September 30, 2020	<u>\$ 4,983</u>	<u>\$ 2,533</u>	<u>\$ 7,516</u>	<u>\$ -0-</u>	<u>\$ 7,516</u>

THE PEWABIC SOCIETY, INC.
(A Michigan Non-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE G — CHARITABLE ENDOWMENT FUNDS (CONTINUED)

	<u>Without Donor Restrictions</u>			<u>With Donor Restrictions</u>	
	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2019					
Changes in Endowment Funds' (Level 3) Assets:					
Net realized and unrealized gains	\$ 2,395	\$ 1,217	\$ 3,612	\$ -0-	\$ 3,612
Less: Administrative expenses	(282)	(159)	(441)		(441)
Change in Endowment Funds' (Level 3) Assets	2,113	1,058	3,171	-0-	3,171
Balance, Beginning of Year	69,362	15,284	84,646	20,000	104,646
Balance, End of Year	\$ 71,475	\$ 16,342	\$ 87,817	\$ 20,000	\$ 107,817
Net gains for the year included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of September 30, 2019	\$ 2,395	\$ 1,217	\$ 3,612	\$ -0-	\$ 3,612

The Society's Board of Trustees has interpreted existing law and the agreements with the Foundation as not requiring the preservation of the fair value of any deposits to the Endowment Funds, except for amounts previously donated to the Society to be maintained in perpetuity that were subsequently deposited into the Endowment Funds. As a result of this interpretation, the Society classifies in net assets with donor restrictions the original value of the initial deposit donated to the Society for use in the Pewabic Education Fund. The remaining portion of the Endowment Funds that is not classified in net assets with donor restrictions is classified in net assets without donor restrictions.

The Society's policy is to spend assets from the Endowment Funds as they are distributed by the Foundation. The Foundation invests the assets of the Endowment Funds as part of a pooled endowment with similar funds held on behalf of other non-profit organizations. The assets of the Foundation's pooled endowment are invested in a manner intended to maximize investment returns over a diversified portfolio in order to achieve a moderate level of investment risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE H — FAIR VALUE

The Society's fair value hierarchy for those assets measured at fair value on a recurring basis as of September 30, 2020 and 2019 is summarized as follows:

	<u>Fair Value Measurements</u>			<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
2020				
Assets:				
Beneficial interest in assets held by Community Foundation for Southeast Michigan	\$ -0-	\$ -0-	\$ 110,301	\$ 110,301
2019				
Assets:				
Beneficial interest in assets held by Community Foundation for Southeast Michigan	\$ -0-	\$ -0-	\$ 107,817	\$ 107,817

The fair value reconciliations of the Society's Level 3 assets that are measured at fair value on a recurring basis for the years ended September 30, 2020 and 2019 are presented in Note G.

NOTE I — LINES OF CREDIT

The Society has available a \$400,000 line of credit with a bank, entered into on September 17, 2014. The line bears interest at a rate which is indexed to the bank's prime commercial rate; the effective rate is 3.25 percent as of September 30, 2020. Interest is payable monthly, and the line of credit is secured by the Society's accounts receivable, inventory, and property and equipment. As of September 30, 2020 and 2019, there was no outstanding balance on this line of credit. This line of credit is due for renewal every two years.

On July 25, 2018, the Society entered into another line of credit agreement with the bank for \$200,000 for the purpose of purchasing equipment. This line of credit has a variable interest rate and is secured by equipment owned by the Society. As of September 30, 2020 and 2019, there was no outstanding balance on this line of credit. This line of credit is due for renewal every two years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE J — NOTES PAYABLE

The Society entered into a note payable with a bank on September 17, 2014, with a maturity date of September 17, 2021. This note is payable in monthly installments of \$2,901, including interest at 3.75 percent per annum. The note payable is collateralized by the Society’s real estate.

The Society also has a note payable to an automotive credit institution, entered into on June 30, 2016, which is due in monthly installments of \$415 for six years and is interest-free. This note payable was issued in conjunction with the purchase of a vehicle.

On July 25, 2018, the Society entered into a line of credit agreement with a bank for \$400,000 for the purpose of construction of a fabrication building. This line of credit had a variable interest rate and was secured by real estate owned by the Society. The bank paid construction vendors directly. On August 21, 2019, this line of credit was converted into a conventional loan, with a maturity date of July 20, 2024. This note is payable in monthly installments of \$1,650, including interest at five percent per annum. The note payable is collateralized by real estate owned by the Society.

The Society received an Economic Injury Disaster Loan from the U.S. Small Business Administration (“SBA”), effective June 19, 2020, which is due in monthly installments of \$641 for 30 years at annual interest rate of 2.75 percent. Payments begin 12 months after the loan effective date.

Future maturities are summarized as follows as of September 30, 2020:

For the Years Ending September 30:	
2021	\$ 391,318
2022	16,204
2023	12,187
2024	217,716
2025	137,959
	<hr/>
	<u>\$ 775,384</u>

Total interest expense, including interest expense included in cost of goods sold, was \$15,039 and \$14,618 for the years ended September 30, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE K — LEASES

In December 2018, the Society entered into a capital lease agreement for office equipment. Future minimum lease payments under this capital lease as of September 30, 2020 are as follows:

For the Years Ending September 30:	
2021	\$ 2,388
2022	2,388
2023	<u>1,230</u>
Total Minimum Lease Payments	6,006
Less: Amount representing interest	<u>(185)</u>
Net Minimum Lease Payments	<u>\$ 5,821</u>

NOTE L — EMPLOYEE BENEFIT PLAN

The Society has established a defined contribution retirement plan under section 401(k) of the IRC available to substantially all employees. Under the plan, eligible employees are allowed to contribute up to 90 percent of their base salary. The Society may, for any plan year, in its sole discretion, make an employer contribution to be credited to the account of each participant up to the legal limit prescribed by the IRC. Employer contributions to the plan, which have been accrued, totaled \$25,649 and \$32,003 for the years ended September 30, 2020 and 2019, respectively, and are included in accrued payroll and vacation in the accompanying statements of financial position.

NOTE M — REFUNDABLE ADVANCE

On April 24, 2020, the Society received a loan of \$402,200 from a bank under the SBA's Paycheck Protection Program ("PPP"), pursuant to Sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The loan was substantially amended pursuant to the terms of the Paycheck Protection Program Flexibility Act of 2020, which was signed into law on June 5, 2020. Under Section 1106 of the CARES Act, some or all of the loan may be forgiven for payroll costs, interest, rent, and utilities incurred or paid during the 24-week period beginning on the date the loan was made, subject to certain conditions. The Society's management expects to meet the conditions to allow for all of the loan to be forgiven. Accordingly, the PPP loan has been classified as a conditional promise to receive, and the corresponding PPP loan proceeds have been recorded as a refundable advance in the accompanying financial statements, in accordance with existing accounting guidance for non-profit organizations. In the event forgiveness is not applied for and the Society elects the maximum repayment deferral period, the loan is then repayable over an eight-month period from September 15, 2021 through April 15, 2022.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE N – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Society has the following financial assets available for general expenditures within one year as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,020,267	\$ 190,223
Accounts receivable	3,050	10,993
Pledges receivable – current portion	60,940	54,447
Grants receivable	<u>152,635</u>	<u>224,399</u>
Total Financial Assets	1,236,892	480,062
Less:		
Assets with donor restrictions for specific purposes	<u>(117,659)</u>	<u>(230,954)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 1,119,233</u>	<u>\$ 249,108</u>

The Society has certain donor-restricted assets that are to be used for specific purposes. Therefore, these assets are not considered to be available for general expenditures within the next year. The Society has a policy to manage its liquidity following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

NOTE O — CONTINGENCIES

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE O — CONTINGENCIES (CONTINUED)

The full impact of the COVID-19 outbreak continues to evolve as of the date that the accompanying financial statements were available to be issued. As such, it is uncertain as to the full magnitude that the pandemic will have on the Society's financial condition, liquidity, and future results of operations. The Society's operations are dependent on private and public donations from individuals, foundations, and corporations. Additionally, prolonged closure of facilities to the public during the COVID-19 outbreak has impacted the Society's gallery sales, as well as the Society's educational and exhibitions revenue. The COVID-19 outbreak may have a continued adverse impact on economic and market conditions, triggering a period of regional economic slowdown. This situation is expected to depress contributions during the year ending September 30, 2021. As such, this may hinder the Society's ability to advance its mission.

Although the Society cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material effect on the Society's results of future operations, financial position, and liquidity during the year ending September 30, 2021.

NOTE P — NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, in May 2014. The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also requires expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 applies to the Society's financial statements for the year ending September 30, 2021, with earlier implementation permitted, and is to be applied retrospectively. The Society's management has not determined the impact on its financial statements as a result of implementing ASU 2014-09.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016. ASU 2016-02 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under ASU 2016-02 retains two types of leases: finance leases, which are to be accounted for in substantially the same manner as the existing accounting for capital leases, and operating leases, which are to be accounted for (both in the statement of activities and the statement of cash flows) in a manner consistent with existing accounting for operating leases. ASU 2016-02 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to the Society's financial statements for the year ending September 30, 2023, with earlier implementation permitted. The Society's management has not determined the impact on its financial statements as a result of implementing ASU 2016-02.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2020 and 2019

NOTE P — NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The FASB issued ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*, in August 2018. The major provisions of ASU 2018-13 are as follows:

- Certain disclosures, including the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements, will no longer be required.
- In lieu of a rollforward for Level 3 fair value measurements, disclosure requirements will be limited to transfers into and out of Level 3 of the fair value hierarchy, as well as purchases and issues of Level 3 assets and liabilities.
- For investments in certain entities that calculate net asset value, disclosure of the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse will be required only if the investee has communicated the timing to the entity or announced the timing publicly.
- Required disclosures about any uncertainty in measurement will be as of the reporting date.

ASU 2018-13 applies to the Society's financial statements for the year ending September 30, 2021, with earlier implementation permitted. The Society's management has not determined the impact on its financial statements as a result of implementing ASU 2018-13.

The FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, in September 2020. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash and other financial assets in the statement of activities. This ASU also requires expanded disclosures regarding the types, uses, policies, valuation techniques, and donor restrictions related to contributed nonfinancial assets. ASU 2020-07 applies to the Society's financial statements for the year ending September 30, 2022, with earlier implementation permitted, and is to be applied retrospectively. The Society's management has not determined the impact on its financial statements as a result of implementing ASU 2020-07.