

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

FINANCIAL STATEMENTS

September 30, 2019 and 2018

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

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INDEPENDENT AUDITOR'S REPORT

February 20, 2020

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, 2019 and 2018, the related statements of activities and cash flows for the years then ended, and the related statement of functional expenses for the year ended September 30, 2019, 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.

Board of Trustees
The Pewabic Society, Inc.
February 20, 2020
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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.

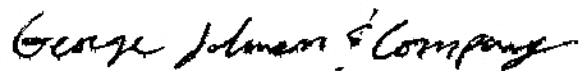
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, 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, 2018, the Society has adopted the disclosure provisions contained in Accounting Standards Update 2016-14, *Presentation of Financial Statements in Not-for-Profit Entities*.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

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

STATEMENTS OF FINANCIAL POSITION

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 190,223	\$ 146,987
Accounts receivable (net of allowance of \$1,221 and \$4,070 in 2019 and 2018, respectively)	10,993	37,629
Pledges receivable — current portion (net of allowance of \$14,828 and \$46,765 in 2019 and 2018, respectively) (Note D)	54,447	325,985
Grants receivable (no allowance considered necessary)	224,399	146,328
Inventories (Note E)	426,396	386,898
Prepaid expenses	865	2,101
	<u>907,323</u>	<u>1,045,928</u>
Total Current Assets		
Other Assets:		
Property and equipment, net (Note F)	3,292,457	3,242,356
Beneficial interest in assets held by Community Foundation for Southeast Michigan, at fair value (Note G)	107,817	104,646
Pledges receivable (net of current portion) (net of discount of \$10,559 and \$11,256 in 2019 and 2018, respectively) (Note D)	68,441	83,644
Museum collection (Note A)	154,156	151,056
Trademarks	4,015	4,015
	<u>3,626,886</u>	<u>3,585,717</u>
Total Other Assets		
	<u>3,626,886</u>	<u>3,585,717</u>
Total Assets	<u><u>\$ 4,534,209</u></u>	<u><u>\$ 4,631,645</u></u>

See notes to financial statements.

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

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 110,177	\$ 198,077
Lines of credit (Note I)	-0-	333,947
Notes payable — current portion (Note J)	32,315	24,289
Lease payable — current portion (Note K)	2,187	-0-
Accrued payroll and vacation (Note L)	178,347	157,673
Customer deposits	115,401	96,062
Deferred revenue	38,445	35,965
Gift certificates	33,702	30,467
	<u>510,574</u>	<u>876,480</u>
Long-Term Liabilities:		
Notes payable (net of current portion) (Note J)	627,640	410,981
Lease payable (net of current portion) (Note K)	4,991	-0-
	<u>632,631</u>	<u>410,981</u>
	<u>1,143,205</u>	<u>1,287,461</u>
Net Assets:		
Net assets without donor restrictions:		
Board-designated (Note C)	2,632,502	2,473,139
Undesignated	527,548	343,665
	<u>3,160,050</u>	<u>2,816,804</u>
	<u>230,954</u>	<u>527,380</u>
	<u>3,391,004</u>	<u>3,344,184</u>
	<u>\$ 4,534,209</u>	<u>\$ 4,631,645</u>

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Gains:						
Public support:						
Contributions	\$ 335,644	\$ 375,293	\$ 710,937	\$ 223,175	\$ 726,003	\$ 949,178
Memberships and events	250,231		250,231	240,323		240,323
Net assets released from restrictions (Note B)	671,719	(671,719)	-0-	815,746	(815,746)	-0-
Total Public Support	1,257,594	(296,426)	961,168	1,279,244	(89,743)	1,189,501
Revenue and gains:						
Gallery sales and commissioned projects (net of returns)	2,509,074		2,509,074	2,401,987		2,401,987
Educational and exhibitions	274,909		274,909	281,766		281,766
Other revenue and gains	35,046		35,046	46,671		46,671
Total Revenue and Gains	2,819,029	-0-	2,819,029	2,730,424	-0-	2,730,424
Total Public Support, Revenue, and Gains	4,076,623	(296,426)	3,780,197	4,009,668	(89,743)	3,919,925
Expenses and Losses:						
Program services:						
Gallery	1,711,703		1,711,703	1,638,043		1,638,043
Education	676,423		676,423	802,102		802,102
Art design studio	544,810		544,810	529,113		529,113
Exhibitions	54,104		54,104	47,041		47,041
Museum	4,984		4,984	17,788		17,788
Total Program Services	\$ 2,992,024	\$ -0-	\$ 2,992,024	\$ 3,034,087	\$ -0-	\$ 3,034,087

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended September 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Expenses and Losses (continued):						
Supporting services:						
Development, membership, and campus expansion	\$ 402,573	\$ -0-	\$ 402,573	\$ 399,131	\$ -0-	\$ 399,131
Administrative and general	338,780		338,780	298,019		298,019
Total Supporting Services	741,353	-0-	741,353	697,150	-0-	697,150
Total Expenses	3,733,377	-0-	3,733,377	3,731,237	-0-	3,731,237
Loss on disposition of property and equipment			-0-	11,362		11,362
Total Expenses and Losses	3,733,377	-0-	3,733,377	3,742,599	-0-	3,742,599
Change in Net Assets	343,246	(296,426)	46,820	267,069	(89,743)	177,326
Net Assets, Beginning of Year	2,816,804	527,380	3,344,184	2,549,735	617,123	3,166,858
Net Assets, End of Year	\$ 3,160,050	\$ 230,954	\$ 3,391,004	\$ 2,816,804	\$ 527,380	\$ 3,344,184

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

**For the Year Ended September 30, 2019
(With Comparative Totals for the Year Ended September 30, 2018)**

	2019									Total Expenses	
	Program Services					Supporting Services				2019	2018
	Gallery	Education	Art Design Studio	Exhibitions	Museum	Total Program Services	Development, Membership, and Campus Expansion	Administrative and General	Total Supporting Services		
Salaries and benefits	\$ 423,648	\$ 406,371	\$ 86,143	\$ -0-	\$ 477	\$ 916,639	\$ 243,875	\$ 147,587	\$ 391,462	\$ 1,308,101	\$ 1,380,674
Cost of goods sold	871,542		373,517			1,245,059				1,245,059	1,102,319
Contractual services	64,615	109,264	12,248	3,764		189,891	29,645	55,264	84,909	274,800	242,065
Promotion	146,224	1,267	49,512	475	50	197,528	24,062	10,586	34,648	232,176	229,886
Office expenses	121,107	64,877	19,405	823	3,644	209,856	10,982	34,986	45,968	255,824	240,561
Maintenance	11,860	13,678	2,850	3,269		31,657	4,140	13,088	17,228	48,885	96,983
Exhibitions				33,726		33,726				33,726	33,216
Depreciation	16,963	37,065		3,231	813	58,072	4,092	12,188	16,280	74,352	104,943
Interest expense	2,540	2,446		700		5,686	886	2,459	3,345	9,031	18,991
Other expenses	53,204	41,455	1,135	8,116		103,910	84,891	62,622	147,513	251,423	281,599
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	\$ 3,731,237

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from contributions	\$ 919,607	\$ 708,572
Cash received from memberships and events	250,231	240,323
Cash received from gallery sales and commissioned projects	2,560,764	2,374,165
Cash received from educational services and exhibitions	274,909	281,766
Cash received from other sources	31,875	41,280
Cash paid for employee compensation	(1,287,427)	(1,378,861)
Cash paid to suppliers and vendors	(2,373,325)	(2,070,996)
Cash paid for interest	(14,618)	(19,002)
Net Cash Flows from Operating Activities	<u>362,016</u>	<u>177,247</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(204,649)	(534,972)
Acquisition of additions to museum collection	(3,100)	(859)
Contributions to Endowment Funds	-0-	(5,338)
Net Cash Flows from Investing Activities	<u>(207,749)</u>	<u>(541,169)</u>
Cash Flows from Financing Activities:		
Payments on lines of credit	(24,108)	(23,751)
Payments on notes payable	(85,154)	-0-
Payments on lease payable	(1,769)	-0-
Net Cash Flows from Financing Activities	<u>(111,031)</u>	<u>(23,751)</u>
Change in Cash and Cash Equivalents	43,236	(387,673)
Cash and Cash Equivalents, Beginning of Year	146,987	534,660
Cash and Cash Equivalents, End of Year	<u>\$ 190,223</u>	<u>\$ 146,987</u>
Schedule of Noncash Transactions:		
Equipment acquired under lease payable	\$ 8,947	\$ -0-
Building construction acquired under line of credit	\$ -0-	\$ 333,947

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

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 August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 modifies the requirements related to financial statement presentation for non-profit organizations. The major provisions of ASU 2016-14 are as follows:

- Information about net assets and changes in net assets is reported for two classes of net assets: *net assets with donor restrictions* and *net assets without donor restrictions*.
- Reporting of expenses by both function and nature in one location is required for all non-profit organizations.
- Either the direct method or the indirect method for presenting operating cash flows may continue to be used, but the requirement for those entities using the direct method to prepare a reconciliation with the indirect method is eliminated.
- Quantitative information that communicates the availability of the organization’s financial assets as of the statement of financial position date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statements or in the notes to the financial statements.
- Qualitative information on how the organization manages its liquid available resources and liquidity risks is required to be disclosed in the notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

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

Adoption of New Accounting Pronouncements (continued)

- Reporting of the “underwater” amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about “underwater” endowments are required.
- The portion of endowment funds that is not specifically restricted by donors is no longer considered to be subject to an implicit time restriction and is now classified in net assets without donor restrictions.
- Other enhanced disclosures regarding board designations and appropriations, the nature of net assets with donor restrictions, and functional expense allocation methods are required.

The Society adopted the provisions of ASU 2016-14 as of October 1, 2018. These provisions have been retrospectively applied to the disclosures in the accompanying financial statements as of, and for the year ended, September 30, 2018, except for reporting expenses for the year ended September 30, 2018 by both function and nature and including disclosures regarding liquidity and availability of resources as of September 30, 2018, as permitted by ASU 2016-14. The adoption of this pronouncement did not impact the Society’s net assets.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

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

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, 2019 and 2018.

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.

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, 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

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

Donated Items and Materials

Donated items and materials totaled \$21,034 and \$17,027 for the years ended September 30, 2019 and 2018, 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.

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 an educational event and educational classes. Such deferred amounts are recognized as revenue in the period in which the event occurs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

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

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, 2019 and 2018 was \$232,176 and \$229,886, 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.

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, 2019 or 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

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

Fair Value Measurements (continued)

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 did not exceed the federally insured limit as of September 30, 2019. 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.

Subsequent Events

The Society has evaluated subsequent events through February 20, 2020, the date that the accompanying financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

NOTE B — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available as of September 30, 2019 and 2018 for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Restricted for specific purposes:		
Capital projects	\$ -0-	\$ 20,320
Educational projects	210,954	186,458
Fabrication Expansion	-0-	300,602
Investment in perpetuity	<u>20,000</u>	<u>20,000</u>
	<u>\$ 230,954</u>	<u>\$ 527,380</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>2019</u>	<u>2018</u>
Purpose restrictions accomplished for the following purposes:		
Capital projects	\$ 25,320	\$ 26,958
Educational projects	189,650	83,455
Fabrication Expansion	<u>456,749</u>	<u>705,333</u>
	<u>\$ 671,719</u>	<u>\$ 815,746</u>

NOTE C — BOARD-DESIGNATED NET ASSETS

The Society's Board of Trustees has designated \$2,632,502 and \$2,473,139 of net assets without donor restrictions as of September 30, 2019 and 2018, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

NOTE D — PLEDGES RECEIVABLE

Pledges receivable include pledges for support of current operations and for the Fabrication Expansion. Pledges receivable as of September 30, 2019 and 2018 are due as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ 69,275	\$ 372,750
One to five years	79,000	94,900
	<u>148,275</u>	<u>467,650</u>
Less:		
Allowance for doubtful pledges	(14,828)	(46,765)
Unamortized discount (at four percent)	<u>(10,559)</u>	<u>(11,256)</u>
Net Pledges Receivable	<u>\$ 122,888</u>	<u>\$ 409,629</u>

The Society periodically obtains conditional promises to receive from various donors. These promises to receive are contingent upon meeting certain conditions stipulated by the donors. Therefore, such promises are not recorded in the financial statements as of September 30, 2019. These conditional promises to receive are classified under the following stipulations:

Satisfactory progress in achieving program objectives	<u>\$ 50,000</u>
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NOTE E — INVENTORIES

Inventories consist of the following components as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Work-in-process	\$ 141,569	\$ 96,825
Finished goods	284,827	290,073
	<u>\$ 426,396</u>	<u>\$ 386,898</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

NOTE F — PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 1,508,322	\$ 1,487,383
Buildings	1,365,573	471,856
Building improvements	784,441	736,715
Construction in progress	-0-	863,489
Machinery and equipment	<u>1,296,824</u>	<u>1,182,121</u>
	4,955,160	4,741,564
Less: Accumulated depreciation	<u>(1,662,703)</u>	<u>(1,499,208)</u>
	<u><u>\$ 3,292,457</u></u>	<u><u>\$ 3,242,356</u></u>

Total depreciation expense, including depreciation included in cost of goods sold, was \$163,495 and \$159,981 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018 are as follows:

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</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> </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>
2018			
Portion included in Society's financial statements	\$ 69,362	\$ 35,284	\$ 104,646
Portion excluded from Society's financial statements	<u>37,088</u>	<u> </u>	<u>37,088</u>
Total Fair Value of Endowment Funds	<u><u>\$ 106,450</u></u>	<u><u>\$ 35,284</u></u>	<u><u>\$ 141,734</u></u>

The portion of the Endowment Funds included in the Society's financial statements as of September 30, 2019 and 2018 is classified as follows:

	<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> </u>	<u>20,000</u>	<u>20,000</u>
	<u><u>\$ 71,475</u></u>	<u><u>\$ 36,342</u></u>	<u><u>\$ 107,817</u></u>

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

September 30, 2019 and 2018

NOTE G — CHARITABLE ENDOWMENT FUNDS (CONTINUED)

	<u>Pewabic Pottery Fund</u>	<u>Pewabic Education Fund</u>	<u>Total</u>
2018			
Without donor restrictions	\$ 69,362	\$ 15,284	\$ 84,646
With donor restrictions		<u>20,000</u>	<u>20,000</u>
	<u>\$ 69,362</u>	<u>\$ 35,284</u>	<u>\$ 104,646</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, 2019 and 2018, 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>
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	<u>(282)</u>	<u>(159)</u>	<u>(441)</u>		<u>(441)</u>
Change in Endowment Funds' (Level 3) Assets	2,113	1,058	3,171	-0-	3,171
Balance, Beginning of Year	<u>69,362</u>	<u>15,284</u>	<u>84,646</u>	<u>20,000</u>	<u>104,646</u>
Balance, End of Year	<u>\$ 71,475</u>	<u>\$ 16,342</u>	<u>\$ 87,817</u>	<u>\$ 20,000</u>	<u>\$ 107,817</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, 2019	<u>\$ 2,395</u>	<u>\$ 1,217</u>	<u>\$ 3,612</u>	<u>\$ -0-</u>	<u>\$ 3,612</u>

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

September 30, 2019 and 2018

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>
2018					
Changes in Endowment Funds' (Level 3) Assets:					
Net realized and unrealized gains	\$ 4,077	\$ 2,214	\$ 6,291	\$ -0-	\$ 6,291
Contributions	5,338		5,338		5,338
Less: Administrative expenses	(576)	(324)	(900)		(900)
Change in Endowment Funds' (Level 3) Assets	8,839	1,890	10,729	-0-	10,729
Balance, Beginning of Year	60,523	13,394	73,917	20,000	93,917
Balance, End of Year	\$ 69,362	\$ 15,284	\$ 84,646	\$ 20,000	\$ 104,646
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, 2018	\$ 4,077	\$ 2,214	\$ 6,291	\$ -0-	\$ 6,291

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, 2019 and 2018

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, 2019 and 2018 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>
2019				
Assets:				
Beneficial interest in assets held by Community Foundation for Southeast Michigan	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 107,817</u>	<u>\$ 107,817</u>
2018				
Assets:				
Beneficial interest in assets held by Community Foundation for Southeast Michigan	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 104,646</u>	<u>\$ 104,646</u>

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, 2019 and 2018 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, 2019. 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, 2019 and 2018, 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, 2019 and 2018

NOTE I — LINES OF CREDIT (CONTINUED)

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, 2019 and 2018, 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 an additional line of credit agreement with the 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; see Note J for more information.

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.

The Society converted the balance from the construction line of credit (see Note I) into a conventional loan on August 21, 2019, with a maturity date of July 20, 2024. This note is payable in monthly installments of \$4,646, including interest at five percent per annum. The note payable is collateralized by real estate owned by the Society.

Future maturities are summarized as follows as of September 30, 2019:

For the Years Ending September 30:	
2020	\$ 32,315
2021	393,902
2022	8,136
2023	8,559
2024	<u>217,043</u>
	<u>\$ 659,955</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

NOTE J — NOTES PAYABLE (CONTINUED)

Total interest expense, including interest expense included in cost of goods sold, was \$14,618 and \$19,002 for the years ended September 30, 2019 and 2018, respectively.

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, 2019 are as follows:

For the Years Ending September 30:	
2020	\$ 2,388
2021	2,388
2022	2,388
2023	<u>398</u>
Total Minimum Lease Payments	7,562
Less: Amount representing interest	<u>(384)</u>
Net Minimum Lease Payments	<u>\$ 7,178</u>

The Society also leased equipment under an operating lease that expired in September 2018. Rental expense under this lease was \$1,990 for the year ended September 30, 2018.

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 \$32,003 and \$31,131 for the years ended September 30, 2019 and 2018, respectively, and are included in accrued payroll and vacation in the accompanying statements of financial position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

NOTE M – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Financial Assets:	
Cash and cash equivalents	\$ 190,223
Accounts receivable	10,993
Pledges receivable — current portion	54,447
Grants receivable	<u>224,399</u>
Total Financial Assets	480,062
Less:	
Donor-restricted assets	<u>(230,954)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 249,108</u>

As of September 30, 2019, 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 N — 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, 2020, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2019 and 2018

NOTE N — NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in June 2018. 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. ASU 2018-08 applies to the Society’s financial statements for the year ending September 30, 2020, with earlier implementation permitted, and is to be applied on a modified prospective basis. The Society’s management has not determined the impact on its financial statements as a result of implementing ASU 2018-08.

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, 2022, 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.

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.

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

September 30, 2019 and 2018

NOTE N — NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- 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.