

Financial statements of:

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

Years ended
August 31, 2018 and 2017

	Page
Independent auditor's report	1
Financial statements:	
Statements of financial position	2
Statements of activities and changes in net assets	3
Statements of cash flows	4
Statements of functional expenses	5-6
Notes to financial statements	7-21



Suite 1600
100 Washington Avenue South
Minneapolis, MN 55401-2192

P 612.332.5500 F 612.332.1529
www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Loft, Inc. d/b/a The Loft Literary Center which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Loft, Inc. d/b/a The Loft Literary Center as of August 31, 2018 and 2017, 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.

*Schechter Bokken Kanter
Andrews & Selzer Ltd.*

December 4, 2018

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

	2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 214,805	\$ 767,029	\$ -	\$ 981,834
Accounts receivable, considered collectible	14,633	-	-	14,633
Current portion of grants and contributions receivable	33,823	318,955	-	352,778
Prepaid expenses	17,949	-	-	17,949
 Total current assets	 <u>281,210</u>	 <u>1,085,984</u>	 <u>-</u>	 <u>1,367,194</u>
 Property and equipment, net	 <u>107,658</u>	 <u>-</u>	 <u>-</u>	 <u>107,658</u>
 Other assets:				
Restricted cash	-	-	150,000	150,000
Investments	236,171	620,917	2,394,219	3,251,307
Grants and contributions receivable, net of current portion	-	80,000	-	80,000
 Total assets	 <u>\$ 625,039</u>	 <u>\$ 1,786,901</u>	 <u>\$ 2,544,219</u>	 <u>\$ 4,956,159</u>
Liabilities and net assets:				
Current liabilities:				
Accounts payable	\$ 15,380	\$ -	\$ -	\$ 15,380
Accrued expenses	44,327	-	-	44,327
Awards payable	50,000	-	-	50,000
Deferred revenue	214,408	-	-	214,408
 Total current liabilities	 <u>324,115</u>	 <u>-</u>	 <u>-</u>	 <u>324,115</u>
 Net assets:				
Unrestricted	300,924	-	-	300,924
Temporarily restricted	-	1,786,901	-	1,786,901
Permanently restricted	-	-	2,544,219	2,544,219
 Total net assets	 <u>300,924</u>	 <u>1,786,901</u>	 <u>2,544,219</u>	 <u>4,632,044</u>
 Total liabilities and net assets	 <u>\$ 625,039</u>	 <u>\$ 1,786,901</u>	 <u>\$ 2,544,219</u>	 <u>\$ 4,956,159</u>

See notes to financial statements.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31

2017			
Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 315,821	\$ 809,770	\$ -	\$ 1,125,591
21,758	-	-	21,758
1,044	461,555	-	462,599
17,557	-	-	17,557
356,180	1,271,325	-	1,627,505
124,364	-	-	124,364
-	-	150,000	150,000
112,626	495,128	2,394,179	3,001,933
-	15,000	-	15,000
112,626	510,128	2,544,179	3,166,933
<u>\$ 593,170</u>	<u>\$ 1,781,453</u>	<u>\$ 2,544,179</u>	<u>\$ 4,918,802</u>
\$ 28,702	\$ -	\$ -	\$ 28,702
28,400	-	-	28,400
62,500	-	-	62,500
181,442	-	-	181,442
301,044	-	-	301,044
292,126	-	-	292,126
-	1,781,453	-	1,781,453
-	-	2,544,179	2,544,179
292,126	1,781,453	2,544,179	4,617,758
<u>\$ 593,170</u>	<u>\$ 1,781,453</u>	<u>\$ 2,544,179</u>	<u>\$ 4,918,802</u>

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

	2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Admissions	\$ 12,878	\$ -	\$ -	\$ 12,878
Tuitions	837,477	-	-	837,477
Collaboration and service fees	29,444	-	-	29,444
Rental income	34,518	-	-	34,518
Advertising	2,281	-	-	2,281
Investment and interest income	23,353	-	-	23,353
Other	1,428	-	-	1,428
Total revenues	<u>941,379</u>	<u>-</u>	<u>-</u>	<u>941,379</u>
Support:				
Grants:				
Government	18,230	183,210	-	201,440
Foundation	44,537	415,000	-	459,537
Corporation	2,800	85,000	-	87,800
Individuals	329,321	-	40	329,361
In-kind contributions	46,137	-	-	46,137
Special events	10,128	-	-	10,128
Total support	<u>451,153</u>	<u>683,210</u>	<u>40</u>	<u>1,134,403</u>
Net assets released from restrictions	819,489	(819,489)	-	-
Endowment earnings used in operations in support of mission	109,005	(109,005)	-	-
Total revenues and support	<u>2,321,026</u>	<u>(245,284)</u>	<u>40</u>	<u>2,075,782</u>
Expenses:				
Program services:				
Education	1,095,140	-	-	1,095,140
Grants, awards and events	678,459	-	-	678,459
Literary community and writers' services	125,764	-	-	125,764
Support services:				
Management and general	159,943	-	-	159,943
Fundraising	252,922	-	-	252,922
Total expenses	<u>2,312,228</u>	<u>-</u>	<u>-</u>	<u>2,312,228</u>
Change in net assets from operations	8,798	(245,284)	40	(236,446)
Net investment gain on endowment	-	250,732	-	250,732
Change in net assets	8,798	5,448	40	14,286
Net assets, beginning	<u>292,126</u>	<u>1,781,453</u>	<u>2,544,179</u>	<u>4,617,758</u>
Net assets, ending	<u>\$ 300,924</u>	<u>\$ 1,786,901</u>	<u>\$ 2,544,219</u>	<u>\$ 4,632,044</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31

2017			
Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 18,497	\$ -	\$ -	\$ 18,497
788,886	-	-	788,886
70,384	-	-	70,384
34,795	-	-	34,795
2,505	-	-	2,505
8,508	-	-	8,508
3,302	-	-	3,302
<u>926,877</u>	<u>-</u>	<u>-</u>	<u>926,877</u>
-	174,673	-	174,673
60,649	347,067	-	407,716
2,803	95,279	-	98,082
288,492	55,000	100	343,592
6,654	-	-	6,654
4,931	-	-	4,931
<u>363,529</u>	<u>672,019</u>	<u>100</u>	<u>1,035,648</u>
869,310	(869,310)	-	-
<u>107,680</u>	<u>(107,680)</u>	<u>-</u>	<u>-</u>
<u>2,267,396</u>	<u>(304,971)</u>	<u>100</u>	<u>1,962,525</u>
1,104,476	-	-	1,104,476
596,953	-	-	596,953
89,489	-	-	89,489
153,918	-	-	153,918
284,899	-	-	284,899
<u>2,229,735</u>	<u>-</u>	<u>-</u>	<u>2,229,735</u>
37,661	(304,971)	100	(267,210)
-	315,064	-	315,064
37,661	10,093	100	47,854
<u>254,465</u>	<u>1,771,360</u>	<u>2,544,079</u>	<u>4,569,904</u>
<u>\$ 292,126</u>	<u>\$ 1,781,453</u>	<u>\$ 2,544,179</u>	<u>\$ 4,617,758</u>

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

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 14,286	\$ 47,854
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	79,088	103,763
Permanently restricted contributions	(40)	(100)
Net investment income reinvested	(249,374)	(321,463)
Decrease (increase) in assets:		
Accounts receivable	7,125	(1,027)
Grants and contributions receivable	44,821	273,781
Prepaid expenses	(392)	2,415
(Decrease) increase in liabilities:		
Accounts payable	(13,322)	11,938
Accrued expenses	15,927	889
Awards payable	(12,500)	(40,000)
Deferred revenue	32,966	62,899
Net cash (used in) provided by operating activities	<u>(81,415)</u>	<u>140,949</u>
Cash flows from investing activities:		
Purchase of investments	-	(3,433,812)
Proceeds from sale of investments	-	3,457,395
Purchase of property and equipment	(62,382)	-
Net cash (used in) provided by investing activities	<u>(62,382)</u>	<u>23,583</u>
Cash flows provided by financing activities, receipts of permanently restricted contributions	<u>40</u>	<u>100</u>
Net change in cash and cash equivalents	<u>(143,757)</u>	<u>164,632</u>
Cash and cash equivalents, beginning	<u>1,275,591</u>	<u>1,110,959</u>
Cash and cash equivalents, ending	<u>\$ 1,131,834</u>	<u>\$ 1,275,591</u>

See notes to financial statements.

Intentionally Left Blank

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

	<u>Education</u>	<u>Grants, awards, and events</u>	<u>Literary community and writers' services</u>	<u>Total program services</u>
Salaries	\$ 358,780	\$ 236,831	\$ 66,433	\$ 662,044
Payroll taxes and benefits	54,013	34,766	10,284	99,063
Total salaries and related expenses	<u>412,793</u>	<u>271,597</u>	<u>76,717</u>	<u>761,107</u>
Artist pay	389,575	58,370	3,700	451,645
Grants and awards	-	169,000	-	169,000
Staff development	4,287	2,442	860	7,589
Accessibility services	41	418	8	467
Travel and per diem	22,574	32,988	1,671	57,233
Hospitality, receptions and meetings	13,519	7,736	866	22,121
Event and video production	762	4,500	45	5,307
Marketing and promotion	69,263	22,279	4,988	96,530
Website	8,779	29,894	1,701	40,374
Professional and outsourced services	34,658	34,585	6,866	76,109
Printing	3,162	1,477	518	5,157
Postage, shipping and delivery	2,713	1,335	468	4,516
Materials and supplies	3,941	2,815	599	7,355
Occupancy	39,241	8,584	15,822	63,647
Office expense	4,278	2,418	848	7,544
Software licenses and subscriptions	21,013	6,135	1,744	28,892
Memberships, dues and subscriptions	2,824	1,129	419	4,372
Insurance	1,526	863	302	2,691
Bank and transaction fees	24,878	838	1,007	26,723
Miscellaneous	1,919	185	-	2,104
Total before depreciation and amortization	<u>1,061,746</u>	<u>659,588</u>	<u>119,149</u>	<u>1,840,483</u>
Depreciation and amortization	<u>33,394</u>	<u>18,871</u>	<u>6,615</u>	<u>58,880</u>
	<u>\$ 1,095,140</u>	<u>\$ 678,459</u>	<u>\$ 125,764</u>	<u>\$ 1,899,363</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2018

<u>Management</u>	<u>Fundraising</u>	<u>Total support services</u>	<u>Total all services</u>
\$ 100,507	\$ 144,809	\$ 245,316	\$ 907,360
14,186	21,631	35,817	134,880
<u>114,693</u>	<u>166,440</u>	<u>281,133</u>	<u>1,042,240</u>
-	150	150	451,795
-	-	-	169,000
1,002	1,570	2,572	10,161
9	15	24	491
115	769	884	58,117
758	8,951	9,709	31,830
-	-	-	5,307
-	447	447	96,977
1,953	3,243	5,196	45,570
24,633	28,869	53,502	129,611
594	1,030	1,624	6,781
501	2,391	2,892	7,408
1,058	7,926	8,984	16,339
2,901	4,771	7,672	71,319
973	1,616	2,589	10,133
2,149	3,937	6,086	34,978
437	494	931	5,303
347	576	923	3,614
224	7,052	7,276	33,999
-	63	63	2,167
<u>152,347</u>	<u>240,310</u>	<u>392,657</u>	<u>2,233,140</u>
<u>7,596</u>	<u>12,612</u>	<u>20,208</u>	<u>79,088</u>
<u>\$ 159,943</u>	<u>\$ 252,922</u>	<u>\$ 412,865</u>	<u>\$ 2,312,228</u>

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

	Education	Grants, awards, and events	Literary community and writers' services	Total program services
Salaries	\$ 360,597	\$ 170,289	\$ 39,213	\$ 570,099
Payroll taxes and benefits	58,466	25,719	6,543	90,728
Total salaries and related expenses	<u>419,063</u>	<u>196,008</u>	<u>45,756</u>	<u>660,827</u>
Artist pay	397,153	77,000	6,490	480,643
Grants and awards	-	205,950	-	205,950
Staff development	1,859	680	361	2,900
Accessibility services	1,650	375	-	2,025
Travel and per diem	22,582	19,635	1,646	43,863
Hospitality, receptions and meetings	10,743	12,989	836	24,568
Event and video production	949	4,138	-	5,087
Marketing and promotion	58,805	16,081	3,307	78,193
Website	11,631	4,734	1,332	17,697
Professional and outsourced services	23,285	13,356	2,712	39,353
Printing	2,822	1,405	316	4,543
Postage, shipping and delivery	1,771	575	160	2,506
Materials and supplies	5,566	2,644	1,303	9,513
Occupancy	42,476	10,472	14,838	67,786
Office expense	5,463	2,261	636	8,360
Software licenses and subscriptions	25,265	6,600	2,884	34,749
Memberships, dues and subscriptions	630	1,221	233	2,084
Insurance	642	-	-	642
Bank and transaction fees	23,192	772	1,034	24,998
Miscellaneous	461	-	-	461
Total before depreciation and amortization	<u>1,056,008</u>	<u>576,896</u>	<u>83,844</u>	<u>1,716,748</u>
Depreciation and amortization	<u>48,468</u>	<u>20,057</u>	<u>5,645</u>	<u>74,170</u>
	<u><u>\$ 1,104,476</u></u>	<u><u>\$ 596,953</u></u>	<u><u>\$ 89,489</u></u>	<u><u>\$ 1,790,918</u></u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2017

<u>Management</u>	<u>Fundraising</u>	<u>Total support services</u>	<u>Total all services</u>
\$ 92,770	\$ 169,745	\$ 262,515	\$ 832,614
12,973	25,772	38,745	129,473
<u>105,743</u>	<u>195,517</u>	<u>301,260</u>	<u>962,087</u>
-	500	500	481,143
-	-	-	205,950
319	685	1,004	3,904
-	-	-	2,025
82	1,375	1,457	45,320
2,110	1,265	3,375	27,943
-	-	-	5,087
190	1,040	1,230	79,423
2,216	4,768	6,984	24,681
20,810	29,926	50,736	90,089
381	2,419	2,800	7,343
265	3,003	3,268	5,774
4,944	2,008	6,952	16,465
3,411	7,206	10,617	78,403
1,058	2,277	3,335	11,695
2,702	5,621	8,323	43,072
54	867	921	3,005
-	2,101	2,101	2,743
243	4,118	4,361	29,359
-	-	-	461
<u>144,528</u>	<u>264,696</u>	<u>409,224</u>	<u>2,125,972</u>
<u>9,390</u>	<u>20,203</u>	<u>29,593</u>	<u>103,763</u>
<u>\$ 153,918</u>	<u>\$ 284,899</u>	<u>\$ 438,817</u>	<u>\$ 2,229,735</u>

1. Organization and summary of significant accounting policies:

The Loft, Inc. d/b/a The Loft Literary Center (the Organization) advances the artistic development of writers, fosters a thriving writing community, and inspires a passion for literature.

Programs and program services:

Education - The Organization offered *Classes for Writers and Readers* during fiscal year 2018 at Open Book, at libraries and community sites throughout the greater Twin Cities area and online. 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 3,040 adults and 834 youth in 385 classes and workshops, schools and community programs, and one conference, spanning the broadest range of genres. Poetry Out Loud – a recitation competition, offered 1950 students from 21 Minnesota schools the opportunity to participate in literary learning opportunities and advance to a national competition.

To mitigate financial barriers to participation in creative writing classes, the Organization provided 663 low income discounts, 211 additional subsidies to students from traditionally underrepresented communities and 241 scholarships, in addition to a work-study program, and free writing classes in partnership with eight regional library systems across the greater Twin Cities. Other collaborations with libraries, schools, community centers and human service organizations brought the Organization education programs to a range of locations throughout the state.

Grants, Awards and Events – In fiscal year 2018, the Organization provided a range of competitive opportunities that allowed emerging writers to advance their artistic and professional development:

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 poetry, spoken word, and children's literature.

The *Mentor Series in Poetry and Creative Prose* offered twelve emerging Minnesota writers opportunity to work intensively with six nationally acclaimed writers in fiction, creative non-fiction, and poetry. Four writers in each genre were selected for the program by the mentors. Mentors and fellows spend time working in groups and one-on-one and fellows receive a \$1,000 grant. Fellows and mentors present their work in public readings throughout the year.

The *Spoken Word Immersion Fellowship* provided grants of \$7,500 for four spoken word artists of color to pursue projects in the communities that inspire their work. This was the final year of the fellowship.

Literary Events - Authors' readings and performances helped develop audiences for literature while promoting and advancing the work of individual writers. Events also featured writers and thought leaders using literature to spur conversations on topical issues. Events took place throughout the year at the Target Performance Hall, Open Book, as well as at a variety of partner locations.

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

Programs and program services (continued):

Three thousand individuals attended 42 events including community gatherings and shared readings featuring mentors with fellows from the *Mentor Series*, authors of young adult literature, Minnesota writers with new publications, student and teaching artists reading their work, nationally acclaimed visiting writers, and spoken word performers. In almost all cases, the readings, interviews and performances were followed by a dialogue with the artists.

Literary Community and Writers' Services - *Loft.org*, the Organization's website, provided regular articles and fostered discussions about the writers' life and craft through our daily blog, *The Writers' Block*. There, writers found writing exercises, 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 perused current and back issues of literary magazines as well as books published by Minnesota presses, books by regional writers including the Organization's instructors, members and students, and writers' reference books from *The Rachel Anne Gaschott Ritchie Small Press Library*.

Sixty-three writers made use of the Organization's writers' studios, four Organization-sponsored culturally distinct writing groups met regularly at Open Book and eleven literary groups used the Book Club Room this year.

Summary of significant accounting policies:

Cash and cash equivalents:

Short-term, highly liquid investments with initial maturities of three months or less are presented in these financial statements 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, 2018 and 2017 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):

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 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

Restricted cash:

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

Investments:

Investments consist primarily of stocks, bonds, and cash reserve 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 gains and losses) and unrealized gains and losses are recorded in the statement of activities.

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.

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

Summary of significant accounting policies (continued):

Fair value measurements (continued):

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:

Unrestricted net assets – net assets available for use in general operations

Temporarily restricted net assets – net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's Board of Directors.

Permanently restricted net assets – net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Contributions:

Contributions and government grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized.

Unconditional promises to give are recognized as revenues in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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

Net Assets (continued):

In-kind contributions:

In-kind contributions consist of advertising and promotion, equipment, and software. These items are recorded at fair value based on the best estimate of management.

Functional allocation of expense:

Expenses which are related to a specific program or supporting service are charged directly to that service. Salaries and related expenses are allocated based on time allocation of personnel. Other indirect expenses are allocated to programs and support services based on the proportion of total staff time dedicated to the activity (as reported in monthly time studies).

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; therefore, charitable contributions by donors are tax deductible.

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 2018 and 2017 were approximately \$41,813 and \$32,622, respectively.

Insurance:

The Organization uses a combination of insurance and self-insurance mechanisms, including participation in an unemployment services trust, to provide for liabilities for certain risks. Balances attributable to the Organization in the Unemployment Services Trust were approximately \$70,462 and \$63,000 at August 31, 2018 and 2017, respectively.

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.

Reclassifications:

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

Subsequent events:

The Organization evaluated for subsequent events through December 4, 2018, the date the financial statements were available for issuance.

2. 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).

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:

Financial asset category	2018			Total
	Level 1	Level 2	Level 3	
Operating investments:				
Real estate funds, US	\$ 12,350			\$ 12,350
Fixed income funds:				
U.S.	32,811			32,811
High yield bond	23,369			23,369
Foreign	13,942			13,942
Mutual funds, equities:				
U.S.	94,083			94,083
International	59,616			59,616
Total operating investments	236,171			236,171
Endowment:				
Real estate funds, US	160,339			160,339
Fixed income funds:				
U.S.	415,049			415,049
High yield bond	296,071			296,071
Foreign	176,147			176,147
Mutual funds, equities:				
U.S.	1,228,104			1,228,104
International	739,426			739,426
Total endowment	3,015,136			3,015,136
Total investments	\$ 3,251,307			\$ 3,251,307

2. Investments (continued):

Financial asset category	2017			Total
	Level 1	Level 2	Level 3	
Operating investments:				
Money market funds	\$ 427			\$ 427
Mutual funds, fixed income, U.S.	15,942			15,942
Mutual funds, equities, International	<u>112,199</u>			<u>112,199</u>
Total operating investments	<u>128,568</u>			<u>128,568</u>
Endowment:				
Fixed income funds:				
U.S.	379,536			379,536
High yield bond	277,116			277,116
Foreign	165,038			165,038
Mutual funds, equities:				
U.S.	1,322,355			1,322,355
International	<u>729,320</u>			<u>729,320</u>
Total endowment	<u>2,873,365</u>			<u>2,873,365</u>
Total investments	<u>\$ 3,001,933</u>			<u>\$ 3,001,933</u>

3. Grants and contributions receivable:

The outstanding balance of grants and contributions receivable as of August 31 consists of:

	<u>2018</u>	<u>2017</u>
Amazon.com	\$ 20,000	\$ -
Butler Foundation	-	35,000
Jerome Foundation	-	61,000
McKnight Foundation	160,000	198,000
Minnesota State Arts Board	109,939	72,776
National Endowment for the Arts	35,000	45,000
Takenoff Families Foundation	15,000	30,000
Target Foundation	60,000	-
Wells Fargo Foundation	-	1,279
Special Pledges	4,550	28,500
Other individual pledges	<u>28,289</u>	<u>6,044</u>
	432,778	477,599
Less long-term portion, collectible within five years	<u>(80,000)</u>	<u>(15,000)</u>
Current portion	<u>\$ 352,778</u>	<u>\$ 462,599</u>

4. Property and equipment:

Property and equipment as of August 31 consists of:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 67,039	\$ 131,774
Leasehold improvements	39,032	39,032
Software	<u>390,901</u>	<u>348,520</u>
	496,972	519,326
Less accumulated depreciation and amortization	<u>(389,314)</u>	<u>(394,962)</u>
	<u>\$ 107,658</u>	<u>\$ 124,364</u>

5. Temporarily restricted net assets:

Temporarily restricted net assets as of August 31 consist of:

	<u>2018</u>	<u>2017</u>
Restricted to purpose:		
Mentor Program	\$ 118,000	\$ 132,000
McKnight Artist Fellowships for Writers	267,316	453,180
Mirrors & Windows Fellowship	100,000	-
Spoken Word Immersion Fellowships	-	54,000
Equilibrium Spoken Word Series	11,600	38,815
Readings	7,000	10,000
Creative Writing Education	11,755	10,000
Writing and Race Initiative	9,070	25,000
Poetry Out Loud	40,000	40,000
Young Writers Program	92,239	115,067
Wordplay Literary Festival	40,500	-
Software and Technology	<u>25,048</u>	<u>89,254</u>
Total restricted to purpose	722,528	967,316
Restricted to time	<u>1,064,373</u>	<u>814,137</u>
Total restricted	<u>\$ 1,786,901</u>	<u>\$ 1,781,453</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 temporarily restricted net asset. As a result, the amount restricted to time recorded in temporarily restricted net assets includes the amount the endowment was above or below principal. On August 31, 2018 and 2017, the value of the endowment was \$620,918 and \$479,186, respectively, above principal.

6. Permanently restricted net assets:

The Loft Literary Center Endowment Fund (the Endowment) is permanently restricted net assets invested to generate temporarily 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.

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.

6. Permanently restricted net assets (continued):

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 permanently restricted net assets is classified as temporarily 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 up to 5% of its endowment fund's average of the fair market value as of December 31 of the preceding twelve rolling quarters.

6. Permanently restricted net assets (continued):

The composition of the Organization's permanently restricted net assets is as follows:

	<u>2018</u>		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total permanently restricted net assets, beginning of year	\$ 2,394,179	\$ 150,000	\$2,544,179
Add:			
Surplus, included in:			
Operating net assets	-	427	427
Temporarily restricted net assets	<u>479,186</u>	<u>-</u>	<u>479,186</u>
Donor-restricted funds included in investments, beginning of year	<u>2,873,365</u>	<u>150,427</u>	<u>3,023,792</u>
Change in endowment investments:			
Contributions	40	-	40
Investment income	87,295	698	87,993
Net realized and unrealized income, net of fees	163,441	-	163,441
Fiscal year 2018 draw to support Loft operations	<u>(109,005)</u>	<u>-</u>	<u>(109,005)</u>
Net change	<u>141,771</u>	<u>698</u>	<u>142,469</u>
Investment total at August 31, 2018	<u>3,015,136</u>	<u>151,125</u>	<u>3,166,261</u>
Less:			
Surplus, included in:			
Operating net assets	-	(1,125)	(1,125)
Temporarily restricted net assets	<u>(620,917)</u>	<u>-</u>	<u>(620,917)</u>
Total permanently restricted net assets, end of year	<u>\$ 2,394,219</u>	<u>\$ 150,000</u>	<u>\$2,544,219</u>

6. Permanently restricted net assets (continued):

	2017		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total permanently restricted net assets, beginning of year	\$ 2,394,079	\$ 150,000	\$2,544,079
Add (Subtract):			
Monies to be deposited	(1,045)	-	(1,045)
Surplus, included in operating net assets	-	66	66
Surplus, included in temporarily restricted net assets	<u>271,801</u>	<u>-</u>	<u>271,801</u>
Donor-restricted funds included in investments, beginning of year	<u>2,664,835</u>	<u>150,066</u>	<u>2,814,901</u>
Change in endowment investments:			
Contributions	100	-	100
Prior year funds deposited	1,045	-	1,045
Investment income	86,930	361	87,291
Net realized and unrealized income, net of fees	228,135	-	228,135
Fiscal year 2017 draw to support Loft operations	<u>(107,680)</u>	<u>-</u>	<u>(107,680)</u>
Net change	<u>208,530</u>	<u>361</u>	<u>208,891</u>
Investment total at August 31, 2017	<u>2,873,365</u>	<u>150,427</u>	<u>3,023,792</u>
Less:			
Surplus, included in:			
Operating net assets	-	(427)	(427)
Temporarily restricted net assets	<u>(479,186)</u>	<u>-</u>	<u>(479,186)</u>
Total permanently restricted net assets, end of year	<u>\$ 2,394,179</u>	<u>\$ 150,000</u>	<u>\$2,544,179</u>

7. 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>2018</u>	<u>2017</u>
Purpose restriction:		
Online Resources for Writers	\$ -	\$ 25,000
Mentor Program	71,000	71,000
McKnight Artist Fellowships for Writers	185,864	198,801
Emerging Writers	-	62,000
Equilibrium Spoken Word Series	31,715	36,900
Spoken Word Immersion Fellowships	53,000	53,175
Creative Writing Education	7,000	10,000
Writing and Race Initiative	15,930	10,000
Poetry Out Loud	40,000	40,000
Young Writers Program	25,827	331
Readings	10,000	10,000
Software and Technology	<u>64,206</u>	<u>81,047</u>
Total restricted to purpose met	504,542	598,254
Time restriction met	<u>314,947</u>	<u>271,056</u>
Total net assets released from restriction	<u>\$ 819,489</u>	<u>\$ 869,310</u>

According to the Organization's policy, donated property and equipment with a value over the capitalization threshold are recognized as temporarily restricted revenue in the year it was donated and is released over the asset's estimated useful life.

8. In-kind contributions: _____

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

	<u>2018</u>	<u>2017</u>
Advertising and promotion	\$ 18,396	\$ 6,654
Website Design	24,541	-
Computers	<u>3,200</u>	<u>-</u>
	<u>\$ 46,137</u>	<u>\$ 6,654</u>

9. 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, 2018 cash deposits exceeded FDIC limits by approximately \$468,000.

As of August 31, 2018 and 2017, 76% and 40%, respectively, of the grants and contributions receivable balance was from three and one donors, respectively.

For the year ended August 31, 2018, 11% of the revenue and support, which includes multiple year grant awards, was from one donor.

10. 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 given for the years ended August 31, 2018 and 2017.

11. 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 \$75,705 and \$73,072 as of August 31, 2018 and 2017, 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.”*

12. Commitments and contingencies: _____

Leases:

The Organization leases office space and equipment under operating leases expiring through 2023. The office space is leased from an organization for which the Loft appoints two of the eleven board members. Total rent expense was \$70,869 and \$78,359 for the years ended August 31, 2018 and 2017, respectively.

Total future minimum rentals under non-cancellable operating leases are as follows:

<u>Year ending</u> <u>August 31,</u>	<u>Amount</u>
2019	\$ 18,339
2020	17,114
2021	14,206
2022	11,569
2023	11,713
Thereafter	<u>3,920</u>
	<u>\$ 76,861</u>