

Financial statements of:

**The Loft, Inc.
d/b/a The Loft Literary Center**

Years ended
August 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Loft, Inc. d/b/a The Loft Literary Center
Minneapolis, Minnesota

Opinion

We have audited the financial statements of The Loft, Inc. d/b/a The Loft Literary Center (the Organization) which comprise the statements of financial position as of August 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2023 and 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

January 18, 2024
Minneapolis, MN

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Assets:						
Current assets:						
Cash and cash equivalents	\$ 418,352	\$ 722,608	\$ 1,140,960	\$ 686,812	\$ 717,935	\$ 1,404,747
Restricted cash reserve	-	150,000	150,000	-	150,000	150,000
Accounts receivable, considered collectible	50,326	-	50,326	14,673	-	14,673
Current portion of grants and contributions receivable	12,105	411,544	423,649	6,019	237,000	243,019
Prepaid expenses	25,875	-	25,875	22,946	-	22,946
Total current assets	<u>506,658</u>	<u>1,284,152</u>	<u>1,790,810</u>	<u>730,450</u>	<u>1,104,935</u>	<u>1,835,385</u>
Property and equipment, net	<u>7,432</u>	-	<u>7,432</u>	<u>13,267</u>	-	<u>13,267</u>
Other assets:						
Unemployment services trust	31,365	-	31,365	29,245	-	29,245
Long term portion of grants receivable	-	-	-	-	224,484	224,484
Investments	545,376	3,449,254	3,994,630	377,662	3,304,424	3,682,086
	<u>576,741</u>	<u>3,449,254</u>	<u>4,025,995</u>	<u>406,907</u>	<u>3,528,908</u>	<u>3,935,815</u>
Total assets	<u>\$ 1,090,831</u>	<u>\$ 4,733,406</u>	<u>\$ 5,824,237</u>	<u>\$ 1,150,624</u>	<u>\$ 4,633,843</u>	<u>\$ 5,784,467</u>
Liabilities and net assets:						
Current liabilities:						
Accounts payable	\$ 44,374	\$ -	\$ 44,374	\$ 169,893	\$ -	\$ 169,893
Accrued expenses	28,976	-	28,976	53,304	-	53,304
Awards payable	50,500	-	50,500	13,000	-	13,000
Deferred revenue	251,724	-	251,724	212,314	-	212,314
Total current liabilities	<u>375,574</u>	<u>-</u>	<u>375,574</u>	<u>448,511</u>	<u>-</u>	<u>448,511</u>
Net assets:						
Without donor restrictions	715,257	-	715,257	702,113	-	702,113
With donor restrictions	-	4,733,406	4,733,406	-	4,633,843	4,633,843
Total net assets	<u>715,257</u>	<u>4,733,406</u>	<u>5,448,663</u>	<u>702,113</u>	<u>4,633,843</u>	<u>5,335,956</u>
Total liabilities and net assets	<u>\$ 1,090,831</u>	<u>\$ 4,733,406</u>	<u>\$ 5,824,237</u>	<u>\$ 1,150,624</u>	<u>\$ 4,633,843</u>	<u>\$ 5,784,467</u>

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Admissions	\$ 17,033	\$ -	\$ 17,033	\$ 2,567	\$ -	\$ 2,567
Tuitions	710,438	-	710,438	697,388	-	697,388
Collaboration and service fees	67,825	-	67,825	35,240	-	35,240
Writing studios and book club room rental	30,781	-	30,781	19,013	-	19,013
Advertising and exhibitor fees	16,057	-	16,057	545	-	545
Investment and interest (loss) income:						
General	71,350	-	71,350	(69,023)	-	(69,023)
Endowment	-	304,568	304,568	-	(575,362)	(575,362)
Other	7,399	-	7,399	4,049	-	4,049
Total revenues	<u>920,883</u>	<u>304,568</u>	<u>1,225,451</u>	<u>689,779</u>	<u>(575,362)</u>	<u>114,417</u>
Support:						
Grants:						
Government	505,054	158,544	663,598	162,243	18,655	180,898
Foundation	49,637	322,669	372,306	66,596	1,043,307	1,109,903
Corporation	40,000	10,000	50,000	3,500	15,000	18,500
Individuals	297,888	15,469	313,357	312,707	75,406	388,113
In-kind contributions	65,041	-	65,041	6,740	-	6,740
Total support	<u>957,620</u>	<u>506,682</u>	<u>1,464,302</u>	<u>551,786</u>	<u>1,152,368</u>	<u>1,704,154</u>
Net assets released from restrictions	541,927	(541,927)	-	740,983	(740,983)	-
Endowment earnings used in operations in support of mission	169,760	(169,760)	-	77,809	(77,809)	-
Total revenues and support	<u>2,590,190</u>	<u>99,563</u>	<u>2,689,753</u>	<u>2,060,357</u>	<u>(241,786)</u>	<u>1,818,571</u>
Expenses:						
Program services:						
Services for writers and the literary community	488,103	-	488,103	500,942	-	500,942
Learning for writers and readers	1,100,326	-	1,100,326	1,042,376	-	1,042,376
Events for readers	540,384	-	540,384	83,261	-	83,261
Support services:						
Management and general	188,071	-	188,071	219,089	-	219,089
Fundraising	260,162	-	260,162	221,193	-	221,193
Total expenses	<u>2,577,046</u>	<u>-</u>	<u>2,577,046</u>	<u>2,066,861</u>	<u>-</u>	<u>2,066,861</u>
Change in net assets	13,144	99,563	112,707	(6,504)	(241,786)	(248,290)
Net assets, beginning	<u>702,113</u>	<u>4,633,843</u>	<u>5,335,956</u>	<u>708,617</u>	<u>4,875,629</u>	<u>5,584,246</u>
Net assets, ending	<u>\$ 715,257</u>	<u>\$ 4,733,406</u>	<u>\$ 5,448,663</u>	<u>\$ 702,113</u>	<u>\$ 4,633,843</u>	<u>\$ 5,335,956</u>

	Services for Writers and the Literary Community	Learning for Writers and Readers	Events for Readers	Total program services	Management and general	Fundraising	Total mission support services	Total all services
Salaries	\$ 170,134	\$ 418,609	\$ 159,878	\$ 748,621	\$ 116,799	\$ 175,528	\$ 292,327	\$ 1,040,948
Payroll taxes and benefits	24,900	63,129	22,658	110,687	18,496	25,864	44,360	155,047
Total salaries and related expenses	<u>195,034</u>	<u>481,738</u>	<u>182,536</u>	<u>859,308</u>	<u>135,295</u>	<u>201,392</u>	<u>336,687</u>	<u>1,195,995</u>
Artist pay	62,383	361,834	12,129	436,346	374	677	1,051	437,397
Grants and awards	143,500	-	-	143,500	-	-	-	143,500
Staff development	302	21,201	405	21,908	214	462	676	22,584
Accessibility services	-	-	18,328	18,328	-	-	-	18,328
Travel and per diem	16,066	19,758	22,656	58,480	3	11	14	58,494
Hospitality, receptions and meetings	2,590	8,835	4,951	16,376	668	1,404	2,072	18,448
Event and video production	1,091	367	78,603	80,061	-	-	-	80,061
Marketing and promotion	1,460	44,968	92,151	138,579	-	165	165	138,744
Website	4,252	10,663	4,595	19,510	2,031	3,681	5,712	25,222
Professional and outsourced services	14,960	37,511	79,347	131,818	36,437	25,775	62,212	194,030
Printing	73	404	3,038	3,515	35	800	835	4,350
Postage, shipping, and delivery	573	1,058	761	2,392	86	3,839	3,925	6,317
Materials and supplies	595	2,996	4,409	8,000	330	1,205	1,535	9,535
Occupancy and program rental	34,452	38,282	19,688	92,422	4,076	7,178	11,254	103,676
Office expense	1,568	4,379	1,865	7,812	763	1,355	2,118	9,930
Software licenses and subscriptions	4,815	25,847	6,270	36,932	6,183	3,851	10,034	46,966
Memberships, dues, and subscriptions	722	1,246	526	2,494	237	560	797	3,291
Insurance	973	2,439	1,031	4,443	465	842	1,307	5,750
Bank and transaction fees	1,596	33,605	1,966	37,167	339	6,014	6,353	43,520
Miscellaneous	111	720	4,083	4,914	63	96	159	5,073
Total before depreciation	<u>487,116</u>	<u>1,097,851</u>	<u>539,338</u>	<u>2,124,305</u>	<u>187,599</u>	<u>259,307</u>	<u>446,906</u>	<u>2,571,211</u>
Depreciation	<u>987</u>	<u>2,475</u>	<u>1,046</u>	<u>4,508</u>	<u>472</u>	<u>855</u>	<u>1,327</u>	<u>5,835</u>
	<u>\$ 488,103</u>	<u>\$ 1,100,326</u>	<u>\$ 540,384</u>	<u>\$ 2,128,813</u>	<u>\$ 188,071</u>	<u>\$ 260,162</u>	<u>\$ 448,233</u>	<u>\$ 2,577,046</u>
Percentage of total expenses	18.9%	42.7%	21.0%	82.6%	7.3%	10.1%	17.4%	100.0%

	Services for Writers and the Literary Community	Learning for Writers and Readers	Events for Readers	Total program services	Management and general	Fundraising	Total mission support services	Total all services
Salaries	\$ 186,191	\$ 380,478	\$ 56,706	\$ 623,375	\$ 103,323	\$ 139,437	\$ 242,760	\$ 866,135
Payroll taxes and benefits	28,329	59,343	8,078	95,750	15,933	18,833	34,766	130,516
Total salaries and related expenses	214,520	439,821	64,784	719,125	119,256	158,270	277,526	996,651
Artist pay	62,650	397,623	1,273	461,546	210	280	490	462,036
Grants and awards	143,000	-	-	143,000	-	-	-	143,000
Staff development	361	367	32	760	55	532	587	1,347
Accessibility services	-	-	-	-	-	-	-	-
Travel and per diem	15,486	638	87	16,211	150	210	360	16,571
Hospitality, receptions and meetings	529	667	95	1,291	272	2,490	2,762	4,053
Event and video production	345	-	100	445	-	-	-	445
Marketing and promotion	4,345	35,296	916	40,557	97	1,562	1,659	42,216
Website	3,293	9,111	1,235	13,639	1,778	2,701	4,479	18,118
Professional and outsourced services	14,477	33,948	5,067	53,492	81,368	22,865	104,233	157,725
Printing	55	123	19	197	33	4,636	4,669	4,866
Postage, shipping, and delivery	171	1,487	17	1,675	17	5,311	5,328	7,003
Materials and supplies	449	876	84	1,409	171	240	411	1,820
Occupancy and program rental	23,896	45,694	2,451	72,041	4,116	5,807	9,923	81,964
Office expense	4,870	10,467	1,416	16,753	2,427	3,236	5,663	22,416
Software licenses and subscriptions	5,886	22,485	3,592	31,963	5,603	4,183	9,786	41,749
Memberships, dues, and subscriptions	806	1,475	230	2,511	393	525	918	3,429
Insurance	1,099	2,472	385	3,956	659	879	1,538	5,494
Bank and transaction fees	1,283	31,784	281	33,348	406	4,729	5,135	38,483
Miscellaneous	141	659	49	849	109	112	221	1,070
Total before depreciation	497,662	1,034,993	82,113	1,614,768	217,120	218,568	435,688	2,050,456
Depreciation	3,280	7,383	1,148	11,811	1,969	2,625	4,594	16,405
	<u>\$ 500,942</u>	<u>\$ 1,042,376</u>	<u>\$ 83,261</u>	<u>\$ 1,626,579</u>	<u>\$ 219,089</u>	<u>\$ 221,193</u>	<u>\$ 440,282</u>	<u>\$ 2,066,861</u>
Percentage of total expenses	24.2%	50.4%	4.0%	78.7%	10.6%	10.7%	21.3%	100.0%

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 112,707	\$ (248,290)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	5,835	16,405
Contributions with donor restriction into perpetuity	(10,000)	-
Net investment loss (return)	(427,083)	796,802
(Increase) decrease in assets:		
Accounts receivable	(35,653)	14,318
Grants and contributions receivable	43,854	(387,683)
Prepaid expenses	(2,929)	(574)
Unemployment services trust	(2,120)	63,548
Increase (decrease) in liabilities:		
Accounts payable	(125,519)	133,567
Accrued expenses	(24,328)	33,520
Awards payable	37,500	(24,500)
Deferred revenue	39,410	(7,743)
Net cash (used in) provided by operating activities	<u>(388,326)</u>	<u>389,370</u>
Cash flows provided by investing activities:		
Purchase of investments	(55,221)	(237,469)
Proceeds from sale of investments	169,760	77,809
Net cash provided by (used in) investing activities	<u>114,539</u>	<u>(159,660)</u>
Cash flows provided by financing activities, contributions received with donor restriction into perpetuity	<u>10,000</u>	<u>-</u>
Net change in cash, cash equivalents and restricted cash	(263,787)	229,710
Cash, cash equivalents, and restricted cash, beginning	<u>1,554,747</u>	<u>1,325,037</u>
Cash, cash equivalents, and restricted cash, ending	<u>\$ 1,290,960</u>	<u>\$ 1,554,747</u>
Reconciliation to consolidated statements of financial position:		
Cash and cash equivalents	\$ 1,140,960	\$ 1,404,747
Restricted cash reserve	<u>150,000</u>	<u>150,000</u>
Total cash, cash equivalents and restricted cash	<u>\$ 1,290,960</u>	<u>\$ 1,554,747</u>

1. Organization and summary of significant accounting policies:

The Loft, Inc. d/b/a The Loft Literary Center (the Organization) *advances the power of writers and readers to craft and share stories, to create and celebrate connections, and to build just, life-sustaining communities.*

Over the 2023 fiscal year the Loft developed a more community-centric organizational identity. The Organization created a five-year framework that establishes antiracism, equity and access, authentic community engagement, learning and innovation, and organizational health and wellness as strategic priorities.

Programs and program services:

Services for Writers and the Literary Community – In fiscal year 2023, the Organization provided and expanded upon a wide range of services designed to support writers and the broader literary community.

Loft.org, the Organization’s website, provided regular articles and fostered discussions about the writers’ life and craft through The Writers’ Block blog. There, writers found writing exercises, readers found book and event recommendations, and both found literary reviews, commentary, news, and discussion. The site also included interviews, a calendar of readings and events, an online catalog of classes, and resources including information about writing groups, competitions, grants, awards, publishers, and agents.

Visitors to Open Book accessed *The Rachel Anne Gaschott Ritchie Small Press Library* to research journals that might publish their work and deepen their understanding of the manuscripts local independent publishers are seeking.

Twenty-six writers made use of the Organization’s writers’ studios while the three Organization-sponsored culturally distinct writing groups met at Open Book.

The Mentor Series Fellowship in Poetry and Creative Prose and *the Mirrors and Windows Fellowship* served twelve and thirteen competitively selected emerging artists respectively. These writers also received small monetary awards.

McKnight Artist Fellowships for Writers provided five Minnesota writers of demonstrated ability with grants of \$25,000, buying them time to concentrate on their craft. The writers were competitively selected for awards in creative prose and children’s literature for age 8+.

Through *Strategic Partnerships*, the Loft leveraged its resources and expertise in support of key allies in the literary ecosystem including Cave Canem, Mizna, More Than a Single Story, and TruArtsSpeaks. Each *Strategic Partnership* features multiple touchpoints during the year which can take the form of events and classes offered in partnership as well as the use of space and participation in Loft programs. The organization also welcomed MayFly Design, a book design firm, and Studio Americana, a podcast and audio-book producer, as co-locating partners.

1. Organization and summary of significant accounting policies (continued):

Programs and program services (continued):

Learning for Writers and Readers – The Organization offered a variety of learning opportunities for writers and readers during fiscal year 2023. Adults and youth (ages 6-90+) at all levels of artistic development furthered their skills in classes focused on fiction, poetry, creative nonfiction, screen/playwriting, children’s literature, graphic novel, and other literary forms; learned more about developing a writing practice and career; and explored literature as readers. All classes were taught by accomplished writers and literary professionals. This year, the Organization served 2,890 adults and 347 youth in 459 classes and workshops, schools and community programs. Another 60 writers took advantage of manuscript review or one-on-one coaching services offered by the Loft.

To mitigate financial barriers to participation in creative writing learning opportunities, the Organization provided reduced price access to learning opportunities (valued at \$42,578).

Events for Readers – Readings and spoken word performances helped develop audiences for literature while promoting and advancing the work of individual writers. Panels and discussions featured writers and thought leaders using literature to spur conversations on topical issues and curated literary events engaged audience members in exploration of thought-provoking themes. A combined audience of 1623 participated in 16 events, (including Wordplay 2023, which offered 23 events in one), featuring a total of 156 artists and thought leaders.

Cash and cash equivalents:

Short-term, highly liquid investments with initial maturities of three months or less are presented as cash and cash equivalents. However, at times, a portion of the endowment investment portfolio may be invested in cash equivalents and has been reflected as investments.

Accounts receivable:

Accounts receivable are stated at net realizable value and are considered collectible. The Organization provides an allowance for bad debts, if necessary, using the allowance method, which is based on management’s judgment, considering historical information. When all collection efforts have been exhausted, the accounts are written off against the related allowance. All amounts due at August 31, 2023 and 2022 are considered collectible, accordingly, no reserve for doubtful accounts has been provided.

Grants and contributions receivable:

Contributions receivable that are expected to be collected within one year are recorded at their net realizable value. No allowance for doubtful accounts has been provided as all pledges and grants receivable are considered collectible. Grants that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the grant is receivable. Amortization of the discount is included in contribution revenue.

1. Organization and summary of significant accounting policies (continued):

Property and equipment:

Property and equipment purchased are recorded at cost. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted. The Organization uses \$2,500 for a capitalization threshold.

Depreciation and amortization of property and equipment is computed on a straight-line basis over the estimated service lives of the assets as follows:

Computer software and equipment	3 to 5 years
Office furniture and equipment	5 to 7 years
Leasehold improvements	15 years or life of lease

Leases:

The Organization determines if an arrangement is a lease at inception and has identified no leases subject to ASC 842 as of August 31, 2023. Operating leases are included in right-of-use (ROU) assets – operating and lease liabilities on the statements of financial position. ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. If an agreement does not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU asset also includes any lease payments made and includes non-lease costs. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses incurred and these leases are not included as lease liabilities or ROU assets on the statements of financial position.

Restricted cash:

The Organization maintains cash balances which were derived from permanently restricted contributions. These balances are classified separately and are included with cash and cash equivalents on the statement of cash flows.

Investments:

Investments consist primarily of stocks, bonds, and money market funds. They are recorded at fair value based on quoted market prices. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value rather than historical cost. The fair value of investments is based on the underlying value of the securities and will fluctuate based on overall changes in market conditions. Investment income or loss (including interest and dividends and realized and unrealized gains and losses) are recorded in the statement of activities.

1. Organization and summary of significant accounting policies (continued):

Fair value measurements:

The Organization's financial instruments are measured at estimated fair value using inputs from among the three levels of the fair value hierarchy set forth in FASB ASC 820 as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs.

Deferred revenue:

Tuition payments received prior to year-end for the following year are deferred from income recognition and recognized as a current liability.

Net assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

1. Organization and summary of significant accounting policies (continued):

Grants and Contributions:

Grants and contributions are recognized when a donor makes an unconditional commitment to give to the Organization. Conditional contributions are recognized when conditions have been met and the conditional commitment becomes unconditional. Some grant agreements include required outcomes or reporting; however, these requirements do not constitute a barrier or condition which must be met prior to revenue recognition. As of August 31, 2023, the Organization had one conditional grant commitment of \$30,000 from the National Endowment for the Arts.

Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions with donor restrictions for which restrictions are met in the same reporting period are recorded as without donor restriction. Net assets with donor restriction are reclassified to net assets without donor restriction upon satisfaction of the restrictions.

In-kind contributions:

In-kind contributions consist of advertising, hotel, and materials.

Tuition, sponsorship, and event registration revenue:

The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09, applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Sponsorship support is considered a contribution with some taxable benefits. The primary benefits are recognition in advertising, promotion, and the organization's materials (both printed and online). The revenue is recognized as the benefits roll out, with the final recognition once the sponsored activity takes place.

Event registration revenue collected in advance of the related event are deferred and recognized as revenue at the point in time at which the event takes place. Registrations are refundable if the event is cancelled. The performance obligation is hosting the event for registered attendees.

Revenue from contracts with students for tuition is deferred and recognized once the class or conference has begun and has passed the window in which the contract allows for refunds. Year-long programs that cross fiscal years are recognized as performance obligations that are satisfied over the two fiscal years, and thus the revenue is recognized accordingly. Generally, the Organization bills students prior to the beginning of the class, conference or program.

1. Organization and summary of significant accounting policies (continued):

Functional allocation of expense:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include personnel expenses, staff development, marketing and promotion, professional and outsourced services, office equipment and supplies, occupancy and office expenses, some software licenses and subscriptions, memberships, and depreciation and amortization. Personnel expenses are allocated based on each staff's monthly time study estimates per program or support area. Marketing and promotion expenses are allocated to programs and fundraising directly, with general marketing and promotion expense allocated to programs and fundraising based on percentage of related content. Occupancy expenses, printing and postage are attributed to specific programs based on use, with exception of office space rent. Office space, operational personnel expenses, staff development, professional and contracted services, technology and software, not attributable to specific programs or support areas are allocated across program and support areas based on the proportion of full-time equivalents (FTE's) each area makes up. For example, general IT support is allocated with the idea that it increases with each FTE and their corresponding technology needs. While human resource leadership is considered an administrative cost, benefits implementation is allocated by the proportion of FTEs for the same reason. General accounting services are attributed to administration, but program-specific revenue and expense accounting is allocated based on time and effort as estimated in the accounting service's time study. Credit card transaction fees are allocated to programs based on related sales/contribution activity. All other expenses including the website, bank fees, office space and related occupancy expense, depreciation and amortization are allocated based on percentage of FTEs.

Tax exempt status:

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute and has been classified as a public charity under the Internal Revenue Code.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance related to uncertain tax positions.

Advertising:

The Organization expenses advertising costs as incurred. Advertising costs for 2023 and 2022 were \$128,958 and \$33,173, respectively.

Insurance:

The Organization uses a combination of insurance and self-insurance mechanisms, including participation in an unemployment trust, to provide for liabilities for certain risks. Asset balances attributable to the Organization in the Unemployment Services Trust were \$31,365 and \$29,245 at August 31, 2023 and 2022, respectively and are presented on the statement of financial position.

1. Organization and summary of significant accounting policies (continued):

Estimates:

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from those estimates.

Risks and uncertainties:

The Organization holds its investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk.

Adoption of new accounting standard, Leases:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, Leases (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted the requirements of the guidance effective September 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available.

Lease disclosures for the year ended August 31, 2023 are made under prior lease guidance in FASB ASC 840. The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has also elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

The Organization elected the available practical expedients to account for existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

Subsequent events:

Management has evaluated for subsequent events through January 18, 2024, the date the financial statements were available for issuance.

2. Liquidity and availability:

The following represents the Organization’s financial assets at August 31, 2023:

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,290,960	\$ 1,554,747
Accounts receivable, net	50,326	14,673
Contributions and grants receivable, net	423,649	467,503
Investments, including endowment	<u>3,994,630</u>	<u>3,682,086</u>
	<u>5,759,565</u>	<u>5,719,009</u>
Less amounts not available to be used within one year:		
Endowment principal which is donor-restricted into perpetuity	2,404,644	2,394,644
Net assets with donor restrictions not expected to be met within the year	<u>1,176,485</u>	<u>1,343,529</u>
	<u>3,581,129</u>	<u>3,738,173</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,178,436</u>	<u>\$ 1,980,836</u>

Contributions to the Loft’s endowment funds are restricted into perpetuity and not available for any use other than to provide income in the form of a draw from investment returns, dividends, and interest. The Loft’s current endowment policy allows for an annual draw of 3-5% of the 12-quarter rolling average value of the endowment and its earnings to support the operations of the Loft, with a general assumption of 4% annually. In 2023, the board of directors approved a draw of 5%. Although the Organization does not intend to spend from the endowment’s net assets for the operating budget until such time as they are approved to be used in the annual budget via the draw; these amounts could be available in the case of an emergency if so authorized by the board of directors.

The Loft also holds a \$150,000 permanently restricted reserve (the Wallace Cash Reserve Fund) to support activities that build participation in the literary arts. Funds withdrawn from this revolving cash reserve must be repaid on or before the last day of the fiscal year following the year in which they are withdrawn.

The Organization’s goal is generally to maintain financial assets to meet a minimum of three months of regular cash operating expenses and committed program expenses (approximately \$641,000) using unrestricted net assets and donor-restricted funds for which the restriction will be met during the period. Excluded expenses include depreciation, and in-kind services.

3. Accounts receivable, deferred revenue and contract balances:

Opening and closing balances for contract assets, and accounts receivable arising from contracts with customers include:

	<u>August 31, 2023</u>	<u>August 31, 2022</u>	<u>September 1, 2021</u>
Accounts receivable	<u>\$ 50,326</u>	<u>\$ 14,673</u>	<u>\$ 28,991</u>

Contract assets arise when the Organization transfers goods or services to a customer in advance of receiving consideration and the right to consideration is conditioned on something other than the passage of time. Contract assets are transferred to receivables when the right to receive consideration becomes unconditional and the Organization is able to invoice the customer. There were no contract assets at August 31, 2023, 2022 or September 1, 2021.

Upon receipt of a prepayment from a customer, the Organization recognizes deferred revenue in the amount of the prepayment for its performance obligation to transfer goods and services in the future. The following table provides information about significant changes in deferred revenue for the year ended August 31, 2022:

	<u>2023</u>	<u>2022</u>
Deferred revenue, beginning of year:	\$ 212,314	\$ 220,057
Revenue recognized included in deferred revenue at the beginning of year	(212,314)	(220,057)
Increases in deferred revenue due to cash received during the year	<u>251,724</u>	<u>212,314</u>
Deferred revenue, end of year	<u>\$ 251,724</u>	<u>\$ 212,314</u>

4. Investments:

In accordance with FASB ASC 820, the Organization has categorized its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. This fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), observable market-based inputs or unobservable inputs that are corroborated by market data (Level 2), and the lowest priority to unobservable inputs (Level 3).

4. Investments (continued):

Financial assets that are carried at estimated fair value are categorized based on the inputs to the valuation technique as follows for the years ended August 31:

<u>Financial asset category</u>	<u>2023</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Operating investments:				
Mutual funds:				
Index	\$ 163,910			\$ 163,910
Moderate Growth	<u>381,466</u>			<u>381,466</u>
Total operating investments	<u>545,376</u>			<u>545,376</u>
Endowment:				
Mutual funds:				
Index	1,036,519			1,036,519
Moderate Growth	<u>2,412,735</u>			<u>2,412,735</u>
Total endowment	<u>3,449,254</u>			<u>3,449,254</u>
Total investments	<u>\$ 3,994,630</u>			<u>\$ 3,994,630</u>
<u>Financial asset category</u>	<u>2022</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Operating investments:				
Mutual funds:				
Growth	\$ 188,551			\$ 188,551
Moderate Growth	<u>189,111</u>			<u>189,111</u>
Total operating investments	<u>377,662</u>			<u>377,662</u>
Endowment:				
Mutual funds:				
Growth	1,642,064			1,642,064
Moderate Growth	<u>1,662,360</u>			<u>1,662,360</u>
Total endowment	<u>3,304,424</u>			<u>3,304,424</u>
Total investments	<u>\$ 3,682,086</u>			<u>\$ 3,682,086</u>

5. Grants and contributions receivable:

The outstanding balance of grants and contributions receivable as of August 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Gross grants and contributions receivable	423,649	481,019
Less discounts to net present value at 3.45%	<u>-</u>	<u>(13,516)</u>
Net grants and contributions receivable	428,649	467,503
Less portion collectible within one year	<u>(428,649)</u>	<u>(243,019)</u>
Portion collectible in one to five years	<u>\$ -</u>	<u>\$ 224,484</u>

6. Property and equipment:

Property and equipment as of August 31 consists of:

	<u>2023</u>	<u>2022</u>
Equipment	\$ 73,029	\$ 73,029
Leasehold improvements	39,032	39,032
Software	<u>132,249</u>	<u>132,249</u>
	244,310	244,310
Less accumulated depreciation and amortization	<u>(236,878)</u>	<u>(231,043)</u>
	<u>\$ 7,432</u>	<u>\$ 13,267</u>

7. Net assets with donor restrictions:

Net assets with donor restriction as of August 31 consist of:

	<u>2023</u>	<u>2022</u>
Restricted to purpose:		
Creative writing education	\$ 6,297	\$ 18,908
DEIA Strategies	41,981	75,127
McKnight Artist Fellowships for Writers	458,688	633,858
Mirrors & Windows Fellowship	-	5,500
Strategic Planning	24,620	50,000
Youth Education	<u>131,522</u>	<u>-</u>
 Total restricted to purpose	 663,108	 783,393
 Restricted to time	 471,044	 396,000
Endowment Earnings	1,044,610	909,806
Net assets with donor restrictions into perpetuity:		
Endowment	2,404,644	2,394,644
Other	<u>150,000</u>	<u>150,000</u>
 Total net assets with donor restriction	 <u>\$ 4,733,406</u>	 <u>\$ 4,633,843</u>

When the value of the endowment, net of distributions, gains, and losses varies from the cumulative total of contributions to the endowment (the principal), the variance amount is required to be carried as a net asset with donor restrictions. As a result, the amount restricted to time recorded in net assets with donor restrictions includes the amount the endowment was above or below principal. On August 31, 2023 and 2022, the value of the endowment was above principal.

8. Net assets held in perpetuity:

The Loft Literary Center Endowment Fund (the Endowment) is a restricted net asset held in perpetuity invested to generate purpose restricted income and appreciation to support the fulfillment of the Organization's mission and long-term financial needs.

As required by FASB ASC 958-205-05, "Endowments of Not-for-Profit Organizations," net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

8. Net assets held in perpetuity (continued):

The Board of Directors of the Organization applies the standards of the State Prudent Management of Institutional Funds Act (SPMIFA) which have a long-term aim to preserve the purchasing power of original gifts as of the gift date, while allowing for shorter term fluctuations in value.

As a result of this interpretation, the Organization classifies as net assets held in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if such directions exist. The remaining portions of the donor-restricted endowment fund that is not classified in net assets held in perpetuity, rather purpose restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA and its own policies.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- The general economic environment.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide reasonably stable and predictable funds from the endowment for the Organization's operating budget and to preserve purchasing power by striving for long-term returns which either match or exceed the total of the set payout, including any fees and inflation.

The Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Organization has a policy of appropriating 3-5% of its endowment fund's average of the fair market value as of December 31 of the preceding twelve rolling quarters, with a general assumption of 4% annually.

The Organization's Finance Committee regularly reviews its endowment policies, practices, and results and as needed, recommends changes to the investments or, for policy changes, to the full board of directors.

THE LOFT, INC.
d/b/a THE LOFT LITERARY CENTER

NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED AUGUST 31, 2023 AND 2022

8. Net assets held in perpetuity (continued):

The composition of the Organization's net assets held in perpetuity is as follows:

	<u>2023</u>		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total net assets held in perpetuity, beginning of year	\$ 2,394,644	\$ 150,000	\$ 2,544,644
Add:			
Surplus, included in:			
Operating net assets	-	-	-
Purpose restricted net assets	<u>909,806</u>	<u>-</u>	<u>909,806</u>
Donor-restricted funds included in investments, beginning of year	<u>3,304,450</u>	<u>150,000</u>	<u>3,454,450</u>
Change in endowment investments:			
Contributions	10,000	-	10,000
Investment income	72,687	6,261	78,948
Net realized and unrealized gain, net of fees	231,877	-	231,877
Draw to support Loft operations	<u>(169,760)</u>	<u>-</u>	<u>(169,760)</u>
Net change	<u>144,804</u>	<u>6,261</u>	<u>151,065</u>
Endowment investment total at August 31, 2023	<u>3,449,254</u>	<u>156,261</u>	<u>3,605,515</u>
Less:			
Surplus, included in:			
Operating net assets	-	(6,261)	(6,261)
Purpose restricted net assets	<u>(1,044,610)</u>	<u>-</u>	<u>(1,044,610)</u>
Total net assets held in perpetuity, end of year	<u>\$ 2,404,644</u>	<u>\$ 150,000</u>	<u>\$ 2,554,644</u>

THE LOFT, INC.
d/b/a THE LOFT LITERARY CENTER

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2023 AND 2022

8. Net assets held in perpetuity (continued):

	<u>2022</u>		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total net assets held in perpetuity, beginning of year	\$ 2,394,644	\$ 150,000	\$ 2,544,644
Add:			
Surplus, included in:			
Operating net assets	-	-	-
Purpose restricted net assets	<u>1,562,976</u>	<u>-</u>	<u>1,562,976</u>
Donor-restricted funds included in investments, beginning of year	<u>3,957,620</u>	<u>150,000</u>	<u>4,107,620</u>
Change in endowment investments:			
Investment income	74,856	3,210	78,066
Net realized and unrealized loss, net of fees	(635,617)	-	(635,617)
Transfer out of investments	(14,600)	-	(14,600)
Draw to support Loft operations	<u>(77,809)</u>	<u>-</u>	<u>(77,809)</u>
Net change	<u>(653,170)</u>	<u>3,210</u>	<u>(649,960)</u>
Endowment investment total at August 31, 2022	<u>3,304,450</u>	<u>153,210</u>	<u>3,457,660</u>
Less:			
Surplus, included in:			
Operating net assets	-	(3,210)	(3,210)
Purpose restricted net assets	<u>(909,806)</u>	<u>-</u>	<u>(909,806)</u>
Total net assets held in perpetuity, end of year	<u>\$ 2,394,644</u>	<u>\$ 150,000</u>	<u>\$ 2,544,644</u>

9. Net assets released from restrictions:

Net assets released from restrictions:

Net assets released from restrictions for years ended August 31 consisted of the following:

	<u>2023</u>	<u>2022</u>
Purpose restriction:		
Accessibility	\$ 26,945	\$ -
Creative Writing Education	19,767	4,101
Diversity, Equity, Inclusion & Anti-racism	34,519	-
McKnight Artist Fellowships for Writers	187,338	214,939
Mirrors and Windows Fellowship	5,500	3,500
Staff and Contractors	-	277,643
Strategic planning	25,380	-
Youth education	18,478	-
	<u>317,927</u>	500,183
Total purpose restrictions met		
Time restrictions met	224,000	240,800
Endowment earnings released	169,760	77,809
	<u>711,687</u>	<u>818,792</u>
Total net assets released from restriction		

10. In-kind contributions:

In-kind contributions as of August 31 include the following:

	<u>2023</u>	<u>2022</u>
Advertising and promotion, hotel space, and materials	\$ 65,041	\$ 6,740

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by The Loft.

Advertising services, hotel space and materials were used in The Loft's events for readers programming and valued at typically-charged rates reported by the donor.

11. Concentrations:

The Organization maintains its main bank accounts with one bank in Minnesota. At times, the amounts on deposit may exceed federally insured limits. No losses have occurred due to this concentration.

As of August 31, 2023 and 2022, 79% and 86%, respectively, of the grants and contributions receivable balance were from two donors, respectively.

For both of the the years ended August 31, 2023 and 2022, 11% of the revenue and support, which includes funding to be regranted to artists, was from one donor.

12. Retirement plan:

The Organization has a defined contribution retirement plan for its employees who meet certain age and service requirements. There were no employer contributions to the Plan for the years ended August 31, 2023 and 2022.

13. Funds held by others:

The Organization is a beneficiary of a designated fund at The Saint Paul Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to The Saint Paul Foundation is held as a separate fund designated for the benefit of the Organization. In accordance with its spending policy, the Foundation makes distributions from the fund to the Organization. The distributions are approximately 5% of the market value of the fund per year. The fund totals of \$79,294 and \$80,301 as of August 31, 2023 and 2022, respectively, and is not included in these financial statements, since the initial donations to begin the fund were contributed directly to The Saint Paul Foundation, in accordance with FASB ASC 958-605-30, *"Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others."*