

Financial statements of:

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

Years ended
August 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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

As discussed in Note 1 to the financial statements, on September 1, 2019, the Organization adopted new accounting guidance, ASC 606 – Revenue from Contracts with Customers. The Organization also adopted the Financial Accounting Standards Board’s Accounting Standards (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The requirements of the new accounting standards have been applied using the modified prospective method. Our opinion is not modified with respect to this matter.

*Schechter Bokken Koster
Andrews & Selzer Ltd.*

January 6, 2021

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

STATEMENTS OF FINANCIAL POSITION
AUGUST 31

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Assets:						
Current assets:						
Cash and cash equivalents	\$ 100,022	\$ 672,609	\$ 772,631	\$ 209,628	\$ 550,924	\$ 760,552
Accounts receivable, considered collectible	16,929	-	16,929	40,979	-	40,979
Current portion of grants and contributions receivable	8,406	236,000	244,406	8,106	470,645	478,751
Prepaid expenses	29,431	-	29,431	17,715	-	17,715
Total current assets	<u>154,788</u>	<u>908,609</u>	<u>1,063,397</u>	<u>276,428</u>	<u>1,021,569</u>	<u>1,297,997</u>
Property and equipment, net	<u>61,660</u>	<u>-</u>	<u>61,660</u>	<u>104,923</u>	<u>-</u>	<u>104,923</u>
Other assets:						
Unemployment services trust	76,014	-	76,014	67,996	-	67,996
Restricted cash reserve	-	-	-	-	150,000	150,000
Investments	276,973	3,239,497	3,516,470	267,399	2,928,503	3,195,902
Grants and contributions receivable, net of current portion	-	-	-	-	197,929	197,929
	<u>352,987</u>	<u>3,239,497</u>	<u>3,592,484</u>	<u>335,395</u>	<u>3,276,432</u>	<u>3,611,827</u>
Total assets	<u>\$ 569,435</u>	<u>\$ 4,148,106</u>	<u>\$ 4,717,541</u>	<u>\$ 716,746</u>	<u>\$ 4,298,001</u>	<u>\$ 5,014,747</u>
Liabilities and net assets:						
Current liabilities:						
Accounts payable	\$ 60,690	\$ -	60,690	\$ 24,920	\$ -	\$ 24,920
Accrued expenses	4,920	-	4,920	39,314	-	39,314
Awards payable	14,000	-	14,000	37,500	-	37,500
Deferred revenue	175,172	-	175,172	231,648	-	231,648
Total current liabilities	<u>254,782</u>	<u>-</u>	<u>254,782</u>	<u>333,382</u>	<u>-</u>	<u>333,382</u>
Net assets:						
Without donor restrictions	314,653	-	314,653	383,364	-	383,364
With donor restrictions	-	4,148,106	4,148,106	-	4,298,001	4,298,001
Total net assets	<u>314,653</u>	<u>4,148,106</u>	<u>4,462,759</u>	<u>383,364</u>	<u>4,298,001</u>	<u>4,681,365</u>
Total liabilities and net assets	<u>\$ 569,435</u>	<u>\$ 4,148,106</u>	<u>\$ 4,717,541</u>	<u>\$ 716,746</u>	<u>\$ 4,298,001</u>	<u>\$ 5,014,747</u>

See notes to financial statements.

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Admissions	\$ 7,932	\$ -	\$ 7,932	\$ 144,906	\$ -	\$ 144,906
Tuitions	693,877	-	693,877	734,172	-	734,172
Collaboration and service fees	42,991	-	42,991	27,438	-	27,438
Writing studios and book club room rental	27,368	-	27,368	35,973	-	35,973
Advertising and exhibitor fees	417	-	417	27,915	-	27,915
Investment and interest income	51,501	-	51,501	19,318	-	19,318
Other	14,058	-	14,058	35,233	-	35,233
Total revenues	<u>838,144</u>	<u>-</u>	<u>838,144</u>	<u>1,024,955</u>	<u>-</u>	<u>1,024,955</u>
Support:						
Grants:						
Government	206,600	-	206,600	-	145,017	145,017
Foundation	19,925	175,573	195,498	54,901	644,929	699,830
Corporation	97,500	71,500	169,000	218,832	73,000	291,832
Individuals	305,733	-	305,733	299,781	400	300,181
In-kind contributions	88,292	-	88,292	153,775	-	153,775
Special events	2,695	-	2,695	6,000	-	6,000
Total support	<u>720,745</u>	<u>247,073</u>	<u>967,818</u>	<u>733,289</u>	<u>863,346</u>	<u>1,596,635</u>
Net assets released from restrictions	707,962	(707,962)	-	809,432	(809,432)	-
Endowment earnings used in operations in support of mission	116,797	(116,797)	-	136,420	(136,420)	-
Total revenues and support	<u>2,383,648</u>	<u>(577,686)</u>	<u>1,805,962</u>	<u>2,704,096</u>	<u>(82,506)</u>	<u>2,621,590</u>
Expenses:						
Program services:						
Services for writers and the literary community	471,101	-	471,101	456,213	-	456,213
Learning for writers and readers	1,087,962	-	1,087,962	1,020,167	-	1,020,167
Events for readers	438,111	-	438,111	754,642	-	754,642
Support services:						
Management and general	184,724	-	184,724	143,448	-	143,448
Fundraising	270,461	-	270,461	317,648	-	317,648
Total expenses	<u>2,452,359</u>	<u>-</u>	<u>2,452,359</u>	<u>2,692,118</u>	<u>-</u>	<u>2,692,118</u>
Change in net assets from operations	(68,711)	(577,686)	(646,397)	11,978	(82,506)	(70,528)
Net investment gain on endowment	-	427,791	427,791	-	49,387	49,387
Change in net assets	(68,711)	(149,895)	(218,606)	11,978	(33,119)	(21,141)
Net assets, beginning	383,364	4,298,001	4,681,365	371,386	4,331,120	4,702,506
Net assets, ending	<u>\$ 314,653</u>	<u>\$ 4,148,106</u>	<u>\$ 4,462,759</u>	<u>\$ 383,364</u>	<u>\$ 4,298,001</u>	<u>\$ 4,681,365</u>

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (218,606)	\$ (21,141)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	43,264	52,142
Loss on disposal of fixed asset	-	12,973
Contributions with donor restriction into perpetuity	-	(400)
Net investment return	(467,365)	(53,795)
(Increase) decrease in assets:		
Accounts receivable	24,050	(26,346)
Grants and contributions receivable	432,274	(243,902)
Prepaid expenses	(11,716)	234
Unemployment services trust	(8,018)	2,466
Increase (decrease) in liabilities:		
Accounts payable	35,770	8,018
Accrued expenses	(34,394)	(3,491)
Awards payable	(23,500)	(12,500)
Deferred revenue	(56,476)	17,240
Other payables	-	-
Net cash used in operating activities	<u>(284,717)</u>	<u>(268,502)</u>
Cash flows provided by investing activities:		
Purchase of investments	-	(38,010)
Proceeds from sale of investments	146,797	147,210
Purchase of property and equipment	-	(62,380)
Net cash provided by investing activities	<u>146,797</u>	<u>46,820</u>
Cash flows provided by financing activities, contributions received with donor restriction into perpetuity	<u>-</u>	<u>400</u>
Net change in cash, cash equivalents and restricted cash	(137,920)	(221,282)
Cash, cash equivalents, and restricted cash, beginning	<u>910,552</u>	<u>1,131,834</u>
Cash, cash equivalents, and restricted cash, ending	<u>\$ 772,632</u>	<u>\$ 910,552</u>
Reconciliation to consolidated statements of financial position:		
Cash and cash equivalents	\$ 772,631	\$ 760,552
Restricted cash	-	150,000
Total cash, cash equivalents and restricted cash	<u>\$ 772,631</u>	<u>\$ 910,552</u>

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

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2020

	Services for Writers and the Literary Community	Learning for Writers and Readers	Events for Readers	Total program services	Management and general	Fundraising	Total mission support services	Total all services
Salaries	\$ 143,329	\$ 365,183	\$ 178,153	\$ 686,665	\$ 103,310	\$ 144,680	\$ 247,990	\$ 934,655
Payroll taxes and benefits	20,728	60,231	26,219	107,178	18,581	22,276	40,857	148,035
Total salaries and related expenses	<u>164,057</u>	<u>425,414</u>	<u>204,372</u>	<u>793,843</u>	<u>121,891</u>	<u>166,956</u>	<u>288,847</u>	<u>1,082,690</u>
Artist pay	73,400	361,676	5,050	440,126	-	-	-	440,126
Grants and awards	153,857	-	-	153,857	-	-	-	153,857
Staff development	2,488	7,022	2,913	12,423	1,080	2,961	4,041	16,464
Accessibility services	73	2,363	1,423	3,859	32	69	101	3,960
Travel and per diem	15,040	24,260	921	40,221	9	798	807	41,028
Hospitality, receptions and meetings	5,294	32,070	285	37,649	577	1,025	1,602	39,251
Event and video production	-	-	-	-	-	-	-	-
Marketing and promotion	6,395	46,800	112,635	165,830	18	2,305	2,323	168,153
Website	2,254	6,311	2,639	11,204	978	2,140	3,118	14,322
Professional and outsourced services	8,430	33,732	60,052	102,214	50,535	46,390	96,925	199,139
Printing	484	1,665	290	2,439	57	12,055	12,112	14,551
Postage, shipping and delivery	371	1,093	434	1,898	205	5,931	6,136	8,034
Materials and supplies	718	1,447	572	2,737	465	1,720	2,185	4,922
Occupancy and program rental	19,524	56,590	7,595	83,709	2,561	5,608	8,169	91,878
Office expense	1,910	5,303	2,217	9,430	822	1,798	2,620	12,050
Software licenses and subscriptions	7,351	34,196	24,918	66,465	1,551	7,427	8,978	75,443
Memberships, dues and subscriptions	590	1,927	691	3,208	256	560	816	4,024
Insurance	632	1,768	739	3,139	274	599	873	4,012
Bank and transaction fees	1,417	24,739	1,094	27,250	322	5,063	5,385	32,635
Miscellaneous	7	521	1,299	1,827	136	593	729	2,556
Total before depreciation	<u>464,292</u>	<u>1,068,897</u>	<u>430,139</u>	<u>1,963,328</u>	<u>181,769</u>	<u>263,998</u>	<u>445,767</u>	<u>2,409,095</u>
Depreciation	<u>6,809</u>	<u>19,065</u>	<u>7,972</u>	<u>33,846</u>	<u>2,955</u>	<u>6,463</u>	<u>9,418</u>	<u>43,264</u>
	<u>\$ 471,101</u>	<u>\$ 1,087,962</u>	<u>\$ 438,111</u>	<u>\$ 1,997,174</u>	<u>\$ 184,724</u>	<u>\$ 270,461</u>	<u>\$ 455,185</u>	<u>\$ 2,452,359</u>
Percentage of total expenses	19.2%	44.4%	17.9%	81.4%	7.5%	11.0%	18.6%	100.0%

See notes to financial statements.

	Services for Writers and the Literary Community	Learning for Writers and Readers	Events for Readers	Total program services	Management and general	Fundraising	Total mission support services	Total all services
Salaries	\$ 137,412	\$ 359,752	\$ 170,401	\$ 667,565	\$ 72,504	\$ 164,056	\$ 236,560	\$ 904,125
Payroll taxes and benefits	17,771	59,543	24,593	101,907	16,121	23,071	39,192	141,099
Total salaries and related expenses	155,183	419,295	194,994	769,472	88,625	187,127	275,752	1,045,224
Artist pay	73,650	380,128	22,700	476,478	-	500	500	476,978
Grants and awards	143,000	-	-	143,000	-	-	-	143,000
Staff development	508	1,086	391	1,985	194	2,041	2,235	4,220
Accessibility services	-	-	2,660	2,660	-	-	-	2,660
Travel and per diem	28,383	4,477	25,450	58,310	10	492	502	58,812
Hospitality, receptions and meetings	6,049	1,659	8,716	16,424	1,063	8,513	9,576	26,000
Event and video production	343	450	119,178	119,971	-	-	-	119,971
Marketing and promotion	3,915	42,899	183,902	230,716	-	1,019	1,019	231,735
Website	2,781	10,193	3,233	16,207	1,029	3,007	4,036	20,243
Professional and outsourced services	5,249	34,689	103,136	143,074	37,585	62,689	100,274	243,348
Printing	738	3,355	1,001	5,094	553	6,648	7,201	12,295
Postage, shipping and delivery	435	1,368	821	2,624	156	6,227	6,383	9,007
Materials and supplies	2,937	5,067	10,889	18,893	1,256	2,475	3,731	22,624
Occupancy and program rental	11,761	33,267	40,363	85,391	4,196	12,240	16,436	101,827
Office expense	2,105	5,123	2,162	9,390	688	2,011	2,699	12,089
Software licenses and subscriptions	5,829	22,910	12,056	40,795	1,286	5,037	6,323	47,118
Memberships, dues and subscriptions	1,358	1,316	556	3,230	177	661	838	4,068
Insurance	595	1,640	2,504	4,739	220	644	864	5,603
Bank and transaction fees	1,169	22,428	5,149	28,746	66	5,260	5,326	34,072
Miscellaneous	-	654	2,894	3,548	2,561	-	2,561	6,109
Total before depreciation and amortization	445,988	992,004	742,755	2,180,747	139,665	306,591	446,256	2,627,003
Depreciation	8,188	22,552	9,519	40,259	3,029	8,854	11,883	52,142
Loss on disposal of assets	2,037	5,611	2,368	10,016	754	2,203	2,957	12,973
	\$ 456,213	\$ 1,020,167	\$ 754,642	\$ 2,231,022	\$ 143,448	\$ 317,648	\$ 461,096	\$ 2,692,118
Percentage of total expenses	16.9%	37.9%	28.0%	82.9%	5.3%	11.8%	17.1%	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.

On March 11, in response to the growing COVID-19 pandemic, the Loft announced that it would move all programming online, effective the following day. The organization's programming remained virtual throughout the remainder of its fiscal year (through 8/31/20) and beyond. The result had an impact on the number of people participating, with some programs having significant increase in reach and others having significant reductions in participation.

The extent to which the coronavirus impacts the Organization's programming, impact, and operations directly or indirectly will depend on the duration and future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

Programs and program services:

Services for Writers and the Literary Community – In fiscal year 2020, 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*.

Forty-three writers made use of the Organization's writers' studios, four Organization-sponsored culturally distinct writing groups met regularly at Open Book and 16 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 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 \$500 grant. Fellows and mentors present their work in public readings throughout the year.

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

Programs and program services (continued):

Services for Writers and the Literary Community (continued):

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 picture book writing.

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.

Learning for Writers and Readers-The Organization offered a variety of learning opportunities for writers and readers during fiscal year 2020. Classes during fiscal year 2020 took place at Open Book, at libraries and community sites throughout the greater Twin Cities area and, beginning in mid-March, completely 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 2,555 adults and 886 youth in 396 classes and workshops, schools and community programs.

To mitigate financial barriers to participation in creative writing classes, the Organization provided 400 low income discounts and 229 scholarships, plus a work-study program, and 105 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 of these events featured 108 writers for a combined audience of 1169.

In May of 2020, the Loft presented the second annual Wordplay literary festival, and the first of its kind to be presented completely online. Over five weeks, the Loft showcased writers in all genres and engaged audiences in discussions of timely topics with authors and experts spurred by newly published work. By the close of the Organization's fiscal year, these events had been viewed more than 75,000 times in total. They remain available online and continue to draw audiences from throughout the world. 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, 2020 and 2019 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):

Grants and Contributions:

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

Grants and contributions with restrictions from non-government sources are recorded as donor restricted revenue when received and/or pledged. 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. Some grant agreements include required outcomes or reporting, however these requirements do not constitute a barrier or condition which must be met prior to revenue recognition.

Government grant revenue is considered conditional, and is only recognized when applicable expenses are incurred, which is considered the condition for recognition of revenue.

As of August 31, 2020, the Organization has conditional grant commitments of \$147,500. These funds are conditional upon incurring eligible expenditures. Conditional promises to give are recognized in the financial statements when the conditions have been met. The conditions are expected to be met in fiscal years 2021 and 2022.

Contributions without donor restrictions are recognized as revenue when received and/or pledged.

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.

Tuition, sponsorship, and event registration revenue:

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

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

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

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

Tuition, sponsorship, and event registration revenue (continued):

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

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.

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 2020 and 2019 were approximately \$145,942 and \$200,216, respectively.

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

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 \$76,014 and \$67,996 at August 31, 2020 and 2019, 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.

Change in accounting principle:

On September 1, 2019 the Organization adopted Revenue from Contracts with Customers (Topic 606). Topic 606 is a comprehensive revenue recognition standard that superseded most existing revenue recognition guidance under GAAP. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This framework requires entities to make greater use of judgements and estimates than previously required under GAAP. Topic 606 also prescribes additional disclosures and financial statement presentations.

The Organization also adopted the Financial Accounting Standards Board's Accounting Standards (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides guidance on distinguishing between contributions and exchange transactions and clarifies whether contributions are conditional. The requirements of the new accounting standards have been applied on a modified prospective basis. The adoption of the guidance in the year ended August 31, 2020 resulted in not recognizing \$147,500 of conditional grants that would have been recognized under previous guidance.

On September 1, 2020, the Organization also adopted Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash using the full retrospective approach. This ASU was issued to address diversity in reporting restricted cash on the statement of cash flows, largely due to the lack of guidance. After the adoption of ASU 2016-18, restricted cash and cash equivalents must be included with the beginning and ending cash and cash equivalents shown on the statement of cash flows. This adoption did not change amounts reported in the statement of cash flows.

Subsequent events:

The Organization evaluated for subsequent events through January 6, 2021, the date the financial statements were available for issuance.

2. Liquidity and availability:

The following represents the Organization's financial assets at August 31, 2020:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents and restricted cash	\$ 772,631	\$ 910,552
Accounts receivable, net	16,929	40,979
Contributions and grants receivable, net	244,406	676,680
Investments, including endowment	<u>3,516,470</u>	<u>3,195,902</u>
Total financial assets	<u>4,550,436</u>	<u>4,824,113</u>
Less amounts not available to be used within one year:		
Endowment principal which is donor-restricted into perpetuity	2,394,619	2,394,619
Endowment earnings net of anticipated draw	698,840	424,885
Net assets with donor restrictions not expected to be met within the year	<u>206,000</u>	<u>483,929</u>
	<u>3,299,459</u>	<u>3,303,433</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,250,977</u>	<u>\$ 1,520,680</u>

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) which is currently in use to support activities that build participation in the literary arts. Funds withdrawn from this revolving cash reserve must be repaid on or before the last day of the fiscal year following the year in which they are withdrawn, in this case, by August 31, 2021.

The Organization's goal is generally to maintain financial assets to meet three months of regular cash operating expenses and committed program expenses (approximately \$530,000) using unrestricted net assets and donor-restricted funds for which the restriction will be met during the period. Excluded expenses include depreciation, and in-kind services.

3. 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	2020			Total
	Level 1	Level 2	Level 3	
Operating investments:				
Real estate funds, US	\$ 13,059			\$ 13,059
Fixed income funds:				
U.S.	31,576			31,576
High yield bond	31,699			31,699
Foreign	15,304			15,304
Mutual funds, equities:				
U.S.	110,719			110,719
International	<u>74,616</u>			<u>74,616</u>
Total operating investments	<u>276,973</u>			<u>276,973</u>
Endowment:				
Real estate funds, US	161,773			161,773
Fixed income funds:				
U.S.	386,637			386,637
High yield bond	386,556			386,556
Foreign	192,878			192,878
Mutual funds, equities:				
U.S.	1,271,545			1,271,545
International	<u>840,108</u>			<u>840,108</u>
Total endowment	<u>3,239,497</u>			<u>3,239,497</u>
Total investments	<u>\$ 3,516,470</u>			<u>\$ 3,516,470</u>

3. Investments (continued):

Financial asset category	2019			Total
	Level 1	Level 2	Level 3	
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	<u>56,610</u>			<u>56,610</u>
Total operating investments	<u>267,799</u>			<u>267,799</u>
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	<u>702,232</u>			<u>702,232</u>
Total endowment	<u>2,928,103</u>			<u>2,928,103</u>
Total investments	<u>\$ 3,195,902</u>			<u>\$ 3,195,902</u>

4. Grants and contributions receivable:

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

	<u>2020</u>	<u>2019</u>
Butler Foundation	\$ 30,000	\$ 35,000
McKnight Foundation	206,000	492,000
Minnesota State Arts Board	5,232	109,816
National Endowment for the Arts	-	45,000
Special Pledges	-	1,750
Other individual pledges	<u>3,174</u>	<u>1,185</u>
	244,406	684,751
Less:		
Long-term portion, collectible within five years	-	(197,929)
Discount	<u>-</u>	<u>(8,071)</u>
Current portion	<u>\$ 244,406</u>	<u>\$ 478,751</u>

5. Property and equipment:

Property and equipment as of August 31 consists of:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 67,039	\$ 67,039
Leasehold improvements	39,032	39,032
Software	<u>124,761</u>	<u>453,281</u>
	230,832	559,352
Less accumulated depreciation and amortization	<u>(169,172)</u>	<u>(454,429)</u>
	<u>\$ 61,660</u>	<u>\$ 104,923</u>

6. Net assets with donor restrictions: _____

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

	<u>2020</u>	<u>2019</u>
Restricted to purpose:		
Mentor Program		\$ 58,000
McKnight Artist Fellowships for Writers	\$ 432,608	653,461
Mirrors & Windows Fellowship	3,000	50,000
Equilibrium Spoken Word Series		4,500
Readings		8,000
Creative Writing Education		9,000
Young Writers Program	4,000	48,396
Wordplay Literary Festival		<u>15,500</u>
Total restricted to purpose	439,608	846,857
Restricted to time	319,000	443,455
Endowment Earnings	844,879	620,918
Net assets with donor restrictions into perpetuity:		
Endowment	2,394,619	2,394,619
Other	150,000	<u>150,000</u>
Total net assets with donor restriction	<u>\$ 4,148,106</u>	<u>\$ 4,298,001</u>

When the value of the endowment, net of distributions, gains, and losses varies from the cumulative total of contributions to the endowment (the principal), the variance amount is required to be carried as a net asset with donor restrictions. As a result, the amount restricted to time recorded in net assets with donor restrictions includes the amount the endowment was above or below principal. On August 31, 2020 and 2019, the value of the endowment was \$844,879 and \$533,884, 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.

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

7. Net assets held in perpetuity (continued):

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

	<u>2020</u>		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total net assets held in perpetuity, beginning of year	\$ 2,394,619	\$ 150,000	\$2,544,619
Add:			
Surplus, included in:			
Operating net assets		3,595	3,595
Purpose restricted net assets	<u>533,884</u>		<u>533,884</u>
Donor-restricted funds included in investments, beginning of year	<u>2,928,503</u>	<u>153,595</u>	<u>3,082,098</u>
Change in endowment investments:			
Contributions			
Investment income	100,667	1,560	102,227
Net realized and unrealized loss, net of fees	327,123		327,123
Fiscal year 2020 transfers out of investments		(150,000)	(150,000)
Fiscal year 2020 draw to support Loft operations	<u>(116,797)</u>		<u>(116,797)</u>
Net change	<u>310,993</u>	<u>(148,440)</u>	<u>162,553</u>
Investment total at August 31, 2020	<u>3,239,496</u>	<u>5,155</u>	<u>3,244,651</u>
Add:			
Monies to be deposited, end of year		150,000	150,000
Less:			
Surplus, included in:			
Operating net assets		(5,155)	(5,155)
Purpose restricted net assets	<u>(844,877)</u>		<u>(844,877)</u>
Total net assets held in perpetuity, end of year	<u>\$ 2,394,619</u>	<u>\$ 150,000</u>	<u>\$2,544,619</u>

7. Net assets held in perpetuity (continued):

	<u>2019</u>		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
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	<u>620,917</u>	<u> </u>	<u>620,917</u>
Donor-restricted funds included in investments, beginning of year	<u>3,015,136</u>	<u>151,125</u>	<u>3,166,261</u>
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	<u>(136,420)</u>	<u> </u>	<u>(136,420)</u>
Net change	<u>(86,633)</u>	<u>2,470</u>	<u>(84,163)</u>
Investment total at August 31, 2019	<u>2,928,503</u>	<u>153,595</u>	<u>3,082,098</u>
Less:			
Surplus, included in:			
Operating net assets		(3,595)	(3,595)
Purpose restricted net assets	<u>(533,884)</u>	<u> </u>	<u>(533,884)</u>
Total net assets held in perpetuity, end of year	<u>\$ 2,394,619</u>	<u>\$ 150,000</u>	<u>\$2,544,619</u>

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:

	<u>2020</u>	<u>2019</u>
Purpose restriction:		
Mentor Program	\$ 58,000	\$ 68,000
McKnight Artist Fellowships for Writers	228,923	223,784
Mirrors and Windows Fellowship	47,000	50,000
Equilibrium Spoken Word Series	4,500	11,600
Creative Writing Education	9,000	11,756
Writing and Race Initiative	-	9,071
Poetry Out Loud	-	35,374
Young Writers Program	44,396	43,843
Readings	8,000	7,000
Software and Technology	-	25,048
Wordplay	<u>15,500</u>	<u>40,500</u>
Total restricted to purpose met	415,319	525,976
Time restriction met	292,643	283,456
Endowment earnings released	<u>116,797</u>	<u>136,420</u>
Total net assets released from restriction	<u>\$ 824,759</u>	<u>\$ 945,852</u>

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:

	<u>2020</u>	<u>2019</u>
Advertising and promotion	\$ 85,000	\$ 147,900
Artist Fees & Travel	1,700	
Materials & Supplies		2,375
Food		3,500
Merchandise (for Auction)	<u>1,592</u>	
	<u>\$ 88,292</u>	<u>\$ 153,775</u>

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, 2020 and 2019, 79% and 64%, respectively, of the grants and contributions receivable balance was from three and one donors, respectively.

For the years ended August 31, 2020 and 2019, 12% and 25%, respectively, of the revenue and support, which includes funding to be regranted to artists, 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, 2020 and 2019.

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 \$71,238 and \$75,595 as of August 31, 2020 and 2019, 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 \$76,515 and \$72,775 for the years ended August 31, 2020 and 2019, respectively.

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

<u>Year ending</u> <u>August 31,</u>	<u>Amount</u>
2021	\$ 16,395
2022	11,998
2023	11,713
2024	<u>3,920</u>
	<u>\$ 44,026</u>

14. Paycheck protection program:

On April 14, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program for an aggregate principal amount of \$206,600. The loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the loan proceeds are used to pay permitted expenses, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization applied for forgiveness of the loan with respect to these covered expenses and received notice of forgiveness subsequent to year end on November 6, 2020. The SBA may conduct a post-payoff review of the loan. The Organization elected to account for the loan under conditional contribution guidance and recognized the loan amount as government grant revenue during the year ended August 31, 2020.

15. Subsequent events:

Subsequent to year end, the Loft engaged in a short-term agreement to provide general management services to Open Book (the separate non-profit that operates the Open Book building) until January 2021, or when Open Book hires a general manager. The Open Book board has subsequently adopted a budget which includes compensating the Loft for these general management services until the Open Book opens to the public again in September 2021.