

Textile Center of Minnesota

Financial Statements Together with Independent Auditors' Report

March 31, 2023

TEXTILE CENTER OF MINNESOTA

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Textile Center of Minnesota
Minneapolis, Minnesota

Opinion

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Textile Center of Minnesota and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Textile Center of Minnesota's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Textile Center of Minnesota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Textile Center of Minnesota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Roseville, Minnesota
August 24, 2023

TEXTILE CENTER OF MINNESOTA
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2023 AND 2022

ASSETS		
	2023	2022
CURRENT ASSETS:		
Cash	\$ 394,721	\$ 461,622
Accounts Receivable	10,843	4,441
Grants Receivable	199,148	93,414
Inventory	14,560	13,365
Prepaid Expenses	5,281	5,455
Total Current Assets	624,553	578,297
NONCURRENT ASSETS		
Investment Securities	381,133	439,590
Grants Receivable	128,000	-
Other Asset	12,909	-
Total Noncurrent Assets	522,042	439,590
PROPERTY AND EQUIPMENT:		
Buildings and Improvements	1,745,804	1,736,828
Land	523,903	523,903
Office Furniture and Equipment	163,454	158,532
Computers, Software, Peripherals	52,632	46,685
Library Collectibles	21,167	21,167
Less Accumulated Depreciation	(1,209,037)	(1,155,944)
Net Property and Equipment	1,297,923	1,331,171
TOTAL ASSETS	\$ 2,444,518	\$ 2,349,058
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 9,496	\$ 9,136
Accounts Payable	18,602	17,233
Accrued Wages and Benefits	50,195	40,096
Other Accrued Liabilities	4,098	-
Deferred Revenue	47,270	29,369
Total Current Liabilities	129,661	95,834
LONG-TERM DEBT, Less Current Portion	272,794	282,221
NET ASSETS:		
Without Donor Restrictions	1,257,370	1,387,395
With Donor Restrictions	784,693	583,608
Total Net Assets	2,042,063	1,971,003
TOTAL LIABILITIES AND NET ASSETS	\$ 2,444,518	\$ 2,349,058

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

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES YEAR ENDED MARCH 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Support:			
Grants and Donations	\$ 267,346	\$ 474,000	\$ 741,346
Contributions - In-Kind	65,391	-	65,391
Government Support	73,479	25,000	98,479
Total Support Revenue	<u>406,216</u>	<u>499,000</u>	<u>905,216</u>
Program Revenue:			
Education	244,795	-	244,795
Rental Income	39,209	-	39,209
Memberships	39,448	-	39,448
Event:	42,465	-	42,465
Less: Event Direct Expense	(36,238)	-	(36,238)
Other Income	606	-	606
Total Program Revenue	<u>330,285</u>	<u>-</u>	<u>330,285</u>
Net Assets Released from Restrictions	<u>261,326</u>	<u>(261,326)</u>	<u>-</u>
Total Revenues	<u>997,827</u>	<u>237,674</u>	<u>1,235,501</u>
EXPENSES:			
Program Services	880,988	-	880,988
General and Administrative	185,448	-	185,448
Fundraising and Development	61,643	-	61,643
Total Expenses	<u>1,128,079</u>	<u>-</u>	<u>1,128,079</u>
GENERAL OPERATING, NET	(130,252)	237,674	107,422
INVESTMENT INCOME (LOSS)	<u>227</u>	<u>(36,589)</u>	<u>(36,362)</u>
CHANGE IN NET ASSETS	(130,025)	201,085	71,060
NET ASSETS at Beginning of Year	<u>1,387,395</u>	<u>583,608</u>	<u>1,971,003</u>
NET ASSETS at End of Year	<u>\$ 1,257,370</u>	<u>\$ 784,693</u>	<u>\$ 2,042,063</u>

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

TEXTILE CENTER OF MINNESOTA

STATEMENT OF ACTIVITIES (Continued) YEAR ENDED MARCH 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Support:			
Grants and Donations	\$ 338,240	\$ 115,000	\$ 453,240
Contributions - In-Kind	31,726	-	31,726
Government Support	77,484	25,000	102,484
Total Support Revenue	<u>447,450</u>	<u>140,000</u>	<u>587,450</u>
Program Revenue:			
Education	213,605	-	213,605
Rental Income	49,246	-	49,246
Memberships	41,620	-	41,620
Event:	32,248	-	32,248
Less: Event Direct Expense	(4,298)	-	(4,298)
Other Income	936	-	936
Total Program Revenue	<u>333,357</u>	<u>-</u>	<u>333,357</u>
Net Assets Released from Restrictions	<u>287,024</u>	<u>(287,024)</u>	<u>-</u>
Total Revenues	<u>1,067,831</u>	<u>(147,024)</u>	<u>920,807</u>
EXPENSES:			
Program Services	893,619	-	893,619
General and Administrative	119,656	-	119,656
Fundraising and Development	60,391	-	60,391
Total Expenses	<u>1,073,666</u>	<u>-</u>	<u>1,073,666</u>
GENERAL OPERATING, NET	<u>(5,835)</u>	<u>(147,024)</u>	<u>(152,859)</u>
OTHER INCOME:			
Gain on Forgiveness of Debt	208,600	-	208,600
Investment Income	998	30,167	31,165
Total Other Income	<u>209,598</u>	<u>30,167</u>	<u>239,765</u>
CHANGE IN NET ASSETS	203,763	(116,857)	86,906
NET ASSETS at Beginning of Year	<u>1,183,632</u>	<u>700,465</u>	<u>1,884,097</u>
NET ASSETS at End of Year	<u>\$ 1,387,395</u>	<u>\$ 583,608</u>	<u>\$ 1,971,003</u>

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

TEXTILE CENTER OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MARCH 31, 2023

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total Expense</u>
Salaries, Taxes and Benefits	\$ 480,667	\$ 87,737	\$ 56,081	\$ 624,485
Program Activities and Supplies	107,141	350	-	107,491
Cost of Goods Sold	77,808	51	-	77,859
Professional Services	31,429	45,605	316	77,350
Facilities, Utilities, Maintenance and Cleaning	58,082	10,709	1,783	70,574
Depreciation	48,899	2,601	1,593	53,093
Tech Support and Website Expense	14,559	17,249	579	32,387
Insurance	16,721	895	537	18,153
Credit Card, Bank and Filing Fees	6,288	7,927	-	14,215
Capital Campaign Expenses	11,843	630	386	12,859
Mileage and Transport Expense	9,149	1,844	-	10,993
Marketing and Printing	4,576	4,717	61	9,354
Postage and Shipping	6,728	411	146	7,285
Professional Development, Dues and Subscriptions	3,371	1,780	40	5,191
Hospitality	1,190	1,595	-	2,785
Miscellaneous	1,669	330	50	2,049
Office and Other Supplies	868	1,017	71	1,956
Total Functional Expense	<u>\$ 880,988</u>	<u>\$ 185,448</u>	<u>\$ 61,643</u>	<u>\$ 1,128,079</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, 2022

	Program Services	General and Administrative	Fundraising and Development	Total Expense
Salaries, Taxes and Benefits	\$ 473,506	\$ 71,289	\$ 48,963	\$ 593,758
Program Activities and Supplies	104,739	300	—	105,039
Cost of Goods Sold	78,299	—	—	78,299
Professional Services	42,206	28,288	758	71,252
Facilities, Utilities, Maintenance and Cleaning	55,558	2,493	1,672	59,723
Depreciation	47,105	2,506	1,534	51,145
Tech Support and Website Expense	21,919	6,444	806	29,169
Marketing and Printing	17,664	903	1,775	20,342
Insurance	16,725	880	528	18,133
Capital Campaign Expenses	11,727	624	382	12,733
Credit Card, Bank and Filing Fees	9,479	1,481	—	10,960
Postage and Shipping	5,247	584	448	6,279
Professional Development, Dues and Subscriptions	2,736	1,654	—	4,390
Miscellaneous	2,928	109	65	3,102
Consulting	—	—	2,618	2,618
Hospitality	448	1,817	—	2,265
Mileage and Transport Expense	1,523	—	714	2,237
Office and Other Supplies	1,810	284	128	2,222
Total Functional Expense	<u>\$ 893,619</u>	<u>\$ 119,656</u>	<u>\$ 60,391</u>	<u>\$ 1,073,666</u>

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

TEXTILE CENTER OF MINNESOTA
STATEMENT OF CASH FLOWS
YEARS ENDED MARCH 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 71,060	\$ 86,906
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:		
Gain on Forgiveness of Debt	–	(208,600)
Unrealized Loss (Gains) on Investments	44,535	(19,119)
Realized Gains on Investments	(870)	(2,205)
Depreciation	53,093	51,145
Changes in Assets and Liabilities:		
Accounts Receivable	(6,402)	412
Grants Receivable	(233,734)	95,024
Inventory	(1,195)	(114)
Prepaid Expenses	174	(205)
Other Asset	(12,909)	–
Accounts Payable	1,369	1,008
Accrued Wages and Benefits	10,099	3,629
Other Payables and Accrued Expenses	4,098	–
Deferred Revenue	17,901	(8,512)
Net Cash Flows From Operating Activities	<u>(52,781)</u>	<u>(631)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	22,436	21,951
Purchase of Investments	(7,644)	(12,150)
Purchase of Property and Equipment	(19,845)	(2,487)
Net Cash Flows From Investing Activities	<u>(5,053)</u>	<u>7,314</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principle Payments on Long-Term Debt	(9,067)	(8,760)
Net Cash Flows From Investing Activities	<u>(9,067)</u>	<u>(8,760)</u>
NET CHANGE IN CASH	(66,901)	(2,077)
CASH at Beginning of Year	<u>461,622</u>	<u>463,699</u>
CASH at End of Year	<u>\$ 394,721</u>	<u>\$ 461,622</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

Textile Center of Minnesota (the Organization) is a not-for-profit organization dedicated to honoring textile traditions, promoting excellence and innovation, nurturing appreciation 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. The Organization sponsors 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 collection 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 engagement with 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 centers 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, the Mary Giles Gallery, Community Gallery, and Library Gallery. Exhibitions are free and open to the public. Textile Center Artisan Shop sells fiber art and textiles on commission that are accepted through a jury process from regional artists 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, 2023, the date the financial statements were available to be issued.

Accounts Receivable

Receivables are reported at net realizable value. The Organization monitors outstanding balances and periodically writes off balances that are determined to be uncollectible. The Organization has concluded that losses on balances outstanding at year end will be immaterial.

Grants Receivable

Grants 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

The significant sources of revenue and support for the Organization are discussed below.

Contribution and Grant Revenue

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.

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

Government Grants

Government grants are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant, are made. Expenditures under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these grants, 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.

Education Revenue

The Organization offers over 150 classes, lectures, seminars and workshops to adults and youth at all skill levels. Registration fees for these educational programs are billed to the participant at the time of registration. The revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing the registrant access to the educational program. Revenue is recognized at the point in time the educational program is held and the Organization's performance obligation to hold the educational program is completed. Registration for the Organization's programs open months before they programs are scheduled to be held. Cash receipts for registrations collected in advance of the program are deferred as contract liabilities until earned when the program is held at which point the revenue is recognized.

As a practical expedient, the Organization groups similar contracts or similar performance obligations together into portfolios of contracts if doing so does not result in a significant difference from applying this accounting standard to the individual contracts.

TEXTILE CENTER OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition (Continued)

The Organization's revenues disaggregated by the timing of such revenue recognized during the years ended March 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Point in Time	\$ 251,628	\$ 242,491
Over Time	39,448	41,620
Revenue Not Subject to ASC 606	<u>944,425</u>	<u>636,696</u>
Ending Balance	<u>\$ 1,235,501</u>	<u>\$ 920,807</u>

Contract liabilities include deferred revenues related to advanced payments for registrations to the Organization's educational courses and workshops. These deposits are deferred until the performance obligations are completed.

The Organization's receivables and contract liabilities from contracts with customers are as follows:

	<u>2023</u>	<u>2022</u>
Accounts Receivable - Beginning	\$ 4,441	\$ 4,853
Accounts Receivable - Ending	10,843	4,441
Contract Liabilities - Beginning	\$ 29,369	\$ 37,881
Contract Liabilities - Ending	47,270	29,369

There are no significant contract assets recognized on the financial statements under the standard.

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 \$141,342 of funds in excess of insurance limits in a single bank.

Donated Assets

In 2023, the Organization implemented Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the Organization.

The Organization receives items to be sold at its annual garage sale, and it is the Organization's policy that contributed garage sale items are valued at the gross selling price received. The Organization received contributions of nonfinancial assets of \$65,391 and \$31,726 for 2023 and 2022.

All donated assets were utilized by the Organization's programs services. There were no donor-imposed restrictions associated with the donated assets.

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.

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.

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NOTES TO FINANCIAL STATEMENTS

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

Fair Value Measurements (Continued)

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 2.

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 2022 financial statements have been reclassified to conform with the 2023 presentation. These reclassifications had no effect on net assets for either period.

NOTE 2 - 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, 2023 and 2022:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	<u>\$ 149,258</u>	<u>\$ 381,133</u>	\$ 163,180	<u>\$ 439,590</u>
Total	<u>\$ 149,258</u>	<u>\$ 381,133</u>	<u>\$ 163,180</u>	<u>\$ 439,590</u>

Return on short-term and long-term investments and cash for the years ended March 31, 2023 and 2022 consisted of the following:

	2023	2022
Interest and Dividend Income	\$ 7,303	\$ 9,841
Unrealized Gains (Loss) on Investments	(44,535)	19,119
Realized Gains on Investments	<u>870</u>	<u>2,205</u>
Total Investment Income (Loss)	<u>\$ (36,362)</u>	<u>\$ 31,165</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 2- INVESTMENTS (Continued)

Fair values of investments at March 31, 2023 and 2022 were determined as follows:

Description	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2023				
Mutual Funds	\$ 381,133	\$ 381,133	\$ -	\$ -
Totals	<u>\$ 381,133</u>	<u>\$ 381,133</u>	<u>\$ -</u>	<u>\$ -</u>
2022				
Mutual Funds	\$ 439,590	\$ 439,590	\$ -	\$ -
Totals	<u>\$ 439,590</u>	<u>\$ 439,590</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 3 - 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 \$125,000 which it could draw upon.

The following table reflects the Organization's financial assets as of March 31, 2023 and 2022, that are available to meet general expenditures within the next year.

	<u>2023</u>	<u>2022</u>
Available for General Expenditures:		
Cash	\$ 394,721	\$ 461,622
Accounts Receivable	10,843	4,441
Grants Receivable	327,148	93,414
Long-Term Investments	<u>381,133</u>	<u>439,590</u>
Total	1,113,845	999,067
Less Donor Imposed Purpose Restricted Net Assets	<u>754,693</u>	<u>533,608</u>
Amounts Available for General Expenditure Within One Year	<u>\$ 359,152</u>	<u>\$ 465,459</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.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LINE OF CREDIT

The Organization has a \$125,000 revolving line of credit that carries a variable interest rate at prime (8.0% at March 31, 2023) plus .5%. The credit line expires August 2, 2024. There were no borrowings on the line of credit at March 31, 2023.

NOTE 5 - LONG-TERM DEBT

Long-term debt is as follows:

	<u>2023</u>	<u>2022</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.	\$ 288,703	\$ 297,770
Less Unamortized Debt Issuance Costs	<u>(6,413)</u>	<u>(6,413)</u>
Total	282,290	291,357
Less Amount Due Within One Year	<u>(9,496)</u>	<u>(9,136)</u>
Total	<u>\$ 272,794</u>	<u>\$ 282,221</u>

Cash payments for interest were \$12,859 in 2023 and \$12,732 in 2022.

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, 2023, the Organization's debt service coverage ratio was 6.25.

Principal payments required during the next five years are: 2024 - \$9,496; 2025 - \$9,935; 2026 - \$10,362; 2027 - \$10,806; and 2028 - \$11,242.

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Part of CARES was the Paycheck Protection Program (PPP) which allowed for Organizations to apply for a potentially forgivable loan if the proceeds were used for the specified purposes. In April 2020, the Organization received a PPP loan for \$98,700 and used it for the designated purposes. In April 2021, the Organization received a forgiveness letter from the SBA for \$98,700. The loan forgiveness was recorded as a gain on forgiveness of debt in the Statement of Activities in the prior period.

In December 2020, The Consolidated Appropriations Act (CAA) was signed into law, which amended and enhanced some terms of the Paycheck Protection Program (PPP). Eligibility requirements were expanded to include more types of entities as well as providing existing PPP loan borrowers an opportunity to apply for a second PPP loan if they met the stated eligibility requirements. In February 2021, the Organization received a second PPP loan for \$109,900 and used it for the designated purposes. In July 2021, the Organization received a forgiveness letter from the SBA for \$109,900. The loan forgiveness was recorded as a gain on forgiveness of debt in the Statement of Activities in the prior period.

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NOTES TO FINANCIAL STATEMENTS

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 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.

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NOTES TO FINANCIAL STATEMENTS

NOTE 6 - 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, 2023 and 2022, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, March 31, 2021	\$ —	\$ 417,965	\$ 417,965
Investment Income			
Dividend and Interest Income	—	8,843	8,843
Realized Gains	—	2,205	2,205
Unrealized Gain	—	19,119	19,119
Contributions	—	—	—
Appropriation of Endowment			
Assets for Expenditure	—	(19,524)	(19,524)
Endowment Net Assets, March 31, 2022	—	428,608	428,608
Investment Income (Loss)			
Dividend and Interest Income	—	6,961	6,961
Unrealized Loss	—	(43,550)	(43,550)
Contributions	—	—	—
Appropriation of Endowment			
Assets for Expenditure	—	(21,326)	(21,326)
Endowment Net Assets, March 31, 2023	\$ —	\$ 370,693	\$ 370,693

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NET ASSETS

Net assets with donor restrictions consist of the following:

	<u>2023</u>	<u>2022</u>
Purpose Restrictions:		
Endowment Fund	\$ 370,693	\$ 428,608
Artist Support - McKnight Foundation Grant	309,000	75,000
Capital Campaign	45,000	-
Exhibition - MSAB	25,000	25,000
Youth Fiber Art Guild	5,000	5,000
Time Restrictions:		
General Operating Support	<u>30,000</u>	<u>50,000</u>
Total	<u>\$ 784,693</u>	<u>\$ 583,608</u>

Net assets released from restriction were \$261,326 and \$287,024 in March 31, 2023 and 2022. Restricted net assets were released from restriction due to satisfaction of program and time restrictions.

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.