

Textile Center of Minnesota

Financial Statements Together with Independent Auditors' Report

March 31, 2020

TEXTILE CENTER OF MINNESOTA

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	2
Statement of Activities	3-4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Financial Statements	8-19

INDEPENDENT AUDITORS' REPORT

Board of Directors
Textile Center of Minnesota
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Textile Center of Minnesota (a nonprofit organization), which comprise the statement of financial position as of March 31, 2020 and 2019, and the related statement of activities, functional expenses, and cash flows for the year 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.

Auditors' 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 of 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 Textile Center of Minnesota as of March 31, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Roseville, Minnesota
August 24, 2020

Olsen Thielen & Co., Ltd.

TEXTILE CENTER OF MINNESOTA
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2020 AND 2019

ASSETS		
	2020	2019
CURRENT ASSETS:		
Cash	\$ 283,875	\$ 210,911
Receivables	300,033	182,803
Inventory	13,183	10,983
Prepaid Expenses	9,586	22,003
Total Current Assets	606,677	426,700
INVESTMENTS - LONG-TERM	294,178	338,713
PROPERTY AND EQUIPMENT:		
Buildings and Improvements	1,708,812	1,688,679
Land	523,903	523,903
Office Furniture and Equipment	154,232	146,387
Computers, Software, Peripherals	45,809	40,851
Library Collectibles	21,167	21,167
Less Accumulated Depreciation	(1,051,850)	(1,010,480)
Net Property and Equipment	1,402,073	1,410,507
TOTAL ASSETS	\$ 2,302,928	\$ 2,175,920
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 8,400	\$ 8,020
Accounts Payable	29,680	20,671
Accrued Wages and Benefits	39,518	27,153
Other Payables and Accrued Expenses	173	31,317
Deferred Revenue	81,057	75,603
Total Current Liabilities	158,828	162,764
LONG-TERM DEBT, Less Current Portion	300,117	308,517
NET ASSETS:		
Without Donor Restrictions	1,225,329	1,220,927
With Donor Restrictions	618,654	483,712
Total Net Assets	1,843,983	1,704,639
TOTAL LIABILITIES AND NET ASSETS	\$ 2,302,928	\$ 2,175,920

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES YEAR ENDED MARCH 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Support:			
Grants and Donations	\$ 242,775	\$ 460,000	\$ 702,775
Government Support	71,702	-	71,702
Total Support Revenue	<u>314,477</u>	<u>460,000</u>	<u>774,477</u>
Program Revenue:			
Education	483,325	-	483,325
Rental Income	62,454	-	62,454
Memberships	50,187	-	50,187
Event	83,054	-	83,054
Less: Direct Expense	(21,405)	-	(21,405)
Other Income	986	-	986
Total Program Revenue	<u>658,601</u>	<u>-</u>	<u>658,601</u>
Net Assets Released from Restrictions	<u>295,363</u>	<u>(295,363)</u>	<u>-</u>
Total Revenues	<u>1,268,441</u>	<u>164,637</u>	<u>1,433,078</u>
EXPENSES:			
Program Services	1,060,542	-	1,060,542
General and Administrative	107,648	-	107,648
Fundraising and Development	95,982	-	95,982
Total Expenses	<u>1,264,172</u>	<u>-</u>	<u>1,264,172</u>
GENERAL OPERATING, NET	4,269	164,637	168,906
INVESTMENT INCOME (LOSS)	<u>133</u>	<u>(29,695)</u>	<u>(29,562)</u>
CHANGE IN NET ASSETS	4,402	134,942	139,344
NET ASSETS at Beginning of Year	<u>1,220,927</u>	<u>483,712</u>	<u>1,704,639</u>
NET ASSETS at End of Year	<u>\$ 1,225,329</u>	<u>\$ 618,654</u>	<u>\$ 1,843,983</u>

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA
STATEMENT OF ACTIVITIES (Continued)
YEAR ENDED MARCH 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Support:			
Grants and Donations	\$ 294,403	\$ 148,781	\$ 443,184
Government Support	68,927	-	68,927
Total Support Revenue	<u>363,330</u>	<u>148,781</u>	<u>512,111</u>
Program Revenue:			
Education	484,790	-	484,790
Rental Income	50,978	-	50,978
Memberships	47,157	-	47,157
Event	24,100	-	24,100
Less: Direct Expense	(6,148)	-	(6,148)
Other Income	78	-	78
Total Program Revenue	<u>600,955</u>	<u>-</u>	<u>600,955</u>
Net Assets Released from Restrictions	<u>128,175</u>	<u>(128,175)</u>	<u>-</u>
Total Revenues	<u>1,092,460</u>	<u>20,606</u>	<u>1,113,066</u>
EXPENSES:			
Program Services	882,595	-	882,595
General and Administrative	98,237	-	98,237
Fundraising and Development	110,691	-	110,691
Total Expenses	<u>1,091,523</u>	<u>-</u>	<u>1,091,523</u>
GENERAL OPERATING, NET	937	20,606	21,543
INVESTMENT INCOME	<u>494</u>	<u>19,900</u>	<u>20,394</u>
CHANGE IN NET ASSETS	1,431	40,506	41,937
NET ASSETS at Beginning of Year	<u>1,219,496</u>	<u>443,206</u>	<u>1,662,702</u>
NET ASSETS at End of Year	<u>\$ 1,220,927</u>	<u>\$ 483,712</u>	<u>\$ 1,704,639</u>

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2020

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total Expense</u>
Salaries, Taxes and Benefits	\$ 475,947	\$ 60,401	\$ 70,379	\$ 606,727
Program Activities and Supplies	176,455	281	180	176,916
Cost of Goods Sold	134,486	-	-	134,486
Capital Campaign Expenses	56,285	3,012	1,807	61,104
Facilities, Utilities, Maintenance and Cleaning	49,406	2,648	1,571	53,625
Depreciation	45,078	2,398	1,468	48,944
Professional Services	14,912	16,951	7,693	39,556
Tech Support and Website Expense	21,281	5,706	1,115	28,102
Mileage and Transport Expense	17,321	-	2,235	19,556
Marketing and Printing	15,606	289	3,322	19,217
Credit Card, Bank and Filing Fees	15,931	3,066	-	18,997
Insurance	10,160	544	326	11,030
Hospitality	4,869	4,164	1,504	10,537
Postage	9,637	804	926	11,367
Miscellaneous	4,670	4,532	411	9,613
Professional Development, Dues and Subscriptions	5,396	2,020	-	7,416
Office and Other Supplies	3,011	818	589	4,418
Consulting	-	-	2,438	2,438
Parking	91	14	18	123
Total Functional Expense	<u>\$ 1,060,542</u>	<u>\$ 107,648</u>	<u>\$ 95,982</u>	<u>\$ 1,264,172</u>

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES (Continued) YEAR ENDED MARCH 31, 2019

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total Expense</u>
Salaries, Taxes and Benefits	\$ 403,291	\$ 53,898	\$ 47,847	\$ 505,036
Cost of Goods Sold	118,703	-	-	118,703
Capital Campaign Expenses	78,362	11,848	21,619	111,829
Program Activities and Supplies	108,764	32	25	108,821
Facilities, Utilities, Maintenance and Cleaning	42,582	6,484	3,216	52,282
Depreciation	39,877	6,029	3,015	48,921
Professional Services	14,241	12,847	4,257	31,345
Tech Support and Website Expense	14,922	5,644	2,141	22,707
Marketing and Printing	15,505	801	2,341	18,647
Credit Card, Bank and Filing Fees	12,907	2,742	-	15,649
Mileage and Transport Expense	7,457	14	3,754	11,225
Insurance	8,425	1,274	637	10,336
Hospitality	2,056	4,904	1,953	8,913
Postage	6,648	599	895	8,142
Miscellaneous	4,587	901	356	5,844
Consulting	-	-	5,588	5,588
Professional Development, Dues and Subscriptions	2,849	1,908	460	5,217
Office and Other Supplies	1,247	740	118	2,105
Parking	172	26	15	213
Total Functional Expense	<u>\$ 882,595</u>	<u>\$ 110,691</u>	<u>\$ 98,237</u>	<u>\$ 1,091,523</u>

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA
STATEMENT OF CASH FLOWS
YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 139,344	\$ 41,937
Adjustments to Reconcile Change in Net Assets to Net Cash		
Flows From Operating Activities:		
Unrealized Losses (Gains) on Investments	39,148	(5,660)
Realized Gains on Investments	(502)	(7,201)
Depreciation	48,944	48,922
Changes in Assets and Liabilities:		
Receivables	(117,230)	(77,594)
Inventory	(2,200)	433
Prepaid Expenses	12,417	(7,677)
Accounts Payable	9,009	(6,198)
Accrued Wages and Benefits	12,365	(1,226)
Other Payables and Accrued Expenses	(31,144)	28,923
Deferred Revenue	5,454	8,564
Net Cash Flows From Operating Activities	115,605	23,223
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	13,720	12,938
Purchase of Investments	(7,831)	(7,373)
Purchase of Property and Equipment	(40,510)	(7,364)
Net Cash Flows From Investing Activities	(34,621)	(1,799)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principle Payments on Long-Term Debt	(8,020)	(7,724)
Net Cash Flows From Investing Activities	(8,020)	(7,724)
NET CHANGE IN CASH	72,964	13,700
CASH at Beginning of Year	210,911	197,211
CASH at End of Year	\$ 283,875	\$ 210,911

The accompanying notes are an integral part of the financial statements.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Textile Center of Minnesota (the Organization) is a not-for-profit organization dedicated to honoring textile traditions, promoting excellence and innovation, and inspiring widespread participation in fiber art. The Organization is a regionally-based national center for fiber art, and its facility serves as a central place for artists, guilds, enthusiasts, youth and adults to gather, meet, study and participate in fiber art exhibition and education programs. It is the only facility in the Midwest that represents all fiber art forms. Fiber art is broadly defined to include weaving, quilting, knitting, sewing, dyeing, needlework, lace making, basketry, and beading. The Organization receives a majority of its revenue through program services and contributions from individuals and foundations. The Organization's programs advance the development of fiber artists, support a vibrant fiber art community and provide public access to excellent fiber art programs. The Organization's programs are as follows:

Education – The Organization provides fiber art education services to adults and youth at all skill levels. Workshops, classes, seminars, and lectures cover a wide range of fiber art forms and techniques. In-depth learning experiences are provided through the mentor program and fiber artist grant program. The Organization sponsors a national symposia and conferences with presentations by renowned fiber artists. Many education services focus on dye techniques and utilize the Textile Center Ellen Errede Wells Dye Lab. The Pat O'Connor Library houses one of the nation's largest circulating collections of fiber art books, periodicals and media materials, and individuals use this resource for research and inspiration. The library also hosts presentations by authors of recently published fiber art books. The Organization's website, social media and its print and electronic communications keep the textile community informed and connected with information about programs, opportunities and events.

Community Outreach – The Organization delivers outreach services to youth, families and adults and promotes involvement in textiles. Special emphasis is placed on serving individuals with low income, new immigrants and youth and adults living with disabilities. The Organization conducts free fiber art programs across the region in partnership with social service agencies, schools, recreation centers, public libraries, community center and public housing complexes. The Organization also participates in joint ventures with cultural organizations and businesses. Tours of gallery exhibitions and the facility are provided to groups of children and adults.

Exhibition and Shows – The Organization presents exhibitions of high caliber artwork by artists from the region and around the world. These juried, invitational, and member exhibitions showcase both mastery in technique and cutting-edge innovations. Exhibitions are presented in the Joan Mondale Gallery, Community Gallery, Studio Gallery and Library Gallery. The touring exhibitions travel to venues across the country. Exhibitions are free and open to the public. The Textile Center Shop sells fiber art and textiles that are accepted through a jury process as well as fiber art books and supplies.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues, expenses, gains and losses, and net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of Textile Center of Minnesota and related changes are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations which the Board of Directors has discretionary control. Designated amounts represent those net assets that the Board of Directors has set aside for a particular purpose.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through August 24, 2020, the date the financial statements were available to be issued. Except as discussed below in Note 10, there were no subsequent events that required recognition or disclosure in the financial statements.

Receivables

Receivables are stated at net realizable value. The Organization provides for probable uncollectible amounts through charges to earnings and credits to the valuation allowance based on prior experience and management's assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through charges to the valuation allowance and credits to receivable accounts. Changes in the valuation allowance have not been material to the financial statements.

Contributions receivable consists of unconditional promises to give and are recognized as revenue in the period made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using present value of future cash flows. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is valued at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is the estimated selling price in the ordinary course of business. Inventory consists of books, accessories, dye supplies, fibers, etc. that are held for resale and used in the educational courses offered by the Organization.

Property and Equipment

Property and equipment are recorded at original cost. Additions, improvements or major renewals exceeding \$750 are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations. Contributed equipment is recorded at fair market value at date of donation. If the donor stipulates 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.

Depreciation is computed using the straight-line method at rates based on the estimated service or remaining useful lives of the various assets. Estimated service lives of the various assets are as follows:

Furniture and Equipment	3-10 Years
Computer and Software	3-5 Years
Buildings & Improvements	10-39 Years

Library Collectibles

The Organization records its collections at cost. Donated collections are capitalized at their fair value on the acquisition date. Gains or losses on the disposal of collection items are classified on the statement of activities as with or without donor restricted support depending on donor restrictions, if any, placed on the item at the time of acquisition. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic, or historical value that is worth preserving perpetually, and the Organization is protecting and preserving essentially undiminished the service potential of the collection item. No depreciation has been recorded on the Organization's collections.

Investments

Investments in marketable securities are stated at fair value, which is determined by quoted market prices in active markets. Realized and unrealized gains and losses are included in the statement of activities. Realized gains and losses are determined using the specific identification method. Interest and dividend income are reported as income when earned.

Deferred Revenue

Deferred revenue consists of class registrations, rental income, and gift cards received but not yet expended. Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statement of financial position.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets, or if they are designated as support for future periods. When a donor 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. Donor-imposed contributions are reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period.

Government grants and contract revenue are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Deferred revenue consists of contract revenue received but not yet expended. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made. Management believes that any disallowances, if any, would not have a significant effect on the statement of financial position.

Contributed materials are recorded as contributions, when received, at their fair market value when such value can be objectively and accurately determined.

Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash with high quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Organization had a credit risk concentration as a result of depositing \$20,267 of funds in excess of insurance limits in a single bank.

Donated Services

Donated services are recognized for services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would ordinarily be purchased if not provided by donation. Donated services are recorded at fair market value. Contributed services, including promises to give, that do not meet these criteria are not recognized.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expense

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- 1) Salaries and wages, benefits, and payroll taxes are allocated based on the amounts of time spent by employees performing those functions.
- 2) Occupancy, depreciation, and amortization, and interest are allocated on a square foot basis based on the programs and supporting activities occupying the space.
- 3) Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of salaries and wages.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Fundraising costs are expensed as incurred, even though they may result in support received in future years.

Income Taxes

The Organization is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is subject to federal and state income tax only on net unrelated business income.

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities.

The Organization has identified no income tax uncertainties. The Organization files information returns as a tax-exempt Organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses were \$4,289 and \$4,023 for 2020 and 2019.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Under generally accepted accounting principles, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3 - Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

The Organization uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The fair values of the Organization's investments were determined based on inputs as presented in Note 3.

Endowments

The Organization follows the provisions of the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA). This provides guidance on the classification of endowment net assets and enhances disclosure for endowment funds. Under UPMIFA all unappropriated endowment funds are considered restricted net assets.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. On May 20, 2020, the FASB voted to allow certain companies to defer the adoption date of the ASC 606 revenue recognition standard for annual and interim periods beginning after December 15, 2019 with early adoption permitted. Impacted companies are nonpublic entities that have not yet issued their financial statements. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization decided to defer the adoption date of ASC 606 and is currently evaluating this guidance to determine the impact it may have on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. It is to be adopted using the modified retrospective approach. The Organization is currently evaluating this guidance to determine the impact it may have on its financial statements.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RECEIVABLES

The following is a schedule of contributions receivable at March 31, 2020 and 2019:

	2020	2019
Contributions Receivable Within 1 Year	\$ 293,413	\$ 140,078
Other Receivables	6,620	44,375
Less Allowance for Uncollectible Pledges	—	(1,650)
Total Receivables	<u>\$ 300,033</u>	<u>\$ 182,803</u>

NOTE 3 - INVESTMENTS

The Organization holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the statement of financial position.

The Organization's investments consisted of the following at March 31, 2020 and 2019:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	<u>\$ 181,964</u>	<u>\$ 294,178</u>	<u>\$ 187,351</u>	<u>\$ 338,713</u>
Total	<u>\$ 181,964</u>	<u>\$ 294,178</u>	<u>\$ 187,351</u>	<u>\$ 338,713</u>

Return on short-term and long-term investments and cash for the years ended March 31, 2020 and 2019 consisted of the following:

	2020	2019
Interest and Dividend Income	\$ 9,084	\$ 7,533
Unrealized (Loss) Gains on Investments	(39,148)	5,660
Realized Gains on Investments	502	7,201
Total Investment (Loss) Income	<u>\$ (29,562)</u>	<u>\$ 20,394</u>

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS (Continued)

Fair values of investments at March 31, 2020 and 2019 were determined as follows:

<u>Description</u>	<u>Total</u>	<u>Quoted Prices for Identical Assets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
2020:				
Mutual Funds	<u>\$ 294,178</u>	<u>\$ 294,178</u>	<u>\$ -</u>	<u>\$ -</u>
Totals	<u>\$ 294,178</u>	<u>\$ 294,178</u>	<u>\$ -</u>	<u>\$ -</u>
2019:				
Mutual Funds	<u>\$ 338,713</u>	<u>\$ 338,713</u>	<u>\$ -</u>	<u>\$ -</u>
Totals	<u>\$ 338,713</u>	<u>\$ 338,713</u>	<u>\$ -</u>	<u>\$ -</u>

The fair values of the Organization's mutual funds were determined based on Level 1 inputs.

NOTE 4 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization receives significant revenues from grants and donations, government support and education services. Revenues include contributions with donor restrictions that may not be available for expenditure in the near-term but may be expended by the end of the next fiscal year. The Organization manages its liquidity and reserves operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintain sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization has a policy to structure its financial assets to be available for its general expenditures, liabilities, and as other obligations come due. To manage unanticipated liquidity needs, the Organization has committed lines of credit of \$75,000 which it could draw upon.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

The following table reflects the Organization's financial assets as of March 31, 2020 and 2019 that are available to meet general expenditures within the next year.

	<u>2020</u>	<u>2019</u>
Available for General Expenditures:		
Cash	\$ 283,875	\$ 210,911
Receivables	300,033	182,803
Long-Term Investments	<u>294,178</u>	<u>338,713</u>
Total	878,086	732,427
Less Donor Imposed Purpose Restricted Net Assets	<u>618,654</u>	<u>483,712</u>
Amounts Available for General Expenditure Within One Year	<u>\$ 259,432</u>	<u>\$ 248,715</u>

The above table reflects donor-restricted funds as unavailable because it is the Organization's intention to invest those resources for the long-term support of the Organization.

NOTE 5 - LINE OF CREDIT

The Organization has a \$75,000 revolving line of credit that carries a variable interest rate at prime (3.25% at March 31, 2020) plus .5%. The credit line expires February 2, 2021. There were no borrowings on the line of credit at March 31, 2020.

NOTE 6 - LONG-TERM DEBT

Long-term debt is as follows:

	<u>2020</u>	<u>2019</u>
Note payable to Sunrise Banks, N.A. in monthly installments of \$1,791 at a variable interest rate. The note is due January 23, 2028 and is secured by property.	\$ 314,930	\$ 322,950
Less Unamortized Debt Issuance Costs	<u>(6,413)</u>	<u>(6,413)</u>
Total	308,517	316,537
Less Amount Due Within One Year	<u>(8,400)</u>	<u>(8,020)</u>
Total	<u>\$ 300,117</u>	<u>\$ 308,517</u>

Cash payments for interest were \$13,473 in 2020 and \$13,768 in 2019.

The Organization must comply with various loan covenants on its note payable to Sunrise Banks, including a debt service coverage ratio in excess of 1.20. At March 31, 2020, the Organization's debt service coverage ratio was 9.39.

Principal payments required during the next five years are: 2021 - \$8,760; 2022 - \$9,136; 2023 - \$9,496; 2024 - \$9,932; and 2025 - \$10,362.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - ENDOWMENT

The purpose of the endowment fund is to provide funding for the Joan Mondale Gallery. The Organization's endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the prudent expenditure of donor-restricted endowment funds. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Organization. In making a determination to appropriate, an organization shall act in good faith with the care that a prudent person would exercise. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (perpetual endowment) (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual endowments is classified as term endowments until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- (1) The duration and preservation of the fund.
- (2) The purpose of the Organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

The Organization has adopted an investment policy and philosophy that concentrates on maximizing total return within reasonable risk parameters. This is accomplished through a strategic plan that strives to maintain and grow the investment corpus and provide annual earnings to support the Organization's mission. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that preserve the inflation-adjusted value of the fund and maximize total return within reasonable and prudent levels of risk. The Organization targets a diversified asset allocation plan, sets performance benchmarks and has established various asset quality and limitation thresholds.

The Organization considers an endowment fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. There are no funds currently underwater.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - ENDOWMENT (Continued)

UPMIFA permits the prudent expenditure of donor restricted endowment funds. The Organization has approved an appropriation policy of spending approximately 4.5 percent of the average quarterly value of the endowment fund's market value. The amount to be distributed shall be determined by multiplying the approved percentage by the previous five years or 20 quarter rolling average of the market value of the fund assets.

The Endowment Committee annually reviews and recommends to the Board of Directors the amount to be distributed from endowment assets for the next fiscal year.

Changes in endowment net assets for the years ended March 31, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, March 31, 2018	\$ —	\$ 323,585	\$ 323,585
Investment Income			—
Dividend and Interest Income	—	7,037	7,037
Realized Gains	—	7,201	7,201
Unrealized Gains	—	5,662	5,662
Contributions	—	—	—
Appropriation of Endowment			
Assets for Expenditure	—	(12,938)	(12,938)
Endowment Net Assets, March 31, 2019	—	330,547	330,547
Investment Income			—
Dividend and Interest Income	—	8,950	8,950
Realized Gains	—	502	502
Unrealized Loss	—	(39,148)	(39,148)
Contributions	—	—	—
Appropriation of Endowment			
Assets for Expenditure	—	(13,720)	(13,720)
Endowment Net Assets, March 31, 2020	\$ —	\$ 287,131	\$ 287,131

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - NET ASSETS

Net assets with donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Purpose Restrictions:		
Endowment Fund	\$ 287,131	\$ 330,547
Artist Support - McKnight Foundation Grant	285,000	-
Artist Support - Jerome Foundation Grant	4,000	31,000
25th Anniversary Oral History Project	-	9,950
Youth Fiber Art Guild	5,000	4,000
Time Restrictions:		
General Operating Support	-	105,000
Fundraising Initiative	37,523	3,215
Total	<u>\$ 618,654</u>	<u>\$ 483,712</u>

Net assets released from restriction were \$295,363 and \$128,175 in 2020 and 2019. Restricted net assets were released from restriction due to satisfaction of program and time restrictions.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Organization has a deferral-only 403b plan, which covers qualified employees. Contributions can be made during the term of employment. The Organization does not match any employee contributions.

NOTE 10 - SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption from this pandemic may impact their operations and financial statements. In response to the pandemic, the Organization received a PPP (Paycheck Protection Program) loan of \$98,700 in 2020 authorized by the CARES Act.