Financial statements of:

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

Years ended
August 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Adoption of ASU 2016-14

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, provides additional information about liquidity and availability of resources, and improves the consistency in the type of information provided about expenses and investment return. ASU 2016-14 was implemented in 2019 and has been reflected in the presentation of these consolidated financial statements. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Change in Accounting Policy

During the fiscal year, as described in Note 14, management changed the accounting policy for treatment and presentation of its arrangement with the Unemployment Services Trust. A retrospective restatement has been made to the 2018 financial statements. Our opinion is not modified with respect to this matter.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

January 22, 2020

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

	2019		
	Without donor restrictions	With donor restrictions	Total
Assets:			
Current assets:			
Cash and cash equivalents	$ 209,628	$ 550,924	$ 760,552
Accounts receivable, considered collectible	40,979	-	40,979
Current portion of grants and contributions receivable	8,106	470,645	478,751
Prepaid expenses	17,715	-	17,715
Total current assets	276,428	1,021,569	1,297,997
Property and equipment, net	104,923	-	104,923
Other assets:			
Unemployment services trust	67,996	-	67,996
Restricted cash	-	150,000	150,000
Investments	267,399	2,928,503	3,195,902
Grants and contributions receivable, net of current portion	-	197,929	197,929
	335,395	3,276,432	3,611,827
Total assets	$ 716,746	$ 4,298,001	$ 5,014,747
Liabilities and net assets:			
Current liabilities:			
Accounts payable	$ 23,398	$ -	$ 23,398
Accrued expenses	40,836	-	40,836
Awards payable	37,500		37,500
Deferred revenue	231,648	-	231,648
Total current liabilities	333,382	-	333,382
Net assets:			
Without donor restrictions	383,364	-	383,364
With donor restrictions	-	4,298,001	4,298,001
Total net assets	383,364	4,298,001	4,681,365
Total liabilities and net assets	$ 716,746	$ 4,298,001	$ 5,014,747

See notes to financial statements.

2018		
Without donor restrictions	With donor restrictions	Total
$ 214,805	$ 767,029	$ 981,834
14,633	-	14,633
33,823	318,955	352,778
17,949	-	17,949
281,210	1,085,984	1,367,194
107,658	-	107,658
70,462	-	70,462
-	150,000	150,000
236,171	3,015,136	3,251,307
-	80,000	80,000
306,633	3,245,136	3,551,769
$ 695,501	$ 4,331,120	$ 5,026,621
$ 15,380	$ -	$ 15,380
44,327	-	44,327
50,000	-	50,000
214,408	-	214,408
324,115	-	324,115
371,386	-	371,386
-	4,331,120	4,331,120
371,386	4,331,120	4,702,506
$ 695,501	$ 4,331,120	$ 5,026,621

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

	2019		
	Without donor restrictions	With donor restrictions	Total
Revenues:			
Admissions	$ 144,906	$ -	$ 144,906
Tuitions	742,275	-	742,275
Collaboration and service fees	27,438	-	27,438
Writing studios and book club room rental	35,973	-	35,973
Advertising and exhibitor fees	27,915	-	27,915
Investment and interest income	19,318	-	19,318
Other	27,130	-	27,130
Total revenues	1,024,955	-	1,024,955
Support:			
Grants:			
Government	-	145,017	145,017
Foundation	54,901	644,929	699,830
Corporation	218,832	73,000	291,832
Individuals	299,781	400	300,181
In-kind contributions	153,775	-	153,775
Special events	6,000	-	6,000
Total support	733,289	863,346	1,596,635
Net assets released from restrictions	809,432	(809,432)	-
Endowment earnings used in operations in support of mission	136,420	(136,420)	-
Total revenues and support	2,704,096	(82,506)	2,621,590
Expenses:			
Program services:			
Services for writers and the literary community	456,213	-	456,213
Learning for writers and readers	1,020,167	-	1,020,167
Events for readers	754,642	-	754,642
Support services:			
Management and general	143,448	-	143,448
Fundraising	317,648	-	317,648
Total expenses	2,692,118	-	2,692,118
Change in net assets from operations	11,978	(82,506)	(70,528)
Net investment gain on endowment	-	49,387	49,387
Change in net assets	11,978	(33,119)	(21,141)
Net assets, beginning	371,386	4,331,120	4,702,506
Net assets, ending	$ 383,364	$ 4,298,001	$ 4,681,365

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED AUGUST 31

2018		
Without donor restrictions	With donor restrictions	Total
$ 12,878	$ -	$ 12,878
837,477	-	837,477
29,444	-	29,444
34,518	-	34,518
2,281	-	2,281
23,353	-	23,353
1,428	-	1,428
941,379	-	941,379
18,230	183,210	201,440
44,537	415,000	459,537
2,800	85,000	87,800
329,321	40	329,361
46,137	-	46,137
10,128	-	10,128
451,153	683,250	1,134,403
819,489	(819,489)	-
109,005	(109,005)	-
2,321,026	(245,244)	2,075,782
294,764	-	294,764
1,095,140	-	1,095,140
509,459	-	509,459
152,481	-	152,481
252,922	-	252,922
2,304,766	-	2,304,766
16,260	(245,244)	(228,984)
-	250,732	250,732
16,260	5,488	21,748
355,126	4,325,632	4,680,758
$ 371,386	$ 4,331,120	$ 4,702,506

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ (21,141)**	$ 21,748
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	**52,142**	79,088
Loss on disposal of fixed asset	**12,973**	-
Contributions with donor restriction into perpetuity	**(400)**	(40)
Net investment return	**(53,795)**	(249,374)
(Increase) decrease in assets:		
Accounts receivable	**(26,346)**	7,125
Grants and contributions receivable	**(243,902)**	44,821
Prepaid expenses	**234**	(392)
Unemployment services trust	**2,466**	(7,462)
Increase (decrease) in liabilities:		
Accounts payable	**8,018**	(13,322)
Accrued expenses	**(3,491)**	15,927
Awards payable	**(12,500)**	(12,500)
Deferred revenue	**17,240**	32,966
Net cash used in operating activities	**(268,502)**	(81,415)
Cash flows provided by investing activities:		
Purchase of investments	**(38,010)**	-
Proceeds from sale of investments	**147,210**	-
Purchase of property and equipment	**(62,380)**	(62,382)
Net cash provided by (used in) investing activities	**46,820**	(62,382)
Cash flows provided by financing activities, contributions received with donor restriction into perpetuity	**400**	40
Net change in cash and cash equivalents	**(221,282)**	(143,757)
Cash and cash equivalents, beginning	**1,131,834**	1,275,591
Cash and cash equivalents, ending	**$ 910,552**	$ 1,131,834

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

	Services for Writers and the Literary Community	Learning for Writers and Readers	Events for Readers	Total program services
Salaries	$ 137,412	$ 359,752	$ 170,401	$ 667,565
Payroll taxes and benefits	17,771	59,543	24,593	101,907
Total salaries and related expenses	155,183	419,295	194,994	769,472
Artist pay	73,650	380,128	22,700	476,478
Grants and awards	143,000	-	-	143,000
Staff development	508	1,086	391	1,985
Accessibility services	-	-	2,660	2,660
Travel and per diem	28,383	4,477	25,450	58,310
Hospitality, receptions and meetings	6,049	1,659	8,716	16,424
Event and video production	343	450	119,178	119,971
Marketing and promotion	3,915	42,899	183,902	230,716
Website	2,781	10,193	3,233	16,207
Professional and outsourced services	5,249	34,689	103,136	143,074
Printing	738	3,355	1,001	5,094
Postage, shipping and delivery	435	1,368	821	2,624
Materials and supplies	2,937	5,067	10,889	18,893
Occupancy and program rental	11,761	33,267	40,363	85,391
Office expense	2,105	5,123	2,162	9,390
Software licenses and subscriptions	5,829	22,910	12,056	40,795
Memberships, dues and subscriptions	1,358	1,316	556	3,230
Insurance	595	1,640	2,504	4,739
Bank and transaction fees	1,169	22,428	5,149	28,746
Miscellaneous	-	654	2,894	3,548
Total before depreciation and amortization	445,988	992,004	742,755	2,180,747
Depreciation and amortization	8,188	22,552	9,519	40,259
Loss on disposal of assets	2,037	5,611	2,368	10,016
	$ 456,213	$ 1,020,167	$ 754,642	$ 2,231,022
Percentage of total expenses	16.9%	37.9%	28.0%	82.9%

Management and general	Fundraising	Total support services	Total all services
$ 72,504	$ 164,056	$ 236,560	$ 904,125
16,121	23,071	39,192	141,099
88,625	187,127	275,752	1,045,224
-	500	500	476,978
-	-	-	143,000
194	2,041	2,235	4,220
-	-	-	2,660
10	492	502	58,812
1,063	8,513	9,576	26,000
-	-	-	119,971
-	1,019	1,019	231,735
1,029	3,007	4,036	20,243
37,585	62,689	100,274	243,348
553	6,648	7,201	12,295
156	6,227	6,383	9,007
1,256	2,475	3,731	22,624
4,196	12,240	16,436	101,827
688	2,011	2,699	12,089
1,286	5,037	6,323	47,118
177	661	838	4,068
220	644	864	5,603
66	5,260	5,326	34,072
2,561	-	2,561	6,109
139,665	306,591	446,256	2,627,003
3,029	8,854	11,883	52,142
754	2,203	2,957	12,973
$ 143,448	$ 317,648	$ 461,096	$ 2,692,118
5.3%	11.8%	17.1%	100.0%

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

	Services for Writers and the Literary Community	Learning for Writers and Readers	Events for Readers	Total program services
Salaries	$ 66,433	$ 358,780	$ 236,831	$ 662,044
Payroll taxes and benefits	10,284	54,013	34,766	99,063
Total salaries and related expenses	76,717	412,793	271,597	761,107
Artist pay	3,700	389,575	58,370	451,645
Grants and awards	169,000	-	-	169,000
Staff development	860	4,287	2,442	7,589
Accessibility services	8	41	418	467
Travel and per diem	1,671	22,574	32,988	57,233
Hospitality, receptions and meetings	866	13,519	7,736	22,121
Event and video production	45	762	4,500	5,307
Marketing and promotion	4,988	69,263	22,279	96,530
Website	1,701	8,779	29,894	40,374
Professional and outsourced services	6,866	34,658	34,585	76,109
Printing	518	3,162	1,477	5,157
Postage, shipping and delivery	468	2,713	1,335	4,516
Materials and supplies	599	3,941	2,815	7,355
Occupancy and program rental	15,822	39,241	8,584	63,647
Office expense	848	4,278	2,418	7,544
Software licenses and subscriptions	1,744	21,013	6,135	28,892
Memberships, dues and subscriptions	419	2,824	1,129	4,372
Insurance	302	1,526	863	2,691
Bank and transaction fees	1,007	24,878	838	26,723
Miscellaneous	-	1,919	185	2,104
Total before depreciation and amortization	288,149	1,061,746	490,588	1,840,483
Depreciation and amortization	6,615	33,394	18,871	58,880
	$ 294,764	$ 1,095,140	$ 509,459	$ 1,899,363
Percentage of total expenses	12.8%	47.5%	22.1%	82.4%

Management and general	Fundraising	Total support services	Total all services
$ 100,507	$ 144,809	$ 245,316	$ 907,360
6,724	21,631	28,355	127,418
107,231	166,440	273,671	1,034,778
-	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
144,885	240,310	385,195	2,225,678
7,596	12,612	20,208	79,088
$ 152,481	$ 252,922	$ 405,403	$ 2,304,766
6.6%	11.0%	17.6%	100.0%

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:

Services for Writers and the Literary Community – In fiscal year 2019, the Organization provided 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 its 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-one writers made use of the Organization's writers' studios, four Organization-sponsored culturally distinct writing groups met regularly at Open Book and 27 literary groups used the Book Club Room this year. The Loft also co-sponsored regular meetings of the Picture Book Salon.

In addition, the Organization provided several of competitive opportunities that assisted writers in advancing their artistic and professional development:

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

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.

The *Mirrors and Windows Fellowship* gave twelve emerging artists of color and indigenous artists coaching, encouragement, and connections to help them write books for children and young adults. The program aims to address the critical issue of underrepresentation in the children's and young adult literary ecosystem. The artists received a grant of $500 each.

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 2019. Classes during fiscal year 2019 took place 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. In addition to classes, the Loft brought writers into seven schools and worked with community organizations ranging from Gilda's Club to the Citizen's League, Wounded Warriors to Walker Art Center, to explore creative writing as a way to effectively share and process an experience. This year, the Organization served 3,080 adults and 1,802 youth in 380 classes and workshops, schools and community programs. In addition, Poetry Out Loud – a recitation competition, offered 1,628 students from 22 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 457 low income discounts, 49 additional subsidies to students from traditionally underrepresented communities and 127 scholarships, plus a work-study program, and 49 free writing classes in partnership with eight regional library systems across the greater Twin Cities.

Events for Readers -Authors' book launch readings and spoken word performances helped develop audiences for literature while promoting and advancing the work of individual writers. Big Ideas 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. Twenty eight of these events featuring 115 writers for a combined audience of 1,800 took place throughout the year at the Target Performance Hall, Open Book.

In May of 2019, the Loft presented the inaugural Wordplay literary festival. Bringing together 10,000 people in a full weekend of events, Wordplay uniquely addressed the organization's mission to foster a thriving literary community and inspire passion for literature. With 200+ authors on seven stages, the festival welcomed not only devoted readers, but also people who don't think of themselves that way, but who were drawn by a specific topic or presenter and stayed for more. People who came to see Stephen King, Mitch Albom, or Amy Tan took the opportunity to discover authors they'd previously never read. With this new, now annual, festival The Loft is putting literature at the center of civic life, engaging participants in important, timely, and challenging conversations inspired by books while also celebrating the joy, empathy-building, and transformative power of reading and writing.

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

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, 2019 and 2018 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.

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

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.

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):

Contributions:

Contributions and government grants received are recorded depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by donors are reported as increases in net assets without donor restrictions 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.

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:

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 on the basis of percentage of FTEs.

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

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 2019 and 2018 were approximately $200,216 and $41,813, 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 $67,996 and $70,462 at August 31, 2019 and 2018, respectively and are presented on the statement of financial position.

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 2018 amounts have been reclassified to conform to the 2019 presentation.

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

Change in accounting principle:

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, provides additional information about liquidity and availability of resources, and improves the consistency in the type of information provided about expenses and investment return. ASU 2016-14 was implemented in 2018 and has been reflected in the presentation of these financial statements. The ASU has been applied retrospectively to all period presented.

Change in accounting policy:

During the fiscal year, the Organization changed its policy for accounting for the unemployment trust from the recording contributions as expenses and disclosing the balance to recording the balance of the Unemployment Services Trust reserve as an asset. The change in accounting policy is made by management to better reflect ownership of the fund and improve accounting for potential future refunds, if any, from the unemployment trust. A retrospective restatement is required under ASC 250-10-45-3 to properly present the financial statements in the prior period. See Note 14.

Subsequent events:

The Organization evaluated for subsequent events through January 22, 2020, the date the financial statements were available for issuance.

2. Liquidity and availability:

The following represents the Organization's financial assets at August 31, 2019:

Financial assets at year-end:	
Cash and cash equivalents and restricted cash	$ 910,552
Accounts receivable, net	40,979
Contributions and grants receivable, net	676,680
Investments, including endowment	3,195,902
Total financial assets	4,824,113
Less amounts not available to be used within one year:	
Endowment principal which is donor-restricted into perpetuity	2,394,619
Endowment earnings net of anticipated draw	424,885
Net assets with donor restrictions not expected to be met within the year	483,929
	3,303,433
Financial assets available to meet general expenditures over the next twelve months	$ 1,520,680

The principal of 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. 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) that is available to support any initiatives or activities that build participation in Loft programs. Per the restriction, these funds may only be invested in a manner that ensures preservation of principal. 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 three months of regular cash operating expenses and committed program expenses (approximately $435,000) using unrestricted net assets and donor-restricted funds for which the restriction will be met during the period. Excluded expenses include those specific to the four days leading up to and including Wordplay (expenses that would not be incurred if the event had to be canceled), depreciation, and in-kind services.

3. 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:

	2019			
Financial asset category	**Level 1**	**Level 2**	**Level 3**	**Total**
Operating investments:				
Real estate funds, US	**$ 15,588**			**$ 15,588**
Fixed income funds:				
U.S.	**42,514**			**42,514**
High yield bond	**39,314**			**39,314**
Foreign	**20,082**			**20,082**
Mutual funds, equities:				
U.S.	**93,691**			**93,691**
International	**56,610**			**56,610**
Total operating investments	**267,799**			**267,799**
Endowment:				
Real estate funds, US	**154,427**			**154,427**
Fixed income funds:				
U.S.	**408,507**			**408,507**
High yield bond	**295,163**			**295,163**
Foreign	**180,077**			**180,077**
Mutual funds, equities:				
U.S.	**1,187,697**			**1,187,697**
International	**702,232**			**702,232**
Total endowment	**2,928,103**			**2,928,103**
Total investments	**$ 3,195,902**			**$ 3,195,902**

3. Investments (continued):

	2018			
Financial asset category	Level 1	Level 2	Level 3	Total
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

4. Grants and contributions receivable:

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

	2019	2018
Amazon.com	-	$ 20,000
Butler Foundation	**$ 35,000**	-
McKnight Foundation	**492,000**	160,000
Minnesota State Arts Board	**109,816**	109,939
National Endowment for the Arts	**45,000**	35,000
Takenoff Families Foundation	**-**	15,000
Target Foundation	**-**	60,000
Special Pledges	**1,750**	4,550
Other individual pledges	**1,185**	28,289
	684,751	432,778
Less:		
Long-term portion, collectible within five years	**(206,000)**	(80,000)
Discount	**(8,071)**	
Current portion	**$ 478,751**	$ 352,778

5. Property and equipment:

Property and equipment as of August 31 consists of:

	2019	2018
Equipment	**$ 67,039**	$ 67,039
Leasehold improvements	**39,032**	39,032
Software	**453,281**	390,901
	559,352	496,972
Less accumulated depreciation and amortization	**(454,429)**	(389,314)
	$ 104,923	$ 107,658

6. Net assets with donor restrictions:

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

	2019	2018
Restricted to purpose:		
Mentor Program	**$ 58,000**	$ 118,000
McKnight Artist Fellowships for Writers	**653,461**	267,316
Mirrors & Windows Fellowship	**50,000**	100,000
Equilibrium Spoken Word Series	**4,500**	11,600
Readings	**8,000**	7,000
Creative Writing Education	**9,000**	11,755
Writing and Race Initiative	**-**	9,070
Poetry Out Loud	**-**	40,000
Young Writers Program	**48,396**	92,239
Wordplay Literary Festival	**15,500**	40,500
Software and Technology	**-**	25,048
Total restricted to purpose	**846,857**	722,528
Restricted to time	**906,525**	1,064,373
Net assets with donor restrictions into perpetuity:		
Endowment	**2,394,619**	2,394,219
Other	**150,000**	150,000
Total net assets with donor restriction	**$ 4,298,001**	$ 4,331,120

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, 2019 and 2018, the value of the endowment was $533,885 and $620,918, respectively, above principal.

7. 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.

7. 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.

7. Net assets held in perpetuity (continued):

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

	2019		
	Endowment	**Other**	**Total**
Total net assets held in perpetuity, beginning of year	**$ 2,394,219**	**$ 150,000**	**$2,544,219**
Add:			
Surplus, included in:			
Operating net assets		**1,125**	**1,125**
Purpose restricted net assets	**620,917**		**620,917**
Donor-restricted funds included in investments, beginning of year	**3,015,136**	**151,125**	**3,166,261**
Change in endowment investments:			
Contributions	**400**		**400**
Investment income	**133,150**	**2,470**	**135,620**
Net realized and unrealized loss, net of fees	**(83,763)**		**(83,763)**
Fiscal year 2019 draw to support Loft operations	**(136,420)**		**(136,420)**
Net change	**(86,633)**	**2,470**	**(84,163)**
Investment total at August 31, 2019	**2,928,503**	**153,595**	**3,082,098**
Less:			
Surplus, included in:			
Operating net assets		**(3,595)**	**(3,595)**
Purpose restricted net assets	**(533,884)**		**(533,884)**
Total net assets held in perpetuity, end of year	**$ 2,394,619**	**$ 150,000**	**$2,544,619**

7. Net assets held in perpetuity (continued):

	2018		
	Endowment	Other	Total
Total net assets held in perpetuity, beginning of year	$ 2,394,179	$ 150,000	$2,544,179
Add:			
Surplus, included in:			
Operating net assets	-	427	427
Purpose restricted net assets	479,186	-	479,186
Donor-restricted funds included in investments, beginning of year	2,873,365	150,427	3,023,792
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	(109,005)	-	(109,005)
Net change	141,771	698	142,469
Investment total at August 31, 2018	3,015,136	151,125	3,166,261
Less:			
Surplus, included in:			
Operating net assets	-	(1,125)	(1,125)
Purpose restricted net assets	(620,917)	-	(620,917)
Total net assets held in perpetuity, end of year	$ 2,394,219	$ 150,000	$2,544,219

8. Net assets released from restrictions:

Net assets released from restrictions:

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

	2019	2018
Purpose restriction:		
Mentor Program	**$ 68,000**	$ 71,000
McKnight Artist Fellowships for Writers	**223,784**	185,864
Mirrors and Windows FelF	**50,000**	
Equilibrium Spoken Word Series	**11,600**	31,715
Spoken Word Immersion Fellowships		53,000
Creative Writing Education	**11,756**	7,000
Writing and Race Initiative	**9,071**	15,930
Poetry Out Loud	**35,374**	40,000
Young Writers Program	**43,843**	25,827
Readings	**7,000**	10,000
Software and Technology	**25,048**	64,206
Wordplay	**40,500**	
Total restricted to purpose met	**525,976**	504,542
Time restriction met	**283,456**	314,947
Endowment earnings released	**136,420**	109,005
Total net assets released from restriction	**$ 945,852**	$ 928,494

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

9. In-kind contributions:

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

	2019	2018
Advertising and promotion	**$ 147,900**	$ 18,396
Website Design		24,541
Materials & Supplies	**2,375**	
Food	**3,500**	
Computers		3,200
	$ 153,775	$ 46,137

10. 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, 2019 cash deposits exceeded FDIC limits by approximately $468,000.

As of August 31, 2019 and 2018, 64% and 76%, respectively, of the grants and contributions receivable balance was from three and one donors, respectively.

For the year ended August 31, 2019, 25% of the revenue and support, which includes multiple year grant awards, was from one donor.

11. 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, 2019 and 2018.

12. 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 $75,595 and $75,705 as of August 31, 2019 and 2018, 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.”*

13. 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 $72,775 and $70,869 for the years ended August 31, 2019 and 2018, respectively.

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

Year ending August 31,	Amount
2020	$ 18,606
2021	16,395
2022	11,569
2023	11,713
2024	3,920
	$ 62,203

14. Restatement, change in accounting policy:

The Organization changed the accounting policy for treatment of its arrangement with the Unemployment Services Trust during fiscal year 2019 because it is preferential for presentation and ease of accounting for potential refunds from the unemployment trust. The policy change has been applied retrospectively to conform with ASC 250-10-50-1. The restatement increases assets and net assets, and decreases expenses and change in net assets as of and for the year ended August 31, 2018. The financial statement effects of the restatement are summarized below:

14. Restatement (continued):

	Without donor restriction	With donor restrictions	Total
Statement of financial position			
Unemployment Services Trust asset, as previously reported	$ -	$ -	$ -
Restatement, record unemployment trust asset	70,462		70,462
Unemployment Trust asset, as restated	70,462	-	70,462
Net assets, August 31, 2018, as previously reported	300,924	4,331,120	4,632,044
Restatement	70,462	-	70,462
Net assets, August 31, 2018, as restated	371,386	4,331,120	4,702,506
Statement of activities and changes in net assets			
Change in net assets, as previously reported	8,798	5,488	14,286
Restatement, decrease expense	7,462	-	7,462
Change in net assets, as restated	16,260	5,488	21,748
Net assets, September 1, 2017, as previously reported	292,126	4,325,632	4,617,758
Restatement	63,000	-	63,000
Net assets, September 1, 2017, as restated	355,126	4,325,632	4,680,758

	As previously reported	Restatement	As restated
Statement of functional expenses			
Payroll taxes and benefits	$ 134,880	$ (7,462)	$ 127,418
Total expenses	2,312,228	(7,462)	2,304,766
Statement of cash flows			
Change in net assets	14,286	7,462	21,748
Change in unemployment services trust	-	7,462	7,462