

Textile Center of Minnesota

Financial Statements Together with Independent Auditors' Report

March 31, 2018

TEXTILE CENTER OF MINNESOTA

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Textile Center of Minnesota
St. Paul, 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, 2018, 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, 2018, 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.

Prior Period Financial Statements

The financial statements of Textile Center of Minnesota as of March 31, 2017, were audited by other auditors whose report dated July 26, 2017, expressed an unmodified opinion on those statements, but they have not performed any auditing procedures since that date.

Roseville, Minnesota
September 10, 2018

Olsen Thielen & Co., Ltd.

TEXTILE CENTER OF MINNESOTA
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2018 AND 2017

ASSETS		
	2018	2017
CURRENT ASSETS:		
Cash	\$ 197,211	\$ 257,870
Receivables	105,209	169,890
Inventory	11,416	8,362
Prepaid Expenses	14,326	10,344
Total Current Assets	328,162	446,466
INVESTMENTS - LONG-TERM	331,417	360,103
PROPERTY AND EQUIPMENT:		
Buildings and Improvements	1,684,986	1,684,986
Land	523,903	106,700
Office Furniture and Equipment	142,716	137,736
Computers, Software, Peripherals	40,851	33,783
Library Collectibles	21,167	21,167
Less Accumulated Depreciation	(961,558)	(910,132)
Net Property and Equipment	1,452,065	1,074,240
 TOTAL ASSETS	 \$ 2,111,644	 \$ 1,880,809
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 7,725	\$ -
Accounts Payable	26,869	18,461
Accrued Wages and Benefits	28,379	28,923
Other Payables and Accrued Expenses	2,394	15,180
Deferred Revenue	67,039	51,371
Total Current Liabilities	132,406	113,935
LONG-TERM DEBT, Less Current Portion	316,536	4,000
NET ASSETS:		
Unrestricted	1,219,496	1,287,786
Temporarily Restricted	260,481	292,363
Permanently Restricted	182,725	182,725
Total Net Assets	1,662,702	1,762,874
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,111,644	 \$ 1,880,809

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

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES YEAR ENDED MARCH 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Support:				
Grants and Donations	\$ 203,495	\$ 98,900	\$ -	\$ 302,395
Government Support	46,462	32,125	-	78,587
Total Support Revenue	<u>249,957</u>	<u>131,025</u>	<u>-</u>	<u>380,982</u>
Program Revenue:				
Education	411,506	-	-	411,506
Rental Income	53,887	-	-	53,887
Memberships	50,870	-	-	50,870
Event	26,603	-	-	26,603
Less: Direct Expense	(5,151)	-	-	(5,151)
Other Income	1,054	-	-	1,054
Total Program Revenue	<u>538,769</u>	<u>-</u>	<u>-</u>	<u>538,769</u>
Net Assets Released From Restrictions	<u>198,076</u>	<u>(198,076)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>986,802</u>	<u>(67,051)</u>	<u>-</u>	<u>919,751</u>
EXPENSES:				
Program Services	877,807	-	-	877,807
General and Administrative	101,970	-	-	101,970
Fundraising and Development	81,113	-	-	81,113
Total Expenses	<u>1,060,890</u>	<u>-</u>	<u>-</u>	<u>1,060,890</u>
GENERAL OPERATING, NET	(74,088)	(67,051)	-	(141,139)
INVESTMENT INCOME	<u>5,798</u>	<u>35,169</u>	<u>-</u>	<u>40,967</u>
CHANGE IN NET ASSETS	(68,290)	(31,882)	-	(100,172)
NET ASSETS at Beginning of Year	<u>1,287,786</u>	<u>292,363</u>	<u>182,725</u>	<u>1,762,874</u>
NET ASSETS at End of Year	<u>\$ 1,219,496</u>	<u>\$ 260,481</u>	<u>\$ 182,725</u>	<u>\$ 1,662,702</u>

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

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES (Continued) YEAR ENDED MARCH 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Support:				
Grants and Donations	\$ 277,276	\$ 122,800	\$ 65	\$ 400,141
Government Support	47,552	8,000	-	55,552
Total Support Revenue	<u>324,828</u>	<u>130,800</u>	<u>65</u>	<u>455,693</u>
Program Revenue:				
Education	400,810	-	-	400,810
Rental Income	48,903	-	-	48,903
Memberships	46,538	-	-	46,538
Event	52,176	-	-	52,176
Less: Direct Expense	(19,665)	-	-	(19,665)
Other Income	1,562	-	-	1,562
Total Program Revenue	<u>530,324</u>	<u>-</u>	<u>-</u>	<u>530,324</u>
Net Assets Released From Restrictions	<u>157,897</u>	<u>(157,897)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>1,013,049</u>	<u>(27,097)</u>	<u>65</u>	<u>986,017</u>
EXPENSES:				
Program Services:	785,565	-	-	785,565
General and Administrative	93,160	-	-	93,160
Fundraising and Development	90,857	-	-	90,857
Total Expenses	<u>969,582</u>	<u>-</u>	<u>-</u>	<u>969,582</u>
GENERAL OPERATING, NET	43,467	(27,097)	65	16,435
INVESTMENT INCOME	<u>6,138</u>	<u>38,133</u>	<u>-</u>	<u>44,271</u>
CHANGE IN NET ASSETS	49,605	11,036	65	60,706
NET ASSETS at Beginning of Year	<u>1,238,181</u>	<u>281,327</u>	<u>182,660</u>	<u>1,702,168</u>
NET ASSETS at End of Year	<u>\$ 1,287,786</u>	<u>\$ 292,363</u>	<u>\$ 182,725</u>	<u>\$ 1,762,874</u>

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

TEXTILE CENTER OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total Expense</u>
Salaries, Taxes and Benefits	\$ 396,417	\$ 44,905	\$ 48,258	\$ 489,580
Cost of Goods Sold	121,459	68	-	121,527
Program Activities and Supplies	92,384	154	61	92,599
Professional Services	61,205	17,842	3,820	82,867
Depreciation	41,913	3,325	6,188	51,426
Facilities, Utilities, Maintenance and Cleaning	39,522	7,139	2,964	49,625
Campaign Expenses	39,071	5,897	2,972	47,940
Tech Support and Website Expense	16,240	4,843	2,351	23,434
Marketing and Printing	15,018	807	1,937	17,762
Credit Card, Bank and Filing Fees	11,620	3,260	-	14,880
Parking	8,294	1,183	1,025	10,502
Insurance	7,903	1,371	598	9,872
Mileage and Transport Expense	8,302	833	-	9,135
Hospitality	3,235	4,474	1,275	8,984
Postage	6,278	576	1,160	8,014
Miscellaneous	3,435	3,255	616	7,306
Consulting	-	-	7,113	7,113
Professional Development, Dues and Subscriptions	3,792	1,525	605	5,922
Office and Other Supplies	1,719	513	170	2,402
Total Functional Expense	<u>\$ 877,807</u>	<u>\$ 101,970</u>	<u>\$ 81,113</u>	<u>\$ 1,060,890</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, 2017

	Program Services	General and Administrative	Fundraising and Development	Total Expense
Salaries, Taxes and Benefits	\$ 386,335	\$ 51,985	\$ 69,520	\$ 507,840
Cost of Goods Sold	123,382	-	-	123,382
Program Activities and Supplies	97,364	140	644	98,148
Facilities, Utilities, Maintenance and Cleaning	48,357	7,446	3,747	59,550
Depreciation	42,187	3,375	6,188	51,750
Professional Services	20,295	18,406	3,600	42,301
Marketing and Printing	17,543	3,527	2,877	23,947
Credit Card, Bank and Filing Fees	11,401	2,941	-	14,342
Postage	9,840	975	2,177	12,992
Tech Support and Website Expense	10,334	1,545	762	12,641
Insurance	6,892	1,042	521	8,455
Mileage and Transport Expense	4,528	62	-	4,590
Professional Development, Dues and Subscriptions	2,906	553	414	3,873
Office and Other Supplies	2,383	651	157	3,191
Payroll Processing Fees	1,818	303	250	2,371
Miscellaneous	-	209	-	209
Total Functional Expense	\$ 785,565	\$ 93,160	\$ 90,857	\$ 969,582

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

TEXTILE CENTER OF MINNESOTA
STATEMENT OF CASH FLOWS
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (100,172)	\$ 60,706
Adjustments to Reconcile Change in Net Assets to Net Cash		
Flows From Operating Activities:		
Unrealized Gains on Investments	(13,302)	(30,563)
Realized Gains on Investment Securities	(17,968)	(4,542)
Depreciation and Amortization	51,426	51,750
Endowment Contributions	–	(65)
In-Kind Investment Donations	(20,512)	(15,537)
Changes in Assets and Liabilities:		
Receivables	64,681	28,287
Inventory	(3,054)	3,299
Prepaid Expenses	(3,982)	7,800
Accounts Payable	8,408	(3,601)
Accrued Wages and Benefits	(544)	577
Other Payables and Accrued Expenses	(12,786)	13,721
Deferred Revenue	15,668	(8,883)
Net Cash Flows From Operating Activities	<u>(32,137)</u>	<u>102,949</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	89,754	81,759
Purchase of Investments	(9,286)	(8,215)
Purchase of Property and Equipment	(429,251)	(1,563)
Net Cash Flows From Investing Activities	<u>(348,783)</u>	<u>71,981</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Long-Term Debt	332,000	–
Principle Payments on Long-Term Debt	(7,739)	–
Forgiven Debt on Loan	(4,000)	(4,000)
Additions to Endowment Fund	–	65
Net Cash Flows From Investing Activities	<u>320,261</u>	<u>(3,935)</u>
NET CHANGE IN CASH	(60,659)	170,995
CASH at Beginning of Year	<u>257,870</u>	<u>86,875</u>
CASH at End of Year	<u>\$ 197,211</u>	<u>\$ 257,870</u>

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:

Unrestricted Net Assets - Resources over which the Board of Directors has discretionary control.

Temporarily Restricted Net Assets - Resources received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Net assets subject to donor imposed restrictions that they be maintained permanently by the Organization. The donors have permitted the Organization to use all or part of the income earned, including capital appreciation, for unrestricted or temporarily restricted purposes. Permanently restricted net assets consist of investments restricted for the endowment fund

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 September 10, 2018, the date the financial statements were available to be issued. Except as discussed in Note 4, 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. Cost is determined using the average cost method. 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 unrestricted or temporarily 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. 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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.

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. Contributed services, including promises to give, that do not meet these criteria are not recognized.

Functional Allocation of Expense

The costs of providing the various program services and supporting activities of the Organization have been summarized on a functional basis in supplementary information. Accordingly, certain costs have been allocated among the program services and supporting activities based on best estimates by management.

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 \$5,301 and \$4,546 for 2018 and 2017.

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.

Reclassifications

Certain amounts in the 2017 financial statements and notes have been reclassified to conform with the 2018 presentation. These reclassifications had no effect on net assets for either period.

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. This ASU is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization 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 annual and interim periods beginning after December 15, 2019 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 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which provides guidance for presentation of financial statements of not-for-profit entities. The new guidance requires a number of changes in the financial statement presentation including presenting two classes of net assets, underwater endowments, investment return, enhanced disclosures on board designations and management of liquid resources for cash flows, and present expenses by their natural and functional classification. The ASU will be effective for financial statements for fiscal years beginning after December 15, 2017 with early adoption permitted. The amendments in this update should be applied on a retrospective basis. However, if presenting comparative financial statements, the Organization has the option to omit the following information for any periods presented before the period of adoption: analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements.

NOTE 2 - RECEIVABLES

The following is a schedule of contributions receivable at March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Within 1 Year	\$ 100,498	\$ 136,032
In 1 to 5 Years	<u>—</u>	<u>34,621</u>
Total Contributions Receivable	100,498	170,653
Other Receivables	6,361	4,437
Less Allowance for Uncollectible Pledges	(1,650)	(4,500)
Less Discount for Time Value of Money	<u>—</u>	<u>(700)</u>
Total Receivables	<u>\$ 105,209</u>	<u>\$ 169,890</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.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS (Continued)

The Organization's investments consisted of the following at March 31, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	\$ -	\$ -	\$ 11,000	\$ 11,003
Mutual Funds	<u>185,715</u>	<u>331,417</u>	<u>216,703</u>	<u>349,100</u>
Total	<u>\$ 185,715</u>	<u>\$ 331,417</u>	<u>\$ 227,703</u>	<u>\$ 360,103</u>

Return on short-term and long-term investments and cash for the years ended March 31, 2018 and 2017 consisted of the following:

	2018	2017
Interest and Dividend Income	<u>\$ 9,697</u>	\$ 9,166
Unrealized Gains on Investments	<u>13,302</u>	30,563
Realized Gains on Investments	<u>17,968</u>	<u>4,542</u>
Total Investment Income	<u>\$ 40,967</u>	<u>\$ 44,271</u>

Fair values of investments at March 31, 2018 and 2017 were determined as follows:

Description	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2018:				
Mutual Funds	<u>\$ 331,417</u>	<u>\$ 331,417</u>	<u>\$ -</u>	<u>\$ -</u>
Totals	<u>\$ 331,417</u>	<u>\$ 331,417</u>	<u>\$ -</u>	<u>\$ -</u>
 2017:				
Certificates of Deposit	\$ 11,003	\$ -	\$ 11,003	\$ -
Mutual Funds	<u>349,100</u>	<u>349,100</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 360,103</u>	<u>\$ 349,100</u>	<u>\$ 11,003</u>	<u>\$ -</u>

The fair values of the Organization's certificates of deposit, stocks and exchange traded funds and its mutual funds were determined based on Level 1 inputs.

During the year ended March 31, 2018, the Organization sold certificates of deposit and mutual funds. The proceeds for which were \$89,754.

NOTE 4 - LINE OF CREDIT

The Organization has a \$75,000 revolving line of credit that carries a variable interest rate at prime (4.75% at March 31, 2018) plus .5%. The credit line expired August 2, 2018. There were no borrowings on the line of credit at March 31, 2018. Subsequent to year end, the Organization extended the maturity date on their line of credit to November 2, 2018.

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NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT

Long-term debt is as follows:

	2018	2017
Zero interest mortgage note payable to the Housing and Redevelopment Authority of the City of St. Paul, Minnesota, dated September 4, 2012.	\$ -	\$ 4,000
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.	330,674	-
Less Unamortized Debt Issuance Costs	(6,413)	-
Total	324,261	4,000
Less Amount Due Within One Year	(7,725)	-
Total	<u>\$ 316,536</u>	<u>\$ 4,000</u>

Cash payments for interest were \$2,257 in 2018 and \$0 in 2017.

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, 2018, the Organization's debt service coverage ratio was (12.98).

Principal payments required during the next five years are: 2019 - \$8,020; 2020 - \$8,400; 2021 - \$8,760; 2022 - \$9,136; and 2023 - \$9,496.

NOTE 6 - 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted or unrestricted net assets 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.

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NOTES TO FINANCIAL STATEMENTS

NOTE 6 - ENDOWMENT (Continued)

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.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level of the original value of gifts donated plus subsequent gifts or other requirements that the Organization retain a fund of perpetual duration. In accordance with generally accepted accounting policies, market value deficiencies of this nature are reported as unrestricted net assets. There were no deficiencies resulting from unfavorable market fluctuations that occurred in fiscal year 2018.

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, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, March 31, 2016	\$ —	\$ 90,631	\$ 182,660	\$ 273,291
Investment Income:				—
Dividend and Interest Income	—	10,914	—	10,914
Realized Gains	—	4,542	—	4,542
Unrealized Gains	—	22,677	—	22,677
Contributions	—	—	65	65
Appropriation of Endowment				
Assets for Expenditure	—	(11,222)	—	(11,222)
Endowment Net Assets, March 31, 2017	—	117,542	182,725	300,267
Investment Income				—
Dividend and Interest Income	—	6,573	—	6,573
Realized Gains	—	5,769	—	5,769
Unrealized Gains	—	22,827	—	22,827
Contributions	—	—	—	—
Appropriation of Endowment				
Assets for Expenditure	—	(11,851)	—	(11,851)
Endowment Net Assets, March 31, 2018	\$ —	\$ 140,860	\$ 182,725	\$ 323,585

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Endowment Fund	\$ 140,860	\$ 117,542
Artist Support - Jerome Foundation Grant	54,000	3,000
Youth Fiber Art Guild	5,000	-
Lifetime Arts	5,000	-
Time Restricted - Fundraising Initiative	<u>55,621</u>	<u>171,821</u>
Total	<u>\$ 260,481</u>	<u>\$ 292,363</u>

Temporarily restricted net assets released from restriction were \$198,076 and \$157,897 in 2018 and 2017. Temporarily restricted net assets were released from restriction due to satisfaction of program restrictions.

Permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Endowment Fund	<u>\$ 182,725</u>	<u>\$ 182,725</u>
Total	<u>\$ 182,725</u>	<u>\$ 182,725</u>

NOTE 8 - 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.