

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA
Pittsburgh, Pennsylvania

Financial Statements
For the years ended June 30, 2019 and 2018
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Historical Society of Western Pennsylvania
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Historical Society of Western Pennsylvania (History Center), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the History Center as of June 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.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
October 25, 2019

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HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 127,259	\$ 205,494
Cash and cash equivalents - restricted	827,924	838,193
	<u>955,183</u>	<u>1,043,687</u>
Grants and pledges receivable	5,709,762	2,157,068
Other receivables	109,038	142,800
Prepaid expenses and other current assets	43,843	169,358
Inventory	297,443	182,327
	<u>7,115,269</u>	<u>3,695,240</u>
Total Current Assets		
LONG-TERM ASSETS		
Investments	25,989,642	23,697,681
Grants and pledges receivable, net	937,796	1,328,954
Property and equipment, net	29,323,706	29,806,137
	<u>63,366,413</u>	<u>58,528,012</u>
Total Assets		
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Revolving credit loan	\$ 1,000,000	\$ 500,000
Accounts payable	634,015	495,011
Accrued liabilities	246,923	367,032
Deferred revenue	33,424	28,970
Current portion of long-term debt	300,000	300,000
	<u>2,214,362</u>	<u>1,691,013</u>
Total Current Liabilities		
LONG-TERM DEBT	535,000	835,000
GIFT ANNUITY LIABILITY	198,321	212,004
DEFERRED COMPENSATION LIABILITY	71,847	21,508
	<u>3,019,530</u>	<u>2,759,525</u>
Total Liabilities		
NET ASSETS		
Without donor restrictions	26,713,753	26,611,090
With donor restrictions	33,633,130	29,157,397
	<u>60,346,883</u>	<u>55,768,487</u>
Total Net Assets		
Total Liabilities And Net Assets	<u>\$ 63,366,413</u>	<u>\$ 58,528,012</u>

See notes to financial statements.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue:		
Gifts and grants	\$ 4,579,011	\$ 2,677,317
Admissions	1,743,954	1,277,459
Membership dues	482,618	354,483
Event rentals and commissions	897,033	1,154,406
Museum shop and café sales	873,102	576,753
Rental income	80,428	90,064
Resource revenue	267,390	464,446
In-kind contributions	513,787	592,377
Other income	180,988	233,293
	<hr/>	<hr/>
Total Revenue	9,618,311	7,420,598
Net assets released from restrictions	4,176,355	5,617,428
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Total Revenue And Gains	13,794,666	13,038,026
Operating expenses:		
Program services	11,035,618	9,603,870
Management and general	1,696,217	1,603,423
Fundraising	960,168	841,905
	<hr/>	<hr/>
Total Operating Expenses	13,692,003	12,049,198
	<hr/>	<hr/>
Increase In Net Assets Without Donor Restrictions	102,663	988,828
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Gifts and grants	1,851,002	3,773,774
Contributions for endowment	6,350,234	391,498
Net investment return	450,852	1,681,956
Net assets released from restrictions	(4,176,355)	(5,617,428)
	<hr/>	<hr/>
Increase In Net Assets With Donor Restrictions	4,475,733	229,800
	<hr/>	<hr/>
Increase In Net Assets	\$ 4,578,396	\$ 1,218,628
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See notes to financial statements.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
BALANCE, June 30, 2017	\$ 25,622,262	\$ 28,927,597	\$ 54,549,859
2018 Increase in net assets	<u>988,828</u>	<u>229,800</u>	<u>1,218,628</u>
BALANCE, June 30, 2018	26,611,090	29,157,397	55,768,487
2019 Increase in net assets	<u>102,663</u>	<u>4,475,733</u>	<u>4,578,396</u>
BALANCE, June 30, 2019	<u>\$ 26,713,753</u>	<u>\$ 33,633,130</u>	<u>\$ 60,346,883</u>

See notes to financial statements.

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HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			
	Program Services			
	History Center	Meadowcroft	Fort Pitt	Total
Salaries and benefits	\$ 4,175,692	\$ 266,127	\$ 287,797	\$ 4,729,616
Occupancy	1,398,128	68,473	39,955	1,506,556
Programs, exhibits and collections	2,064,897	41,201	95,001	2,201,099
Marketing	445,676	83,991	14,321	543,988
Professional fees and administration	277,611	7,454	10,084	295,149
Other fees	283,855	713	-	284,568
Equipment	33,672	117	1,843	35,632
Depreciation	1,296,226	134,930	7,854	1,439,010
Total	<u>\$ 9,975,757</u>	<u>\$ 603,006</u>	<u>\$ 456,855</u>	<u>\$ 11,035,618</u>

	2018			
	Program Services			
	History Center	Meadowcroft	Fort Pitt	Total
Salaries and benefits	\$ 3,756,759	\$ 265,946	\$ 254,104	\$ 4,276,809
Occupancy	1,422,775	67,998	42,009	1,532,782
Programs, exhibits and collections	1,153,025	64,761	94,473	1,312,259
Marketing	399,499	55,489	10,693	465,681
Professional fees and administration	232,469	9,786	3,988	246,243
Other fees	261,002	328	-	261,330
Equipment	65,484	358	2,714	68,556
Depreciation	1,291,585	133,836	14,789	1,440,210
Total	<u>\$ 8,582,598</u>	<u>\$ 598,502</u>	<u>\$ 422,770</u>	<u>\$ 9,603,870</u>

2019

Management and General	Fundraising	Total Expenses
\$ 1,058,328	\$ 383,035	\$ 6,170,979
118,933	2,661	1,628,150
39,664	537,899	2,778,662
3,475	3,822	551,285
268,253	30,110	593,512
1,959	-	286,527
205,605	2,641	243,878
-	-	1,439,010
<u>\$ 1,696,217</u>	<u>\$ 960,168</u>	<u>\$ 13,692,003</u>

2018

Management and General	Fundraising	Total Expenses
\$ 1,065,708	\$ 327,918	\$ 5,670,435
118,994	2,408	1,654,184
30,489	496,704	1,839,452
2,798	150	468,629
246,127	13,060	505,430
2,022	-	263,352
137,285	1,665	207,506
-	-	1,440,210
<u>\$ 1,603,423</u>	<u>\$ 841,905</u>	<u>\$ 12,049,198</u>

See notes to financial statements.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 4,578,396	\$ 1,218,628
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net investment return	(450,852)	(1,681,956)
Depreciation	1,439,010	1,440,210
Contributions to endowment	(6,350,234)	(391,498)
Proceeds from sales of donated stock for operations	286,713	395,222
Changes in assets and liabilities:		
Grants and pledges receivable	(161,536)	(1,778,686)
Prepaid expenses, other current assets and other receivables	159,277	(150,404)
Inventory	(115,116)	(31,445)
Accounts payable and accrued liabilities	18,895	206,745
Deferred compensation liability	50,339	21,508
Deferred revenue and gift annuity liability	(9,229)	(21,678)
Net Cash Used In Operating Activities	<u>(554,337)</u>	<u>(773,354)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(956,579)	(979,448)
Purchases of investments	(3,758,091)	(779,705)
Proceeds from sales or maturity of investments	<u>1,630,269</u>	<u>1,613,391</u>
Net Cash Used In Investing Activities	<u>(3,084,401)</u>	<u>(145,762)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(300,000)	(311,666)
Borrowings on revolving credit loan	1,250,000	500,000
Payments on revolving credit loan	(750,000)	(710,000)
Proceeds from sales of donated stock for restricted purposes	-	20,822
Proceeds from contributions restricted for endowment	<u>3,350,234</u>	<u>411,498</u>
Net Cash Provided By (Used In) Financing Activities	<u>3,550,234</u>	<u>(89,346)</u>
Decrease In Cash And Cash Equivalents	(88,504)	(1,008,462)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,043,687</u>	<u>2,052,149</u>
End of year	<u>\$ 955,183</u>	<u>\$ 1,043,687</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 78,000</u>	<u>\$ 72,000</u>

See notes to financial statements.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION

The Historical Society of Western Pennsylvania (History Center), founded in 1879, operating as the Senator John Heinz History Center, which includes the Detre Library and Archives and the Western Pennsylvania Sports Museum, the Fort Pitt Museum (Fort Pitt), and the Meadowcroft Rockshelter and Historic Village, is a Pennsylvania not-for-profit educational institution that engages and inspires large and diverse audiences through programs that enable links to the past, understanding in the present, and guidance for the future by preserving regional history and presenting the American experience with a Western Pennsylvania connection. This work is accomplished in partnership with others through archaeology, archives, artifact collections, broadcast and electronic media, civic engagement, conservation, educational programs, exhibitions, events, library, museums, public outreach, performance, preservation, publications, products, research, technical assistance, and virtual programs. In addition, the History Center is a strategic partner with the Smithsonian Institution as an affiliate member. This contractual relationship enables the History Center to gain greater access to Smithsonian collections, exhibits and programs.

The History Center entered into a 10-year agreement with the Commonwealth of Pennsylvania effective April 22, 2010 whereby the History Center is responsible for the management and operations of Fort Pitt. In consideration for the services provided by the History Center, the History Center has the right to retain all revenues generated from operation of Fort Pitt during the agreement's term. The agreement will automatically renew for successive one-year periods.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

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

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the History Center and/or passage of time, or that are to be maintained in perpetuity by the History Center. Generally, the donors of these assets that are to be maintained in perpetuity permit the History Center to use all or part of the income earned on related investments for general or specific purposes.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - The History Center considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. The History Center maintains cash and cash equivalents at a financial institution that may exceed federally insured amounts at times. Restricted cash consists of donor-designated funds that are to be utilized for specific projects.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with realized and unrealized gains and losses included in the statements of activities. Investments received by gift are recorded at market value on the date of donation. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in values of investment securities will occur in the near term, and it is reasonably possible that such changes could materially affect the amounts reported in the statements of financial position.

Alternative investments, which are not readily marketable, are carried at net asset value (NAV) as provided by the investment managers. NAV is assessed by management to approximate fair value. The History Center reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values might differ significantly from the values that would have been used had a ready market for these securities existed. Such investments are, by their nature, generally considered to be long-term investments and are not intended to be liquidated on a short-term basis.

Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

Grants and Pledges Receivable - Unconditional promises to give cash and other assets to the History Center are reported at their estimated fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Grants receivable include amounts due from federal and state agencies and are recorded in accordance with the terms of the contracts. Conditional promises to give are not included as support until such time as the conditions are substantially met. During the year ended June 30, 2018, the History Center received a conditional grant for \$150,000 that was not included as support because the conditions were not met as of June 30, 2018. The conditions were met and revenue was recognized during the year ended June 30, 2019.

The History Center's policy is to provide for future losses on uncollectible grants and pledges based on an evaluation of the underlying grants and pledges and such other factors that, in the History Center's judgment, merit consideration in estimating doubtful accounts. At June 30, 2019 and 2018, no allowance was considered to be necessary.

Inventory - Gift shop inventory is stated at the lower of cost or net realizable value.

Property and Equipment - Property and equipment are recorded at cost when purchased. Property and equipment received by gift are recorded at fair value on the date of donation. The History Center records depreciation of property and equipment using the straight-line method over the estimated useful lives, ranging from five years to 40 years, of the related assets.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of - In accordance with the provisions of the Property, Plant and Equipment topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification), long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value, as defined, of the assets. No impairment was recorded for fiscal years ended June 30, 2019 and 2018.

Exhibits and Collections - The History Center's collections include its collection of material on Western Pennsylvania history. These items are held for educational, scientific and curatorial purposes. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously.

The collections, which were acquired through contributions and purchases since the History Center's inception, are not recognized as assets in the statements of financial position. Purchases of collection items are recorded as operating expenditures in the year in which the items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the statements of activities and changes in net assets with donor restrictions and are used for the acquisition of collections.

Gift Annuity Liability - Revenues and receivables from gift annuities are recognized upon the completion of these contracts and are reported at the present value of the estimated future cash flows with restrictions based on the donors' intent of the future use of the funds. Payments are made to donors or other beneficiaries in accordance with the respective agreements.

The History Center reports gifts of property and equipment as revenue without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, the History Center reports the expirations of the donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Services - Certain individuals and companies have made contributions of products and services to develop the History Center's programs and assist in its support. To the extent quantifiable by the contributor of goods or services, management recorded the value of goods and services provided as contribution revenue and related expense in the accompanying statements of activities. As of June 30, 2019 and 2018, such total value provided by contributors was approximately \$262,000 and \$292,000, respectively, of which the History Center received approximately \$214,000 and \$236,000 of contributed advertising services during the fiscal years ended June 30, 2019 and 2018, respectively, from a company of which a Board of Trustees (Board) member is a member of management. (See Note 6 regarding contributed rent.)

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition - The History Center recognizes revenue within the following categories:

Contributions - The History Center reports gifts of cash and other assets as restricted support 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 the purpose of the 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.

Membership - Membership gifts are reflected as revenue on the accompanying financial statements when received.

Event Rentals and Commissions - The History Center rents portions of its facility for historic life events, corporate events and other functions. When food and beverages are provided by its outside caterer, a commission is paid to the History Center. Event rentals and commissions revenues are recorded in the period the services are rendered.

Rental Income - The 2011 purchase and subsequent renovation of a nine-story building on Penn Avenue provides museum-quality storage for the History Center's collections as well as providing a source of rental income from similar institutions needing artifact storage. Rental income is recorded on a monthly basis over the terms of the rental agreements.

Resource Revenue - The History Center entered into an agreement allowing drilling on approximately 275 acres of property it owns in Washington County. As of June 30, 2019 and 2018, 177 acres are included in drilling plots, with royalties paid based on gas production of the wells. In 2018, the History Center entered into another lease for 20 acres of property in Allegheny County on which the History Center was granted mineral and gas rights. A sign-on bonus of \$80,000 was awarded to the History Center upon signing the lease. During the year ended June 30, 2019, drilling began on the Allegheny County property. Resource revenue is recorded when received.

Income Taxes - The History Center is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC). Accordingly, no federal or state income taxes have been provided.

The History Center follows the Income Taxes topic of the Codification that requires a recognition threshold and measurement principles for financial statement disclosures of tax positions taken or expected to be taken on a tax return. The History Center has assessed the tax positions it has taken or expects to take in its tax returns and, as a result, no liability for uncertain tax positions has been recorded; further, the History Center has no unrecognized tax benefits. The History Center is no longer subject to examination of its tax returns for years before 2016.

Advertising - Expenditures for advertising are charged to expense the first time the advertising takes place.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - The FASB has issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which is the result of a joint project of FASB and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14, a deferral on the implementation date, and this guidance is effective for annual reporting periods beginning after December 15, 2018. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. The History Center is assessing the impact that ASU 2014-09 will have on its financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11 - Inventory - Simplifying the Measurement of Inventory (Topic 330) (ASU 2015-11), which currently requires an entity to measure inventory as the lower of cost or market. Market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. These amendments require entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. The amendments in ASU 2015-11 are effective for financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. The History Center adopted this ASU for the year ended June 30, 2019. There was no impact to the accompanying financial statements upon adoption.

The FASB issued ASU No. 2016-02 Leases (Topic 842) (ASU 2016-02), which is the result of a joint project of FASB and IASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 amends Topic 842 to require a lessee to recognize a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term initially measured at the present value of the lease payments. The lessee should also include payments to be made on an optional lease extension if the organization is reasonably certain that the extension will be exercised when measuring the asset and liability. Organizations will be permitted to make an accounting policy election to not recognize leases with a term of 12 months or less. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. Early application is permitted. The History Center is assessing the impact that ASU 2016-02 will have on its financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-08 Not-for-Profit Entities (Topic 958) (ASU 2018-08), which clarifies and improves the scope and accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning net assets in the year the standard becomes effective. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The History Center is currently evaluating the impact that ASU 2018-08 will have on its financial statements and related disclosures.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement - Disclosure Framework (Topic 820). The updated guidance improves the disclosure requirements on fair value measurements and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The History Center is assessing the impact that ASU 2018-13 will have on its financial statements and related disclosures.

In March 2019, the FASB issued ASU 2019-03 Not-for-Profit Entities (Topic 958), which modifies the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are removed from a collection. ASU 2019-09 requires prospective application and is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The History Center is currently evaluating the impact that ASU 2019-03 will have on its financial statements and related disclosures.

NOTE 3 - FINANCIAL ASSETS AND LIQUIDITY RESERVES

The History Center's cash flows have seasonal variations during the year attributable to timing of exhibits, admissions, contributions, memberships and event rentals. To manage liquidity, the History Center maintains a line of credit that is drawn upon as needed. In addition, expenditures are managed to match the seasonal variation in cash flows.

At June 30, 2019 and 2018, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents - unrestricted	\$ 127,259	\$ 205,494
Grants and pledges receivable	1,303,982	905,788
Other receivables	109,038	142,800
Endowment spending appropriation	<u>1,087,240</u>	<u>1,183,587</u>
Total financial assets available within one year	<u>\$ 2,627,519</u>	<u>\$ 2,437,669</u>

The History Center is supported by contributions with and without donor restrictions. Because a donor's restriction requires resources to be used in a particular manner, or in a future period, the History Center must maintain sufficient resources to meet those responsibilities to its donors. As part of the History Center's liquidity management, it has a policy to segregate restricted cash and equivalents to be available as expenditures and other obligations become due. The History Center has a revolving credit loan with \$-0- and \$250,000 of availability it could draw in the event of a liquidity need as of June 30, 2019 and 2018, respectively.

The History Center's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes with the exception of the spending appropriation available for general use. The History Center's endowment funds are subject to a board-elected spending rate between 2% and 7%. This percentage is applied to a 36-month average market value of the investments at the prior year-end as described in Note 8.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 4 - GRANTS AND PLEDGES RECEIVABLE

The majority of the History Center's grants and pledges receivable are due from state and local governments, corporations and private foundations. Pledges receivable include approximately \$344,000 and \$110,000 from Board members as of June 30, 2019 and 2018, respectively.

Scheduled collections of grants and pledges receivable, net of unamortized discount (2% in 2019 and 2018) are as follows:

	<u>2019</u>	<u>2018</u>
In one year or less	\$ 5,709,762	\$ 2,157,068
Between one year and five years	919,481	1,330,000
More than five years	100,000	100,000
	<u>6,729,243</u>	<u>3,587,068</u>
Less - Unamortized discount	81,685	101,046
	<u>\$ 6,647,558</u>	<u>\$ 3,486,022</u>

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments, at fair value, at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,670,268	\$ 804,760
U.S. government obligations	1,657,680	1,518,435
U.S. corporate obligations	1,043,545	1,057,370
International corporate obligations	292,176	276,275
Marketable equity securities	8,010,867	8,483,722
International equity securities	6,829,846	6,984,541
Real asset funds	3,217,961	3,407,284
Fixed-income mutual fund	1,267,299	1,165,294
	<u>\$ 25,989,642</u>	<u>\$ 23,697,681</u>

The History Center follows the Codification topic Fair Value Measurement, which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurement

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

This topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. This topic requires disclosures that categorize assets and liabilities measured at fair value into three different levels, depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The valuation of the History Center's investments according to the fair value hierarchy as of June 30 is as follows:

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,670,268	-	-	\$ 3,670,268
U.S. government obligations	-	\$ 1,657,680	-	1,657,680
U.S. corporate obligations	-	1,043,545	-	1,043,545
International corporate obligations	-	292,176	-	292,176
Marketable equity securities	8,010,867	-	-	8,010,867
International equity obligations	6,829,846	-	-	6,829,846
Real asset funds	1,661,982	-	-	1,661,982
Fixed-income mutual fund	1,267,299	-	-	1,267,299
Total assets in the fair value hierarchy	\$ <u>24,440,262</u>	\$ <u>2,993,401</u>	<u>-</u>	24,433,663
Investments measured at net asset value (a)				<u>1,555,979</u>
Total investments at fair value				\$ <u>25,989,642</u>

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 804,760	-	-	\$ 804,760
U.S. government obligations	-	\$ 1,518,435	-	1,518,435
U.S. corporate obligations	-	1,057,370	-	1,057,370
International corporate obligations	-	276,275	-	276,275
Marketable equity securities	8,483,722	-	-	8,483,722
International equity obligations	6,984,541	-	-	6,984,541
Real asset funds	2,041,188	-	-	2,041,188
Fixed-income mutual fund	1,165,294	-	-	1,165,294
	<u>\$ 19,479,505</u>	<u>\$ 2,852,080</u>	<u>-</u>	<u>22,331,585</u>
Investments measured at net asset value (a)				<u>1,366,096</u>
Total investments at fair value				<u>\$ 23,697,681</u>

(a) In accordance with Subtopic 820-10, certain investments were measured at NAV per share (or its equivalent) and have not been classified in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The valuation of the History Center's investments in real asset funds that are valued at NAV as a practical expedient requires significant judgment due to the absence of quoted market prices and inherent lack of liquidity. These investments consist of a commodity fund and Real Estate Investment Trust (REIT). The History Center's investments in the commodity funds and REIT are valued using NAV per share or unit of interest. The objective of the commodity fund is to exceed the performance of the Bloomberg Commodity Index Total Return by taking long and short positions in the commodities markets. The primary investment objective of the REIT is to maximize total return. Used as a practical expedient for the estimated fair value, NAV per share or its equivalent is provided by the fund manager and reviewed by the History Center.

The History Center invests in real asset funds to provide a hedge against unexpected inflation, to capture unique sources of returns and to provide diversification benefits. Real asset fund manager performance is typically reported monthly though underlying assets may be valued less frequently.

The following table summarizes investments measured at fair value based on NAV per share as a practical expedient as of June 30:

	Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
2019	Real asset funds	\$ <u>1,555,979</u>	<u>-</u>	Monthly	1 day
2018	Real asset funds	\$ <u>1,366,096</u>	<u>-</u>	Monthly	1 day

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Building	\$ 55,280,760	\$ 54,414,851
Furniture, fixtures and equipment	5,046,522	4,987,120
Vehicles	33,256	33,256
	<u>60,360,538</u>	<u>59,435,227</u>
Less - Accumulated depreciation	31,207,452	29,768,442
	<u>29,153,086</u>	<u>29,666,785</u>
Construction in progress	170,620	139,352
	<u>\$ 29,323,706</u>	<u>\$ 29,806,137</u>

In 1991, the History Center executed a lease agreement with the Sports and Exhibition Authority for its primary facility. The lease was for an initial term of 25 years and provides for renewal options for three additional 25-year periods. The lease was renewed in September 2015 for another 25-year period commencing October 22, 2016. Rental payments under the lease agreement are \$1 per year. The History Center has recorded an in-kind contribution and rent expense of approximately \$324,000 for the years ended June 30, 2019 and 2018 for the lease. The History Center is responsible for all operating costs and repairs and maintenance, including taxes, assessments, water and sewer rents and all other governmental charges or levies.

NOTE 7 - BORROWING ARRANGEMENTS

Borrowings at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Term loan	\$ 775,000	\$ 1,075,000
Revolving credit loan	1,000,000	500,000
Economic development agency loan	60,000	60,000
	<u>1,835,000</u>	<u>1,635,000</u>
Less - Current portion of borrowings	1,300,000	800,000
	<u>\$ 535,000</u>	<u>\$ 835,000</u>

The History Center has a Loan and Security Agreement (Agreement) with a bank, comprised of a term loan and a revolving credit loan. The Agreement is secured by any and all revenues, and substantially all assets of the History Center.

The term loan permits maximum borrowings of \$1,500,000 and has a maturity date of January 31, 2022. Principal payments of \$25,000 are due monthly. Interest is charged at the London InterBank Offered Rate (LIBOR) (2.40% at June 30, 2019) plus 2.50%.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 7 - BORROWING ARRANGEMENTS (Continued)

The revolving credit loan permits maximum borrowings of \$1,000,000 and has a maturity date of January 31, 2020. Interest is charged at LIBOR (2.40% at June 30, 2019) plus 2.25%.

Borrowings under the Agreement require the History Center to meet certain nonfinancial and financial covenants, with which the History Center was in compliance at June 30, 2019.

In October 2014, the History Center entered into a \$60,000 interest-free loan agreement with an economic development agency for physical improvements to the façade of a building. Principal payments on the loan agreement shall be deferred, and no interest shall be charged or accrued until such time as the building is sold or transferred. The loan is secured by a third lien position perfected security interest in the building.

A summary of the principal payments due for the fiscal years ending June 30 is as follows:

Fiscal Year Ending June 30	Amount
2020	\$ 300,000
2021	300,000
2022	175,000
Thereafter	<u>60,000</u>
	<u>\$ 835,000</u>

NOTE 8 - ENDOWMENT

The History Center's endowment consists of various investment funds established primarily for support of the organization's mission. Its endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The History Center has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141), which permits election of a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's donor-restricted investments as income each year. However, the long-term preservation of the real value of the assets must be taken into consideration when the History Center elects the amount. In accordance with Act 141, the spending rate elected must be between 2% and 7%. This percentage is applied to a 36-month average market value of the investments at the prior year-end. The History Center used a spending rate of 6.9% and 7% for the years ended June 30, 2019 and 2018, respectively. The History Center classifies as donor-restricted net assets the original value of gifts donated to be maintained in perpetuity. Earnings on these gifts are accumulated in net assets with donor restrictions. As required by Act 141, the History Center has adopted a written investment policy, of which a section specifically relates to the endowment fund.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 8 - ENDOWMENT (Continued)

The History Center considers the following factors in making a determination to set a spending rate:

1. Protecting the corpus of the endowment fund.
2. Preserving the spending power of the assets.
3. Obtaining maximum investment return with reasonable risk and operational consideration.
4. Complying with applicable laws.

The following represents the change in donor-restricted endowment investments for the years ended June 30:

	<u>Total</u>
Endowment net assets, June 30, 2017	
Beginning of year	\$ 23,106,932
Investment return:	
Investment income	446,909
Net realized gain	273,956
Net unrealized appreciation	961,091
Contributions	384,382
Appropriation of endowment assets for expenditures	(1,118,125)
Appropriation of endowment assets for term loan repayment	<u>(375,464)</u>
Balance as of June 30, 2018	23,697,681
Investment return:	
Investment income	528,282
Net realized gain	583,156
Net unrealized depreciation	(660,586)
Contributions	3,277,191
Appropriation of endowment assets for expenditures	(1,088,587)
Appropriation of endowment assets for term loan repayment	<u>(352,495)</u>
Endowment net assets, June 30, 2019	<u>\$ 25,989,642</u>

Return Objectives and Risk Parameters - The History Center has adopted investment and spending policies for endowment assets that attempt to provide a reasonable level of funding to programs supported by its endowment while seeking to enhance the purchasing power of the fund's corpus by striving for long-term growth. Endowment assets include those assets of donor-restricted funds that the History Center must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price.

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 8 - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the History Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The History Center targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Investment advisors, at the discretion of the Investment Committee of the Board, are given guidelines to the percentage that can be committed to a particular investment or investment category.

Spending Policy and Investment Objectives Related to Spending Policy - In accordance with Act 141, the History Center considers interest and dividend income and realized and unrealized gains from net assets with donor restrictions as amounts that must be added to net assets with donor restrictions until such time as the Board allocates such amounts for spending. The Board's practice is to allocate 5% of the market value of the investments after the expenses of managing the endowment for spending. Beginning in 2006, the Board approved an additional 2% draw, when donor terms permit, for the specific purpose of repaying the term loan outstanding. In 2019 and 2018, the spendable return totaled approximately \$1,436,000 and \$1,476,000, respectively. The amount is recognized as net assets released from restrictions in the statements of activities. This practice occurs if such total incomes in the current year or accumulated in prior years are sufficient to allow the Board-authorized distribution. When such gains are allocated for spending, the related net assets are released from restriction.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by the law (underwater endowments). The History Center has interpreted Act 141 to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2019, invested funds with original gift values of \$28,152,074, fair values of \$25,989,642 and deficiencies of \$2,162,432 were reported in net assets with donor restrictions. At June 30, 2018, funds with original gift values of \$24,874,883, fair values of \$23,697,681, and deficiencies of \$1,177,202 were reported in net assets with donor restrictions.

The History Center believes that this spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with the History Center's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30 are available for the following purposes:

	<u>2018</u>	<u>Additions</u>	<u>Expenditures</u>	<u>2019</u>
Research and educational programs	\$ 5,459,716	\$ 1,641,589	\$ 2,530,860	\$ 4,570,445
Fort Pitt operations	-	209,413	209,413	-
Endowment funds*	<u>23,697,681</u>	<u>6,801,086</u>	<u>1,436,082</u>	<u>29,062,685</u>
	<u>\$ 29,157,397</u>	<u>\$ 8,652,088</u>	<u>\$ 4,176,355</u>	<u>\$ 33,633,130</u>

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

	<u>2017</u>	<u>Additions</u>	<u>Expenditures</u>	<u>2018</u>
Research and educational programs	\$ 5,820,665	\$ 3,757,957	\$ 4,118,906	\$ 5,459,716
Fort Pitt operations	-	22,933	22,933	-
Endowment funds*	<u>23,106,932</u>	<u>2,066,338</u>	<u>1,475,589</u>	<u>23,697,681</u>
	<u>\$ 28,927,597</u>	<u>\$ 5,847,228</u>	<u>\$ 5,617,428</u>	<u>\$ 29,157,397</u>

* Endowment funds including outstanding pledges receivable and assets restricted in perpetuity to investments, the income of which is generally expendable to support programs/exhibits/publications and/or general support of the History Center, the Hillman Gallery, Italian-American history, and the From Slavery to Freedom Exhibit.

NOTE 10 - BENEFIT PLANS

Effective January 1, 2018, the History Center entered into a deferred compensation agreement with one of its key executives. The agreement states that the executive shall receive a lump sum of \$250,000 upon completing five years of service commencing January 1, 2018 and ending December 31, 2022. In accordance the FASB Topic 720, the cost of the deferred compensation is accrued over the course of the participant's service. Compensation expense incurred relating to this contract was approximately \$50,000 and \$22,000 for the years ended June 30, 2019 and 2018, respectively.

The History Center sponsors a defined contribution retirement plan established in accordance with Section 403(b) of the IRC covering all eligible employees. The History Center matches up to 3% of eligible employees' compensation. Total expense to the History Center was approximately \$69,000 and \$67,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE 11 - RELATED-PARTY TRANSACTIONS

The History Center engages in transactions in the normal course of business with companies whose executives are members of the Board. The History Center's conflict-of-interest policy requires that all potential conflicts be disclosed and that the interested person does not participate in the final decision and does not vote on this issue.

Additionally, certain members of the Board have made unconditional promises to give to the History Center. (See Note 4.)

HISTORICAL SOCIETY OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 11 - RELATED-PARTY TRANSACTIONS (Continued)

During the year ended June 30, 2017, a not-for-profit organization of which a member of History Center management is a Board member funded the History Center's purchase of property and land for \$1,317,500. Following this transaction, the History Center began receiving quarterly distributions from the organization to maintain and preserve the property. The History Center received distributions in the amount of approximately \$15,000 and \$14,000 during the years ended June 30, 2019 and 2018, respectively. This separate entity's operations are funded by the aforementioned not-for-profit organization of which a member of History Center management is a Board member and a qualified terminable interest property trust.

During the years ended June 30, 2019 and 2018, respectively, a member of the Board funded approximately \$244,000 and \$65,000 of demolition costs for a building located on property owned by the History Center.

The History Center is one of 15 designated institutions named as beneficiaries of The Dietrich Foundation (the Foundation) created by William S. Dietrich II pursuant to an Amended and Restated Declaration of Trust dated August 23, 2011. The Foundation is expected to make annual distributions that will be allocated among the prespecified supported organizations. As of June 30, 2019, the History Center's distribution share was approximately 1%. The distributions to the History Center have been recorded as gifts and grants with donor restrictions and held in the endowment fund. Distributions of approximately \$267,000 and \$239,000 were received in fiscal years 2019 and 2018, respectively.

NOTE 12 - FUNCTIONAL EXPENSES

Expenses are summarized and categorized based upon their functional classification as either program or supporting expenses. Specific expenses are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, marketing, and professional fees and administration, which are allocated on the basis of time and effort.

NOTE 13 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 25, 2019, the date on which the financial statements were available to be issued.

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