

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

FINANCIAL STATEMENTS

September 30, 2022 and 2021



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

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INDEPENDENT AUDITOR’S REPORT

February 21, 2023

To the Board of Trustees
The Pewabic Society, Inc.

Opinion

We have audited the 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, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Pewabic Society, Inc. as of September 30, 2022 and 2021, 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 (“U.S. GAAP”).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“U.S. GAAS”). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Adoption of New Accounting Pronouncements

As discussed in Note A, effective October 1, 2021, the Society has adopted the provisions contained in Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to that matter.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of Management for the Financial Statements

The Society's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are any conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. *Reasonable assurance* is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS:

- We exercise professional judgment and maintain professional skepticism throughout the audit.
- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and we design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- We obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

Board of Trustees
The Pewabic Society, Inc.
February 21, 2023
Page Three

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility for the Audit of the Financial Statements (continued)

- We evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and we evaluate the overall presentation of the financial statements.
- We conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

GJC CPAs & Advisors

Detroit, Michigan

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

STATEMENTS OF FINANCIAL POSITION

September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,243,555	\$ 1,244,387
Accounts receivable (net of allowance of \$1,504 and \$2,131 in 2022 and 2021, respectively)	13,538	22,493
Contributions and grants receivable – current portion (net of allowance of \$50 and \$830 in 2022 and 2021, respectively) (Note D)	93,288	67,949
Inventories (Note E)	409,109	362,582
Prepaid expenses	9,000	-0-
	<u>1,768,490</u>	<u>1,697,411</u>
Other Assets:		
Property and equipment, net (Note F)	2,889,944	3,144,440
Beneficial interest in assets held by Community Foundation for Southeast Michigan, at fair value (Note G)	107,738	129,406
Contributions and grants receivable (net of current portion) (net of discount of \$17,988 and \$-0- in 2022 and 2021, respectively) (Note D)	40,012	-0-
Museum collection (Note A)	174,776	154,776
Trademarks	4,015	4,015
	<u>3,216,485</u>	<u>3,432,637</u>
Total Other Assets	3,216,485	3,432,637
Total Assets	<u>\$ 4,984,975</u>	<u>\$ 5,130,048</u>

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 156,457	\$ 126,993
Notes payable – current portion (Note J)	12,229	12,706
Lease payable – current portion (Note K)	396	2,334
Accrued payroll and vacation (Note L)	343,103	286,864
Customer deposits	303,195	173,172
Deferred revenue	35,810	28,768
Refundable advances (Note M)	-0-	413,687
Gift certificates	49,305	45,185
	<u>900,495</u>	<u>1,089,709</u>
Long-Term Liabilities:		
Notes payable (net of current portion) (Note J)	363,407	375,636
Lease payable (net of current portion) (Note K)	-0-	396
	<u>363,407</u>	<u>376,032</u>
	<u>1,263,902</u>	<u>1,465,741</u>
Net Assets:		
Net assets without donor restrictions:		
Board-designated (Note C)	2,514,308	2,342,411
Undesignated	970,365	1,162,439
	<u>3,484,673</u>	<u>3,504,850</u>
Total Net Assets without Donor Restrictions	3,484,673	3,504,850
Net assets with donor restrictions (Note B)	<u>236,400</u>	<u>159,457</u>
	<u>3,721,073</u>	<u>3,664,307</u>
Total Net Assets	<u>3,721,073</u>	<u>3,664,307</u>
Total Liabilities and Net Assets	<u>\$ 4,984,975</u>	<u>\$ 5,130,048</u>

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Gains, Net of Losses:						
Public support:						
Contributions and grants (Note M)	\$ 692,885	\$ 207,631	\$ 900,516	\$ 601,175	\$ 165,858	\$ 767,033
Memberships and events	273,115		273,115	210,255		210,255
In-kind contributions (Note N)	18,572		18,572	2,087		2,087
Net assets released from restrictions (Note B)	130,688	(130,688)	-0-	124,060	(124,060)	-0-
Total Public Support	1,115,260	76,943	1,192,203	937,577	41,798	979,375
Revenue and gains, net of losses:						
Gallery sales and commissioned projects (net of returns)	3,035,910		3,035,910	2,833,100		2,833,100
Educational services	193,004		193,004	94,478		94,478
Other revenue and gains, net of losses	947		947	56,497		56,497
Total Revenue and Gains, Net of Losses	3,229,861	-0-	3,229,861	2,984,075	-0-	2,984,075
Total Public Support, Revenue, and Gains, Net of Losses	4,345,121	76,943	4,422,064	3,921,652	41,798	3,963,450
Expenses:						
Program services:						
Gallery	2,103,614		2,103,614	1,787,822		1,787,822
Education	655,590		655,590	492,242		492,242
Art design studio	972,008		972,008	933,348		933,348
Museum	11,531		11,531	1,874		1,874
Total Program Services	\$ 3,742,743	\$ -0-	\$ 3,742,743	\$ 3,215,286	\$ -0-	\$ 3,215,286

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended September 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):						
Supporting services:						
Development, membership, and campus expansion	\$ 346,956	\$ -0-	\$ 346,956	\$ 292,278	\$ -0-	\$ 292,278
Administrative and general	275,599		275,599	191,279		191,279
Total Supporting Services	622,555	-0-	622,555	483,557	-0-	483,557
Total Expenses	4,365,298	-0-	4,365,298	3,698,843	-0-	3,698,843
Change in Net Assets	(20,177)	76,943	56,766	222,809	41,798	264,607
Net Assets, Beginning of Year	3,504,850	159,457	3,664,307	3,282,041	117,659	3,399,700
Net Assets, End of Year	\$ 3,484,673	\$ 236,400	\$ 3,721,073	\$ 3,504,850	\$ 159,457	\$ 3,664,307

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

**For the Year Ended September 30, 2022
(With Comparative Totals for the Year Ended September 30, 2021)**

	2022								Total Expenses	
	Program Services				Supporting Services				2022	2021
	Gallery	Education	Art Design Studio	Museum	Total Program Services	Development, Membership, and Campus Expansion	Administrative and General	Total Supporting Services		
Salaries and benefits	\$ 433,125	\$ 402,559	\$ 393,114	\$ -0-	\$ 1,228,798	\$ 182,490	\$ 135,264	\$ 317,754	\$ 1,546,552	\$ 1,241,590
Cost of goods sold	1,227,461		516,608		1,744,069				1,744,069	1,601,794
Contractual services	41,847	27,265	12,105		81,217	27,197	49,788	76,985	158,202	124,785
Promotion	55,999	20	34,730	1,464	92,213	11,318	993	12,311	104,524	61,553
Office expenses	202,321	67,029	15,031	9,392	293,773	2,494	(6,086)	(3,592)	290,181	212,416
Maintenance	35,454	34,805			70,259	10,886	15,439	26,325	96,584	64,336
Depreciation	39,062	68,666			107,728	13,422	33,865	47,287	155,015	217,067
Interest expense	1,514	1,877			3,391	528	1,334	1,862	5,253	12,339
Other expenses	66,831	53,369	420	675	121,295	98,621	45,002	143,623	264,918	162,963
Total Expenses	\$ 2,103,614	\$ 655,590	\$ 972,008	\$ 11,531	\$ 3,742,743	\$ 346,956	\$ 275,599	\$ 622,555	\$ 4,365,298	\$ 3,698,843

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2021

	<u>Program Services</u>				<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Gallery</u>	<u>Education</u>	<u>Art Design Studio</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	\$ 494,960	\$ 301,458	\$ 191,593	\$ -0-	\$ 988,011	\$ 203,393	\$ 50,186	\$ 253,579	\$ 1,241,590
Cost of goods sold	977,735		624,059		1,601,794				1,601,794
Contractual services	56,020	25,985	16,177		98,182	20,285	6,318	26,603	124,785
Promotion	21,183	464	34,362		56,009	3,522	2,022	5,544	61,553
Office expenses	134,924	34,927	18,088	501	188,440	8,333	15,643	23,976	212,416
Maintenance	14,618	17,707	11,500		43,825	5,966	14,545	20,511	64,336
Depreciation	42,940	88,418	25,456		156,814	18,516	41,737	60,253	217,067
Interest expense							12,339	12,339	12,339
Other expenses	45,442	23,283	12,113	1,373	82,211	32,263	48,489	80,752	162,963
Total Expenses	\$ 1,787,822	\$ 492,242	\$ 933,348	\$ 1,874	\$ 3,215,286	\$ 292,278	\$ 191,279	\$ 483,557	\$ 3,698,843

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Cash received from contributions and grants	\$ 421,478	\$ 515,840
Cash received from memberships and events	273,115	210,255
Cash received from gallery sales and commissioned projects	3,186,050	2,813,609
Cash received from educational services	193,004	94,478
Cash received from other sources	22,615	37,392
Cash paid for employee compensation	(2,425,891)	(1,953,905)
Cash paid to suppliers and vendors	(1,486,582)	(1,042,512)
Cash paid for interest	(19,972)	(27,493)
Net Cash Flows from Operating Activities	<u>163,817</u>	<u>647,664</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(129,609)	(447,098)
Acquisition of additions to museum collection	(20,000)	-0-
Net Cash Flows from Investing Activities	<u>(149,609)</u>	<u>(447,098)</u>
Cash Flows from Financing Activities:		
Proceeds received from Paycheck Protection Program loan (Note M)	-0-	413,687
Payments on notes payable	(12,706)	(387,042)
Payments on lease payable	(2,334)	(3,091)
Net Cash Flows from Financing Activities	<u>(15,040)</u>	<u>23,554</u>
Change in Cash and Cash Equivalents	(832)	224,120
Cash and Cash Equivalents, Beginning of Year	<u>1,244,387</u>	<u>1,020,267</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,243,555</u>	<u>\$ 1,244,387</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2022 and 2021

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 and rich artistic legacy, 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, 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 September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash and other financial assets in the statement of activities. ASU 2020-07 also requires expanded disclosures regarding the types, uses, policies, valuation techniques, and donor restrictions related to contributed nonfinancial assets. The Society adopted the provisions of ASU 2020-07 as of October 1, 2021. These provisions have been retroactively applied to the disclosures in the accompanying financial statements as of, and for the year ended, September 30, 2021. The adoption of this pronouncement did not impact the Society’s net assets.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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

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.

Contributions and Grants Receivable

The Society's contributions receivable are comprised primarily of amounts committed from individuals and foundations for the Society's activities. Support is recognized when a contribution 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.

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 grants necessary as of September 30, 2022 and 2021.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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

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.

Contributions and Grants

Contributions and grants 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 and grants 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.

Revenue Recognition

Revenue is measured based upon the consideration specified in a contract with a customer at the time when the related performance obligation is satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service, or a series of distinct goods or services, to the customer. The Society recognizes revenue when a performance obligation is satisfied by transferring control over a product or service to a customer.

Gallery Sales

Sales of gallery items are recognized as revenue, net of returns, at the time of sale, as the Society has determined control to be transferred at a point in time when these items are provided to the customer.

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, as the Society has determined control to be transferred at a point in time when these projects are provided to the customer.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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

Revenue Recognition (continued)

Educational Services

Revenue from educational services is recognized in the period in which the activity occurs, as the Society has determined control to be transferred over time as these services are provided to the customer.

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, 2022 and 2021 was \$106,442 and \$61,553, respectively.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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

Investments (continued)

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, 2022 or 2021.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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

Fair Value Measurements (continued)

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 and cash equivalents, as well as contributions, 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, 2022 approximated \$186,000. Contributions and 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.

Reclassifications

Certain reclassifications have been made to the accompanying financial statements as of, and for the year ended, September 30, 2021 to conform to classifications used as of, and for the year ended, September 30, 2022.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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

Subsequent Events

The Society has evaluated subsequent events through February 21, 2023, 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, 2022 and 2021 for the following purposes or periods:

	<u>2022</u>	<u>2021</u>
Restricted for specific purposes:		
Educational projects	\$ 166,400	\$ 89,457
Apprentice program	50,000	50,000
Investment in perpetuity	20,000	20,000
	<u>\$ 236,400</u>	<u>\$ 159,457</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>2022</u>	<u>2021</u>
Purpose restrictions accomplished for the following purposes:		
Educational projects	\$ 90,100	\$ 69,202
Capital improvement program	35,588	-0-
Lamp purchase	5,000	-0-
Filtration system	-0-	49,858
Street team	-0-	5,000
	<u>\$ 130,688</u>	<u>\$ 124,060</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE C — BOARD-DESIGNATED NET ASSETS

The Society's Board of Trustees has designated \$2,514,308 and \$2,342,411 of net assets without donor restrictions as of September 30, 2022 and 2021, 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 — CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable include contributions for support of current operations and for the Fabrication Expansion. Contributions and grants receivable as of September 30, 2022 and 2021 are due as follows:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 93,338	\$ 68,779
One to five years	58,000	-0-
	<u>151,338</u>	<u>68,779</u>
Less:		
Allowance for doubtful contributions	(50)	(830)
Unamortized discount (at four percent)	<u>(17,988)</u>	<u>-0-</u>
	<u><u>\$ 133,300</u></u>	<u><u>\$ 67,949</u></u>

There were no conditional promises to receive as of September 30, 2022.

NOTE E — INVENTORIES

Inventories consist of the following components as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Work-in-process	\$ 143,659	\$ 95,477
Finished goods	<u>265,450</u>	<u>267,105</u>
	<u><u>\$ 409,109</u></u>	<u><u>\$ 362,582</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE F — PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 1,570,622	\$ 1,570,622
Buildings	1,596,335	1,596,335
Building improvements	821,262	821,262
Construction in progress	81,283	80,000
Machinery and equipment	<u>1,595,893</u>	<u>1,467,567</u>
	5,665,395	5,535,786
Less: Accumulated depreciation	<u>(2,775,451)</u>	<u>(2,391,346)</u>
	<u><u>\$ 2,889,944</u></u>	<u><u>\$ 3,144,440</u></u>

Total depreciation expense, including depreciation included in cost of goods sold, was \$384,105 and \$483,688 for the years ended September 30, 2022 and 2021, 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.

THE PEWABIC SOCIETY, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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, 2022 and 2021 are as follows:

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2022			
Portion included in Society's financial statements	\$ 71,468	\$ 36,270	\$ 107,738
Portion excluded from Society's financial statements	<u>38,441</u>		<u>38,441</u>
Total Fair Value of Endowment Funds	<u><u>\$ 109,909</u></u>	<u><u>\$ 36,270</u></u>	<u><u>\$ 146,179</u></u>
2021			
Portion included in Society's financial statements	\$ 85,288	\$ 44,118	\$ 129,406
Portion excluded from Society's financial statements	<u>39,259</u>		<u>39,259</u>
Total Fair Value of Endowment Funds	<u><u>\$ 124,547</u></u>	<u><u>\$ 44,118</u></u>	<u><u>\$ 168,665</u></u>

The portion of the Endowment Funds included in the Society's financial statements as of September 30, 2022 and 2021 is classified as follows:

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2022			
Without donor restrictions	\$ 71,468	\$ 16,270	\$ 87,738
With donor restrictions		<u>20,000</u>	<u>20,000</u>
	<u><u>\$ 71,468</u></u>	<u><u>\$ 36,270</u></u>	<u><u>\$ 107,738</u></u>

THE PEWABIC SOCIETY, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE G — CHARITABLE ENDOWMENT FUNDS (CONTINUED)

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2021			
Without donor restrictions	\$ 85,288	\$ 24,118	\$ 109,406
With donor restrictions		<u>20,000</u>	<u>20,000</u>
	<u>\$ 85,288</u>	<u>\$ 44,118</u>	<u>\$ 129,406</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, 2022 and 2021 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>
2022					
Changes in Endowment Fund Assets:					
Net realized and unrealized losses	\$ (10,122)	\$ (5,947)	\$ (16,069)	\$ -0-	\$ (16,069)
Less:					
Grants paid to Society	(3,321)	(1,688)	(5,009)		(5,009)
Administrative expenses	<u>(377)</u>	<u>(213)</u>	<u>(590)</u>		<u>(590)</u>
Change in Endowment Fund Assets	(13,820)	(7,848)	(21,668)	-0-	(21,668)
Endowment Fund Assets, Beginning of Year	<u>85,288</u>	<u>24,118</u>	<u>109,406</u>	<u>20,000</u>	<u>129,406</u>
Endowment Fund Assets, End of Year	<u>\$ 71,468</u>	<u>\$ 16,270</u>	<u>\$ 87,738</u>	<u>\$ 20,000</u>	<u>\$ 107,738</u>

THE PEWABIC SOCIETY, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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>
2021					
Changes in Endowment Fund Assets:					
Net realized and unrealized gains	\$ 15,663	\$ 7,954	\$ 23,617	\$ -0-	\$ 23,617
Less:					
Grants paid to Society	(3,179)	(807)	(3,986)		(3,986)
Administrative expenses	(348)	(178)	(526)		(526)
Change in Endowment Fund Assets	12,136	6,969	19,105	-0-	19,105
Endowment Fund Assets, Beginning of Year	73,152	17,149	90,301	20,000	110,301
Endowment Fund Assets, End of Year	\$ 85,288	\$ 24,118	\$ 109,406	\$ 20,000	\$ 129,406

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, 2022 and 2021

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, 2022 and 2021 is summarized as follows:

	<u>Fair Value Measurements</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>	<u>Total</u>
2022				
Assets:				
Beneficial interest in assets held by Community Foundation for Southeast Michigan	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 107,738</u>	<u>\$ 107,738</u>
2021				
Assets:				
Beneficial interest in assets held by Community Foundation for Southeast Michigan	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 129,406</u>	<u>\$ 129,406</u>

A summary of certain changes in the fair value of the Society's Level 3 assets measured at fair value on a recurring basis for the years ended September 30, 2022 and 2021 is as follows:

	<u>Beneficial Interest in Assets Held by Community Foundation for Southeast Michigan</u>	
	<u>2022</u>	<u>2021</u>
Sales	\$ 5,009	\$ 3,986

There were no purchases of Level 3 assets or transfers of assets into or out of Level 3 during the years ended September 30, 2022 or 2021.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE I — LINE 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 four percent as of September 30, 2022. 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, 2022 and 2021, there was no outstanding balance on this line of credit. This line of credit has been renewed through September 20, 2024.

NOTE J — NOTES PAYABLE

The Society's notes payable as of September 30, 2022 and 2021 consist of the following:

Vehicle Note

The Society had a note payable to an automotive credit institution, entered into on June 30, 2016, which was due in monthly installments of \$415 for six years and was interest-free. This note payable was issued in conjunction with the purchase of a vehicle. This note was paid in full during the year ended September 30, 2022.

Fabrication Building Mortgage

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.

Economic Injury Disaster Loan

The Society received an Economic Injury Disaster Loan ("EIDL") 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. According to the loan agreement, payments begin 12 months after the loan effective date. Due to the continuation of the COVID-19 pandemic, the SBA extended the deferment period for an additional 12 months. The Society began making monthly payments of interest only on March 15, 2022.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE J — NOTES PAYABLE (CONTINUED)

The outstanding balances on these notes payable are as follows as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Fabrication building mortgage	\$ 225,636	\$ 233,772
EIDL	150,000	150,000
Vehicle note	-0-	4,570
	<u>375,636</u>	<u>388,342</u>
Less: Current portion	<u>(12,229)</u>	<u>(12,706)</u>
Long-Term Portion	<u>\$ 363,407</u>	<u>\$ 375,636</u>

Future maturities are summarized as follows:

For the Years Ending September 30:	
2023	\$ 12,229
2024	220,850
2025	3,877
2026	3,985
2027	4,097
2028-2050	<u>130,598</u>
	<u>\$ 375,636</u>

Total interest expense, including interest expense included in cost of goods sold, was \$19,972 and \$27,493 for the years ended September 30, 2022 and 2021, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

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, 2022 are as follows:

For the year ending September 30, 2023	\$ 398
Less: Amount representing interest	<u>(2)</u>
Net Minimum Lease Payments	<u>\$ 396</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 \$51,162 and \$41,587 for the years ended September 30, 2022 and 2021, respectively, and are included in accrued payroll and vacation in the accompanying statements of financial position.

NOTE M — PAYCHECK PROTECTION PROGRAM LOANS

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 submitted its application for forgiveness of the entire loan balance to the bank and was granted full forgiveness on April 18, 2021.

On February 3, 2021, the Society received a second PPP loan of \$413,687 from a bank. 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 submitted its application for forgiveness of the entire loan balance to the bank and was granted full forgiveness on March 2, 2022.

Accordingly, the PPP loan proceeds have been recorded as contributions without donor restrictions in the accompanying financial statements for the years ended September 30, 2022 and 2021, in accordance with existing accounting guidance for non-profit organizations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE N — IN-KIND CONTRIBUTIONS

The Society receives various contributions for display equipment and professional services. In-kind contributions, including the usage of those contributions, are summarized as follows for the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Usage</u>
Display equipment	\$ 17,797	\$ 437	Garden Party
Services	775	1,650	Administrative and general
	<u>\$ 18,572</u>	<u>\$ 2,087</u>	

In-kind contributions were valued using estimated average prices of identical or similar products, services, or facilities using pricing data of similar products, or services under a “like-kind” methodology, considering the utility of the services and goods at the time of the contribution. No in-kind contributions were received with donor restrictions. The Society does not sell donated gifts and only uses donated services and goods for its own program or supporting activities.

NOTE O — LIQUIDITY AND AVAILABILITY OF RESOURCES

The Society has the following financial assets available for general expenditures within one year as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,243,555	\$ 1,244,387
Accounts receivable	13,538	22,493
Contributions and grants receivable – current portion	<u>93,288</u>	<u>67,949</u>
Total Financial Assets	1,350,381	1,334,829
Less:		
Assets with donor restrictions for specific purposes	<u>(236,400)</u>	<u>(159,457)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 1,113,981</u>	<u>\$ 1,175,372</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022 and 2021

NOTE O — LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

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 P — NEW ACCOUNTING PRONOUNCEMENTS

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.