Financial statements of:

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

Years ended
August 31, 2021 and 2020

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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, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

January 13, 2022

	2021			2020		
	Without donor restrictions	**With donor restrictions**	**Total**	Without donor restrictions	With donor restrictions	Total
Assets:						
Current assets:						
Cash and cash equivalents	**$ 407,028**	**$ 768,009**	**$ 1,175,037**	$ 100,022	$ 672,609	$ 772,631
Restricted cash reserve	**-**	**150,000**	**150,000**	-	-	-
Accounts receivable, considered collectible	**28,991**	**-**	**28,991**	16,929	-	16,929
Current portion of grants and contributions receivable	**79,820**	**-**	**79,820**	8,406	236,000	244,406
Prepaid expenses	**22,372**	**-**	**22,372**	29,431	-	29,431
Total current assets	**538,211**	**918,009**	**1,456,220**	154,788	908,609	1,063,397
Property and equipment, net	**29,672**	**-**	**29,672**	61,660	-	61,660
Other assets:						
Unemployment services trust	**92,793**	**-**	**92,793**	76,014	-	76,014
Investments	**361,608**	**3,957,620**	**4,319,228**	276,973	3,239,497	3,516,470
	454,401	**3,957,620**	**4,412,021**	352,987	3,239,497	3,592,484
Total assets	**$ 1,022,284**	**$ 4,875,629**	**$ 5,897,913**	$ 569,435	$ 4,148,106	$ 4,717,541
Liabilities and net assets:						
Current liabilities:						
Accounts payable	**$ 36,326**	**$ -**	**$ 36,326**	$ 60,690	$ -	$ 60,690
Accrued expenses	**19,784**	**-**	**19,784**	4,920	-	4,920
Awards payable	**37,500**	**-**	**37,500**	14,000	-	14,000
Deferred revenue	**220,057**	**-**	**220,057**	175,172	-	175,172
Total current liabilities	**313,667**	**-**	**313,667**	254,782	-	254,782
Net assets:						
Without donor restrictions	**708,617**	**-**	**708,617**	314,653	-	314,653
With donor restrictions	**-**	**4,875,629**	**4,875,629**	-	4,148,106	4,148,106
Total net assets	**708,617**	**4,875,629**	**5,584,246**	314,653	4,148,106	4,462,759
Total liabilities and net assets	**$ 1,022,284**	**$ 4,875,629**	**$ 5,897,913**	$ 569,435	$ 4,148,106	$ 4,717,541

	2021			2020		
	Without donor restrictions	**With donor restrictions**	**Total**	Without donor restrictions	With donor restrictions	Total
Revenues:						
Admissions	**$ 12,292**	**$ -**	**$ 12,292**	$ 7,932	$ -	$ 7,932
Tuitions	**761,424**	**-**	**761,424**	693,877	-	693,877
Collaboration and service fees	**25,580**	**-**	**25,580**	42,991	-	42,991
Writing studios and book club room rental	**15,600**	**-**	**15,600**	27,368	-	27,368
Advertising and exhibitor fees	**1,025**	**-**	**1,025**	417	-	417
Investment and interest income	**85,655**	**-**	**85,655**	51,501	-	51,501
Other	**63,255**	**-**	**63,255**	14,058	-	14,058
Total revenues	**964,831**	**-**	**964,831**	838,144	-	838,144
Support:						
Grants:						
Government	**369,367**	**281,744**	**651,111**	206,600	-	206,600
Foundation	**86,922**	**192,000**	**278,922**	19,925	175,573	195,498
Corporation	**120,750**	**52,300**	**173,050**	97,500	71,500	169,000
Individuals	**299,688**	**25**	**299,713**	305,733	-	305,733
In-kind contributions	**98,390**	**-**	**98,390**	88,292	-	88,292
Special events	**-**	**-**	**-**	2,695	-	2,695
Total support	**975,117**	**526,069**	**1,501,186**	720,745	247,073	967,818
Net assets released from restrictions	**516,643**	**(516,643)**	**-**	707,962	(707,962)	-
Endowment earnings used in operations in support of mission	**87,619**	**(87,619)**	**-**	116,797	(116,797)	-
Total revenues and support	**2,544,210**	**(78,193)**	**2,466,017**	2,383,648	(577,686)	1,805,962
Expenses:						
Program services:						
Services for writers and the literary community	**387,393**	**-**	**387,393**	471,101	-	471,101
Learning for writers and readers	**1,039,644**	**-**	**1,039,644**	1,087,962	-	1,087,962
Events for readers	**337,346**	**-**	**337,346**	438,111	-	438,111
Support services:						
Management and general	**172,200**	**-**	**172,200**	184,724	-	184,724
Fundraising	**213,663**	**-**	**213,663**	270,461	-	270,461
Total expenses	**2,150,246**	**-**	**2,150,246**	2,452,359	-	2,452,359
Change in net assets from operations	**393,964**	**(78,193)**	**315,771**	(68,711)	(577,686)	(646,397)
Net investment gain on endowment	**-**	**805,716**	**805,716**	-	427,791	427,791
Change in net assets	**393,964**	**727,523**	**1,121,487**	(68,711)	(149,895)	(218,606)
Net assets, beginning	**314,653**	**4,148,106**	**4,462,759**	383,364	4,298,001	4,681,365
Net assets, ending	**$ 708,617**	**$ 4,875,629**	**$ 5,584,246**	$ 314,653	$ 4,148,106	$ 4,462,759

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	$ 165,934	$ 390,376	$ 138,459	$ 694,769	$ 70,099	$ 116,087	$ 186,186	$ 880,955
Payroll taxes and benefits	23,923	61,506	22,383	107,812	10,638	15,962	26,600	134,412
Total salaries and related expenses	189,857	451,882	160,842	802,581	80,737	132,049	212,786	1,015,367
Artist pay	18,933	375,422	7,200	401,555	-	-	-	401,555
Grants and awards	125,000	-	-	125,000	-	-	-	125,000
Staff development	3,414	8,425	2,824	14,663	1,509	3,633	5,142	19,805
Accessibility services	-	-	660	660	-	-	-	660
Travel and per diem	3,139	1,600	-	4,739	-	-	-	4,739
Hospitality, receptions and meetings	72	171	73	316	44	67	111	427
Event and video production	-	-	-	-	-	-	-	-
Marketing and promotion	1,395	46,027	114,485	161,907	-	621	621	162,528
Website	3,442	8,116	2,847	14,405	1,521	2,325	3,846	18,251
Professional and outsourced services	12,393	26,523	18,771	57,687	75,945	37,481	113,426	171,113
Printing	634	1,495	525	2,654	280	10,057	10,337	12,991
Postage, shipping, and delivery	44	881	686	1,611	69	3,175	3,244	4,855
Materials and supplies	229	542	147	918	354	190	544	1,462
Occupancy and program rental	12,310	33,879	10,153	56,342	5,423	8,298	13,721	70,063
Office expense	304	716	321	1,341	134	205	339	1,680
Software licenses and subscriptions	4,477	28,718	7,969	41,164	1,159	3,418	4,577	45,741
Memberships, dues, and subscriptions	702	1,656	581	2,939	310	489	799	3,738
Insurance	950	2,240	786	3,976	420	642	1,062	5,038
Bank and transaction fees	979	28,534	944	30,457	236	4,863	5,099	35,556
Miscellaneous	544	2,599	439	3,582	271	359	630	4,212
Total before depreciation	378,818	1,019,426	330,253	1,728,497	168,412	207,872	376,284	2,104,781
Depreciation	8,575	20,218	7,093	35,886	3,788	5,791	9,579	45,465
	$ 387,393	$ 1,039,644	$ 337,346	$ 1,764,383	$ 172,200	$ 213,663	$ 385,863	$ 2,150,246
Percentage of total expenses	18.0%	48.4%	15.7%	82.1%	8.0%	9.9%	17.9%	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	$ 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	164,057	425,414	204,372	793,843	121,891	166,956	288,847	1,082,690
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 and amortization	464,292	1,068,897	430,139	1,963,328	181,769	263,998	445,767	2,409,095
Depreciation	6,809	19,065	7,972	33,846	2,955	6,463	9,418	43,264
	$ 471,101	$ 1,087,962	$ 438,111	$ 1,997,174	$ 184,724	$ 270,461	$ 455,185	$ 2,452,359
Percentage of total expenses	19.2%	44.4%	17.9%	81.4%	7.5%	11.0%	18.6%	100.0%

	2021	2020
Cash flows from operating activities:		
Change in net assets	**$ 1,121,487**	$ (218,606)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	**45,465**	43,264
Contributions with donor restriction into perpetuity	**(25)**	-
Net investment return	**(875,777)**	(467,365)
(Increase) decrease in assets:		
Accounts receivable	**(12,062)**	24,050
Grants and contributions receivable	**164,586**	432,274
Prepaid expenses	**7,059**	(11,716)
Unemployment services trust	**(16,779)**	(8,018)
Increase (decrease) in liabilities:		
Accounts payable	**(24,364)**	35,770
Accrued expenses	**14,864**	(34,394)
Awards payable	**23,500**	(23,500)
Deferred revenue	**44,885**	(56,476)
Net cash provided by (used in) operating activities	**492,839**	(284,717)
Cash flows provided by investing activities:		
Purchase of investments	**(14,600)**	-
Proceeds from sale of investments	**87,619**	146,796
Purchase of property and equipment	**(13,477)**	-
Net cash provided by investing activities	**59,542**	146,796
Cash flows provided by financing activities, contributions received with donor restriction into perpetuity	**25**	-
Net change in cash, cash equivalents and restricted cash	**552,406**	(137,921)
Cash, cash equivalents, and restricted cash, beginning	**772,631**	910,552
Cash, cash equivalents, and restricted cash, ending	**$ 1,325,037**	$ 772,631
Reconcilation to consolidated statements of financial position:		
Cash and cash equivalents	**$ 1,175,037**	$ 772,631
Restricted cash reserve	**150,000**	-
Total cash, cash equivalents and restricted cash	**$ 1,325,037**	$ 772,631

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, 2020, 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 through the remainder of its fiscal year 2020 and during the entirety of fiscal year 2021. The Loft expects to return a small percentage of in-person programming early in the 2022 calendar year. The result had an impact on the number of people participating, with some programs having an increase in reach and others having significant reductions in participation.

During these two fiscal years (2020 and 2021), the Loft anticipated financial shortfalls and experienced changing staffing demands. Rather than completely furlough or lay off staff during the pandemic, the Loft opted to participate in Minnesota's Shared Work program. This program allowed the Organization to keep all employees at full benefits while varying their month-to-month employment between 50% and 100% in temporary and partial furloughs based on programmatic and organizational demands. The Loft's participation began after the period supported by our first Paycheck Protection Plan loan period ended. The Organization was able to bring all staff members back to their regular hours when it received a second Paycheck Protection Plan loan. Both loans were forgiven in the fiscal year they were granted.

The extent to which the coronavirus affects 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 2021, 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 *The Writers' Block* blog. There, writers found writing exercises, readers found book and event recommendations and both found literary reviews, commentary, news, and discussion. The site also included interviews, a calendar of readings and events, an online catalog of classes, and resources including information about writing groups, competitions, grants, awards, publishers, and agents.

Due to COVID-19 and the closure of the Open Book to most visitors, access to *The Rachel Anne Gaschott Ritchie Small Press Library* was limited to Loft studio users.

Thirty-three writers made use of the Organization's writers' studios while the four Organization-sponsored culturally distinct writing groups were unable to meet at Open Book, nor was the co-sponsored Picture Book Salon. The Book Club Room was closed to the public for the entire year.

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

Programs and program services (continued):

Services for Writers and the Literary Community (continued):

The Mentor Series Fellowship in Poetry and Creative Prose and the *Mirrors and Windows Fellowship* were put on a one-year hiatus as these programs' largest funder invited the Loft to use their grant to secure continued operations of the Loft as a whole in the face of the pandemic. With the Loft's commitment to addressing inequities in publishing and access to children and young adult literature written by and for people of color and indigenous people, the organization did continue to provide learning and networking opportunities to previous Mirrors and Window fellows. Previous *Mentor Series Fellows* as well as other past award winners were also invited to a special craft talk/Q & A with multiple award-winning poet, Natalie Diaz.

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 middle grade children's book writing.

Learning for Writers and Readers – The Organization offered a variety of learning opportunities for writers and readers during fiscal year 2021, all of them online. Adults and youth (ages 6-90+) at all levels of artistic development furthered their skills in classes focused on fiction, poetry, creative nonfiction, screen/playwriting, children's literature, graphic novel, and other literary forms; learned more about developing a writing practice and career; and explored literature as readers. All classes were taught by accomplished writers and literary professionals. This year, the Organization served 3,132 adults and 232 youth in 355 classes and workshops, schools and community programs. Another 84 writers took advantage of manuscript review or one-on-one coaching services offered by the Loft.

To mitigate financial barriers to participation in creative writing learning opportunities, the Organization provided 256 scholarships (valued at $37,804) in addition to working with YouthPrise to extend scholarships even further to low income families. We also offered a work-study program, and 70 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. Despite Zoom-fatigue a combined audience of 1358 participated in 19 of these events, featuring 26 writers.

In May of 2021, the Loft presented the third annual Wordplay literary festival, and the second to be presented completely online. Over one week, 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 12,000 times in total. 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, 2021 and 2020 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:

Grants and contributions with restrictions from non-government sources are recorded as donor restricted revenue when received and/or pledged. Amounts are released as donor restrictions are satisfied. 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, 2021, the Organization has conditional grant commitments of $276,898. Once the funds are received, the conditional grants will be recorded on the Organization's balance sheet, but not recorded as revenue. 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 2022 and 2023.

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

Sponsorship support is considered a contribution with some 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 are deferred and recognized as revenue at the point in time at which the event takes place. Registrations are refundable if the event is cancelled. The performance obligation is hosting the event for registered attendees.

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

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

Functional allocation of expense:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include personnel expenses, staff development, marketing and promotion, professional and outsourced services, office equipment and supplies, occupancy and office expenses, some software licenses and subscriptions, memberships, and depreciation and amortization. Personnel expenses are allocated based on each staff's monthly time study estimates per program or support area. Marketing and promotion expenses are allocated to programs and fundraising directly, with general marketing and promotion expense allocated to programs and fundraising based on percentage of related content. Occupancy expenses, printing and postage are attributed to specific programs based on use, with exception of office space rent. Office space, operational personnel expenses, staff development, professional and contracted services, technology and software, not attributable to specific programs or support areas are allocated across program and support areas based on the proportion of full-time equivalents (FTE's) each area makes up. For example, general IT support is allocated with the idea that it increases with each FTE and their corresponding technology needs. While human resource leadership is considered an administrative cost, benefits implementation is allocated by the proportion of FTEs for the same reason. General accounting services are attributed to administration, but program-specific revenue and expense accounting is allocated based on time and effort as estimated in the accounting service's time study. Credit card transaction fees are allocated to programs based on related sales/contribution activity. All other expenses including the website, bank fees, office space and related occupancy expense, depreciation and amortization are allocated 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 2021 and 2020 were approximately $155,434 and $145,942, 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 $92,793 and $76,014 at August 31, 2021 and 2020, respectively and are presented on the statement of financial position.

Management Services:

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) from September 1, 2020 through June 14, 2021, with compensation for the work provided by Open Book at $5,000 per month. This one-time revenue appears in Miscellaneous Earned Revenue. The Minnesota Center for Book Arts (one of the other founding partners) took over the contract from June 2021 through early January 2022, when a new general manager was hired.

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.

Subsequent events:

The Organization evaluated for subsequent events through January 13, 2022, the date the financial statements were available for issuance.

2. Liquidity and availability:

The following represents the Organization's financial assets at August 31, 2021:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	**$ 1,325,037**	$ 772,631
Accounts receivable, net	**28,991**	16,929
Contributions and grants receivable, net	**79,820**	244,406
Investments, including endowment	**4,319,228**	3,516,470
	5,753,076	4,550,436
Less amounts not available to be used within one year:		
Endowment principal which is donor-restricted into perpetuity	**2,394,644**	2,394,619
Endowment earnings net of anticipated draw	**688,458**	698,840
Net assets with donor restrictions not expected to be met within the year	**13,356**	206,000
	3,096,458	3,299,459
Financial assets available to meet general expenditures over the next twelve months	**$ 2,656,618**	$ 1,250,977

The principal of the Loft's endowment funds is 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 Organization's goal is generally to maintain financial assets to meet three months of regular cash operating expenses and committed program expenses (approximately $695,000) 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:

	2021			
Financial asset category	**Level 1**	**Level 2**	**Level 3**	**Total**
Operating investments:				
Mutual funds:				
Growth	**$ 188,918**			**$ 188,918**
Moderate Growth	**172,715**			**172,715**
Total operating investments	**361,633**			**361,633**
Endowment:				
Mutual funds:				
Growth	**1,970,822**			**1,970,822**
Moderate Growth	**1,986,773**			**1,986,773**
Total endowment	**3,957,595**			**3,957,595**
Total investments	**$ 4,319,228**			**$ 4,319,228**

3. Investments (continued):

	2020			
Financial asset category	Level 1	Level 2	Level 3	Total
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	74,616			74,616
Total operating investments	276,973			276,973
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	840,108			840,108
Total endowment	3,239,497			3,239,497
Total investments	$ 3,516,470			$ 3,516,470

4. Grants and contributions receivable:

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

	2021	2020
Butler Foundation	**$ -**	$ 30,000
McKnight Foundation	-	206,000
Minnesota State Arts Board	**4,820**	5,232
St. Catherine University	**75,000**	-
Other individual pledges	-	3,174
	$ 79,820	$ 244,406

5. Property and equipment:

Property and equipment as of August 31 consists of:

	2021	2020
Equipment	**$ 73,029**	$ 67,039
Leasehold improvements	**39,032**	39,032
Software	**132,249**	124,761
	244,310	230,832
Less accumulated depreciation and amortization	**(214,638)**	(169,172)
	$ 29,672	$ 61,660

6. Net assets with donor restrictions:

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

	2021	2020
Restricted to purpose:		
McKnight Artist Fellowships for Writers	**$ 238,966**	$ 432,608
Mirrors & Windows Fellowship	**6,500**	3,000
Creative Writing Education	**4,100**	-
Young Writers Program	**-**	4,000
Salaries and Benefits	**277,643**	-
Total restricted to purpose	**527,209**	439,608
Restricted to time	**240,800**	319,000
Endowment Earnings	**1,562,976**	844,879
Net assets with donor restrictions into perpetuity:		
Endowment	**2,394,644**	2,394,619
Other	**150,000**	150,000
Total net assets with donor restriction	**$ 4,875,629**	$ 4,148,106

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, 2021 and 2020, the value of the endowment was 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 investments 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:

	2021		
	Endowment	**Other**	**Total**
Total net assets held in perpetuity, beginning of year	**$ 2,394,619**	**$ 150,000***	**$2,544,619**
Add:			
Surplus, included in:			
Operating net assets	**-**	**-**	**-**
Purpose restricted net assets	**844,878**	**-**	**844,878**
Donor-restricted funds included in investments, beginning of year	**3,239,497**	**150,000**	**3,389,497**
Change in endowment investments:			
Contributions	**25**	**-**	**25**
Investment income	**115,105**	**13**	**115,118**
Net realized and unrealized loss, net of fees	**690,612**	**-**	**690,612**
Fiscal year 2021 draw to support Loft operations	**(87,619)**	**-**	**(87,619)**
Net change	**718,123**	**13**	**718,136**
Endowment investment total at August 31, 2021	**3,957,620**	**150,013**	**4,107,633**
Less:			
Surplus, included in:			
Operating net assets	-	**(13)**	**(13)**
Purpose restricted net assets	**(1,562,976)**	**-**	**(1,562,976)**
Total net assets held in perpetuity, end of year	**$ 2,394,644**	**$ 150,000**	**$2,544,644**

*Amount reinvested in money market account during the year ended August 31, 2021.

7. Net assets held in perpetuity (continued):

	2020		
	Endowment	Other	Total
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	533,884	-	533,884
Donor-restricted funds included in investments, beginning of year	2,928,503	153,595	3,082,098
Change in endowment investments:			
Investment income	100,668	1,560	102,228
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	(116,797)	-	(116,797)
Net change	310,994	(148,440)	162,554
Endowment investment total at August 31, 2020	3,239,497	5,155	3,244,652
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	(844,878)	-	(844,878)
Total net assets held in perpetuity, end of year	$ 2,394,619	$ 150,000	$2,544,619

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:

	2021	2020
Purpose restriction:		
McKnight Artist Fellowships for Writers	$ **193,643**	$ 228,923
Mentor Program	**-**	58,000
Mirrors and Windows Fellowship	**-**	47,000
Equilibrium Spoken Word Series	**-**	4,500
Creative Writing Education	**-**	9,000
Young Writers Program	**4,000**	44,396
Readings	**-**	8,000
Wordplay	**-**	15,500
Total restricted to purpose met	**197,643**	415,319
Time restriction met	**319,000**	292,643
Endowment earnings released	**87,619**	116,797
Total net assets released from restriction	**$ 604,262**	$ 824,759

9. In-kind contributions:

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

	2021	2020
Advertising and promotion	**$ 98,390**	$ 85,000
Artist Fees & Travel	**-**	1,700
Merchandise (for Auction)	**-**	1,592
	$ 98,390	$ 88,292

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, 2021 and 2020, 94% and 79%, respectively, of the grants and contributions receivable balance were from one and three donors, respectively.

For the years ended August 31, 2021 and 2020, 11% and 12%, 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, 2021 and 2020.

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 of $87,505 and $71,238 as of August 31, 2021 and 2020, 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 2025. The office space is leased from an organization for which the Loft appoints two of the eleven board members. Total rent expense was $68,276 and $76,515 for the years ended August 31, 2021 and 2020, respectively.

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

Year ending August 31,	Amount
2022	$ 15,531
2023	16,424
2024	5,098
	$ 31,063

14. Paycheck protection program:

The Organization participated in the Paycheck Protection loan program in both FY20 and FY21. The first loan met the criteria for forgiveness and was accounted for as a grant of $206,600 in the FY20 financial statements. The second PPP loan in the amount of $203,175 covered most salaries from February 2021 through May 2021 and was forgiven on August 18, 2021. The Organization recognizes the forgiven loan amounts as government grant revenue in the years received.

15. Subsequent events:

Programs and program services:

The Organization has received notification from a long-time operating support funder of, most recently, $86,000 per year that they will no longer provide operating support to more than 25 of their longest supported arts organizations including The Loft. They have amended their current grant which was to end in FY23, to include two additional years of operating support at that level. After that, operating support funding will cease.

Leases:

Open Book, the organization that leases space to The Loft, has notified The Loft of a 27% increase in rent beginning in January 2022. In 2021, the Organization’s rent was substantially lower than prior years due to reduced operating expenses with the building’s closure during the COVID-19 pandemic. The increase represents a 2% increase of the 2020 rent, resulting in future monthly payments of approximately $6,592.

Management:

On December 8, 2021, the Organization announced the hiring of a new executive director, Arleta Little, who will step into the role on March 1, 2022. The former executive director left at the end of May 2021 and the Loft’s managing director assumed the role of Interim Executive Director. She will continue in that role until March 2022.