

*Financial statements of:*

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

Years ended  
August 31, 2010 and 2009

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## INDEPENDENT AUDITOR'S REPORT

Schechter Dokken Kanter  
Andrews & Selcer Ltd

Suite 1600

Board of Directors  
The Loft, Inc. d/b/a The Loft Literary Center  
Minneapolis, Minnesota

100 Washington Avenue South

We have audited the accompanying statements of financial position of The Loft, Inc. d/b/a The Loft Literary Center as of August 31, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Minneapolis, MN

55401-2192

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Loft, Inc. d/b/a The Loft Literary Center as of August 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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*Schechter Dokken Kanter  
Andrews & Selcer Ltd.*

December 17, 2010

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

STATEMENTS OF FINANCIAL POSITION  
AUGUST 31

	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 684,196	\$ 684,085
Accounts receivable, considered collectible	32,189	8,277
Grants and contributions receivable	479,663	414,395
Prepaid expenses	<u>69,474</u>	<u>22,632</u>
Total current assets	<u>1,265,522</u>	<u>1,129,389</u>
Property and equipment, net	<u>173,804</u>	<u>193,612</u>
Other assets:		
Investments	2,273,923	2,135,088
Grants and contributions receivable, net of current portion	<u>58,570</u>	<u>24,745</u>
	<u>2,332,493</u>	<u>2,159,833</u>
Total assets	<u>\$ 3,771,819</u>	<u>\$ 3,482,834</u>
<b>Liabilities and net assets:</b>		
Current liabilities:		
Accounts payable	\$ 38,949	\$ 31,137
Accrued expenses	57,908	36,764
Awards payable	79,000	88,280
Deferred revenue	<u>175,552</u>	<u>98,209</u>
Total current liabilities	<u>351,409</u>	<u>254,390</u>
Net assets:		
Unrestricted	188,831	185,022
Temporarily restricted	805,564	712,798
Permanently restricted	<u>2,426,015</u>	<u>2,330,624</u>
Total net assets	<u>3,420,410</u>	<u>3,228,444</u>
Total liabilities and net assets	<u>\$ 3,771,819</u>	<u>\$ 3,482,834</u>

See notes to financial statements.

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

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues:				
Tuitons	\$ 604,691			\$ 604,691
Rental income	17,519			17,519
Subscription, advertising and admissions	5,054			5,054
Investment income	14,452			14,452
Other	<u>43,498</u>			<u>43,498</u>
Total revenues	<u>685,214</u>			<u>685,214</u>
Support:				
Grants:				
Foundation	35,022	\$ 590,000		625,022
Government	62,839	108,775		171,614
Corporation	30,750	102,500		133,250
Individuals	258,384	14,765	\$ 95,391	368,540
In-kind contributions	<u>12,478</u>			<u>12,478</u>
Total support	399,473	816,040	95,391	1,310,904
Release from restrictions	749,083	(749,083)		
Endowment earnings used in operations in support of mission	<u>82,012</u>	<u>(82,012)</u>		
Total revenues and support	<u>1,915,782</u>	<u>(15,055)</u>	<u>95,391</u>	<u>1,996,118</u>
Expenses:				
Program services:				
Creative writing education	904,613			904,613
Mentorships, awards and events	449,950			449,950
Writing community and writers' services	301,763			301,763
Support services:				
Management and general	101,152			101,152
Fundraising	<u>154,495</u>			<u>154,495</u>
Total expenses	<u>1,911,973</u>			<u>1,911,973</u>
Change in net assets before endowment activity	3,809	(15,055)	95,391	84,145
Net investment gain (loss) on endowment		<u>107,821</u>		<u>107,821</u>
Change in net assets	3,809	92,766	95,391	191,966
Net assets, beginning	<u>185,022</u>	<u>712,798</u>	<u>2,330,624</u>	<u>3,228,444</u>
Net assets, ending	<u>\$ 188,831</u>	<u>\$ 805,564</u>	<u>\$ 2,426,015</u>	<u>\$ 3,420,410</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES  
YEARS ENDED AUGUST 31

2009			
Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 649,974			\$ 649,974
24,845			24,845
14,529			14,529
8,263			8,263
<u>32,772</u>			<u>32,772</u>
<u>730,383</u>			<u>730,383</u>
45,961	\$ 457,000		502,961
	140,717		140,717
36,000	70,000		106,000
266,702	2,585	\$ 25,398	294,685
<u>9,504</u>			<u>9,504</u>
358,167	670,302	25,398	1,053,867
860,579	(860,579)		
<u>82,641</u>	<u>(82,641)</u>		
<u>2,031,770</u>	<u>(272,918)</u>	<u>25,398</u>	<u>1,784,250</u>
915,232			915,232
496,002			496,002
138,082			138,082
228,338			228,338
<u>250,574</u>			<u>250,574</u>
<u>2,028,228</u>			<u>2,028,228</u>
3,542	(272,918)	25,398	(243,978)
	<u>(170,121)</u>		<u>(170,121)</u>
3,542	(443,039)	25,398	(414,099)
<u>181,480</u>	<u>1,155,837</u>	<u>2,305,226</u>	<u>3,642,543</u>
<u>\$ 185,022</u>	<u>\$ 712,798</u>	<u>\$ 2,330,624</u>	<u>\$ 3,228,444</u>

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

STATEMENTS OF CASH FLOWS  
 YEARS ENDED AUGUST 31

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets:	\$ 191,966	\$ (414,099)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation	39,147	32,015
Net unrealized and realized (gain) loss on investments	(119,863)	165,937
Contribution of common stock		(15,356)
(Increase) decrease in current assets:		
Accounts receivable	(23,912)	1,363
Grants and contributions receivable	(35,652)	185,985
Prepaid expenses	(46,842)	(1,364)
Increase (decrease) in current liabilities:		
Accounts payable	7,812	(36)
Accrued expenses	21,144	22,806
Awards payable	(9,280)	22,280
Deferred revenue	77,343	(4,138)
Permanently restricted contributions	<u>(95,391)</u>	<u>(25,398)</u>
Net cash provided by (used in) operating activities	<u>6,472</u>	<u>(30,005)</u>
Cash flows from investing activities:		
Purchase of investments	(509,121)	(516,787)
Proceeds from sale of investments	490,149	579,772
Purchase of property and equipment	<u>(19,339)</u>	<u>(85,815)</u>
Net cash used in investing activities	<u>(38,311)</u>	<u>(22,830)</u>
Cash flows provided by financing activities, receipts of permanently restricted contributions	<u>31,950</u>	<u>18,078</u>
Net decrease in cash	111	(34,757)
Cash and cash equivalents, beginning	<u>684,085</u>	<u>718,842</u>
Cash and cash equivalents, ending	<u>\$ 684,196</u>	<u>\$ 684,085</u>

See notes to financial statements.

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

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	<u>Creative writing education</u>	<u>Mentorships, awards and events</u>	<u>Writing community and writers' services</u>	<u>Total program services</u>
Salaries	\$ 280,416	\$ 133,528	\$ 165,340	\$ 579,284
Payroll taxes and benefits	<u>61,311</u>	<u>29,195</u>	<u>36,151</u>	<u>126,657</u>
Total salaries and related expense	<u>341,727</u>	<u>162,723</u>	<u>201,491</u>	<u>705,941</u>
Honoraria and fees	338,987	90,702	16,135	445,824
Travel and per diem	1,131	15,865	6,439	23,435
Awards		125,000		125,000
Receptions	7,112	8,302	9,136	24,550
Dues, publications and memberships	1,466	823	1,366	3,655
Printing	48,981	3,450	3,728	56,159
Publicity	38,618	4,836	3,999	47,453
Postage	14,626	1,661	2,813	19,100
Office supplies	2,755	1,740	1,616	6,111
Professional services	24,529	9,677	13,404	47,610
Occupancy	39,977	10,794	18,266	69,037
Equipment maintenance and repair	1,271	649	724	2,644
Telephone	819	864	1,116	2,799
Board and staff training	146	506	1,769	2,421
Insurance	2,176	1,111	1,239	4,526
Disability services	125	200		325
Miscellaneous	<u>24,961</u>	<u>3,279</u>	<u>9,862</u>	<u>38,102</u>
Total expense before depreciation and amortization	889,407	442,182	293,103	1,624,692
Depreciation and amortization	<u>15,206</u>	<u>7,768</u>	<u>8,660</u>	<u>31,634</u>
	<u>\$ 904,613</u>	<u>\$ 449,950</u>	<u>\$ 301,763</u>	<u>\$ 1,656,326</u>

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES  
YEAR ENDED AUGUST 31, 2010

<u>Management and general</u>	<u>Fundraising</u>	<u>Total support services</u>	<u>Total all services</u>
\$ 74,122	\$ 100,432	\$ 174,554	\$ 753,838
<u>16,207</u>	<u>21,959</u>	<u>38,166</u>	<u>164,823</u>
<u>90,329</u>	<u>122,391</u>	<u>212,720</u>	<u>918,661</u>
			445,824
2	19	21	23,456
			125,000
984	690	1,674	26,224
221	1,963	2,184	5,839
483	3,432	3,915	60,074
	98	98	47,551
234	2,820	3,054	22,154
413	892	1,305	7,416
2,740	5,915	8,655	56,265
2,157	4,657	6,814	75,851
200	429	629	3,273
128	277	405	3,204
10	65	75	2,496
340	735	1,075	5,601
	0		325
<u>534</u>	<u>4,976</u>	<u>5,510</u>	<u>43,612</u>
98,775	149,359	248,134	1,872,826
<u>2,377</u>	<u>5,136</u>	<u>7,513</u>	<u>39,147</u>
<u>\$ 101,152</u>	<u>\$ 154,495</u>	<u>\$ 255,647</u>	<u>\$ 1,911,973</u>

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

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	<u>Creative writing education</u>	<u>Mentorships, awards and events</u>	<u>Writing community and writers' services</u>	<u>Total program services</u>
Salaries	\$ 252,256	\$ 138,273	\$ 72,773	\$ 463,302
Payroll taxes and benefits	<u>54,289</u>	<u>29,758</u>	<u>15,661</u>	<u>99,708</u>
Total salaries and related expense	<u>306,545</u>	<u>168,031</u>	<u>88,434</u>	<u>563,010</u>
Honoraria and fees	379,732	102,690	3,040	485,462
Travel and per diem	2,783	15,481	143	18,407
Awards		125,000		125,000
Receptions	15,337	15,071	2,021	32,429
Dues, publications and memberships	32	18	1,408	1,458
Printing	68,391	2,976	14,718	86,085
Publicity	26,577	4,904	3,502	34,983
Postage	16,310	638	5,222	22,170
Office supplies	2,512	1,344	378	4,234
Professional services	22,546	12,066	3,381	37,993
Occupancy	34,097	18,247	5,114	57,458
Equipment maintenance and repair	1,665	891	250	2,806
Telephone	1,972	1,055	296	3,323
Board and staff training	4,007	2,754	2,003	8,764
Insurance	2,005	1,070	299	3,374
Disability services	2,869			2,869
Miscellaneous	<u>13,444</u>	<u>15,952</u>	<u>5,675</u>	<u>35,071</u>
Total expense before depreciation and amortization	900,824	488,188	135,884	1,524,896
Depreciation and amortization	<u>14,408</u>	<u>7,814</u>	<u>2,198</u>	<u>24,420</u>
	<u>\$ 915,232</u>	<u>\$ 496,002</u>	<u>\$ 138,082</u>	<u>\$ 1,549,316</u>

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES  
YEAR ENDED AUGUST 31, 2009

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<u>Management and general</u>	<u>Fundraising</u>	<u>Total support services</u>	<u>Total all services</u>
\$ 143,820	\$ 175,182	\$ 319,002	\$ 782,304
<u>30,952</u>	<u>37,701</u>	<u>68,653</u>	<u>168,361</u>
<u>174,772</u>	<u>212,883</u>	<u>387,655</u>	<u>950,665</u>
	26	26	485,488
2,295	69	2,364	20,771
			125,000
1,447	1,727	3,174	35,603
4,238	1,429	5,667	7,125
8,892	3,576	12,468	98,553
8	1,804	1,812	36,795
2,881	3,560	6,441	28,611
628	688	1,316	5,550
5,637	6,179	11,816	49,809
8,526	9,345	17,871	75,329
416	457	873	3,679
493	540	1,033	4,356
4,257	155	4,412	13,176
497	545	1,042	4,416
			2,869
<u>9,728</u>	<u>3,619</u>	<u>13,347</u>	<u>48,418</u>
224,715	246,602	471,317	1,996,213
<u>3,623</u>	<u>3,972</u>	<u>7,595</u>	<u>32,015</u>
<u>\$ 228,338</u>	<u>\$ 250,574</u>	<u>\$ 478,912</u>	<u>\$ 2,028,228</u>

1. Organization and summary of significant accounting policies:

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The mission of The Loft, Inc. d/b/a The Loft Literary Center (the Organization) is to support the artistic development of writers, to foster a writing community, and to build an audience for literature.

Programs and program services:

Creative Writing Education:

The Loft offers *Creative Writing Classes* year-round in the five classrooms at Open Book and at community sites throughout the greater Twin Cities area. Adults and youth (ages 6-90+) at all levels of artistic development further their skills in classes focused on fiction, poetry, creative nonfiction, screen/playwriting, children's literature, graphic novel, and other literary forms as well as writing practice and career development. All classes are taught by accomplished writers and literary professionals. This year the Loft served well over 3,600 adults and 640 young creative writing students in the more than 300 classes and four conferences representing the broadest range of genres.

Through low income discounts, scholarships, and a work-study program, the Loft ensures that anyone can participate in classes regardless of ability to pay. In addition, through *First Pages*, a collaboration with the Hennepin County Libraries, the Loft provides free, one-hour classes to more than 500 students at 21 different libraries throughout the greater Twin Cities metropolitan area. The organization is increasingly collaborating on similar programs with libraries and community organizations throughout the state.

Awards and Grants

The Loft provides a range of competitive opportunities that allow emerging writers to advance their writing careers:

*McKnight Artist Fellowships for Writers* provide Minnesota writers of demonstrated ability with grants of \$25,000, buying them time to concentrate on their craft. Five writers are competitively selected annually for awards in poetry, creative prose, and children's literature.

*Minnesota Writers Career Initiative* provides four grants of up to \$10,000 to competitively-selected, highly-accomplished emerging writers for activities up to one year in length that will bring them to the next stage in their writing careers.

*The Mentor Series* brings nationally respected writers to the Twin Cities to work intensively in poetry, fiction, and creative nonfiction, with small groups of emerging Minnesota writers. Mentors and students present public readings and workshops in the Twin Cities.

*The Shabo Award for Children's Picture Book Writers* provides mentorship and a master class to children's picture book writers to help them develop "nearly there" manuscripts into publishable pieces.

Literary Events

Authors' readings and performances develop audiences for literature while promoting and advancing the work of individual writers. Readings take place throughout the year at the Target Performance Hall in the organization's home, Open Book, as well as at a variety of partner locations each year.

Thirteen thousand individuals attend more than 50 events annually include shared readings featuring mentors with mentees from the *Mentor Series*, judges of the *Loft/McKnight Artist Fellowships*, authors of young adult literature, Minnesota writers with new publications, student and teaching artists reading their work, nationally acclaimed visiting writers, and spoken word performers. In almost all cases, the readings and performances are followed by a dialogue with the author/performer. The Loft also collaborates on *Talking Volumes* which features acclaimed authors with interviews and work excerpts in the *StarTribune*, before a live audience and broadcast on Minnesota Public Radio to an audience of approximately 600,000.

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

Programs and program services (continued):

Other Services for Writers and Readers:

*Loft.org*, the Loft's website, offers regular articles and discussions about the writers' life and craft through its online journal, *View from the Loft*, and a daily blog, *The Writers' Block*, which provides regular writing exercises plus literary reviews, commentary, news, and discussion. The site also includes archived video of readings, interviews, spoken word performances, a calendar of Loft readings and events, an online catalog of Loft classes, and writers' resources including information about competitions, grants, awards, publishers, and agents.

Visitors can peruse and check out current and back issues of literary magazines as well as books published by Minnesota presses, books by regional writers including Loft instructors, members and students, and writers' reference books from *The Rachel Anne Gaschott Ritchie Small Press Library*.

Writers' Studios and a Book Club Room are available for rental.

Summary of significant accounting policies:

Cash and cash equivalents:

Short-term, highly liquid investments with initial maturities of three months or less are presented in these financial statements as cash and cash equivalents. However, at times, a portion of the endowment investment portfolio may be invested in cash equivalents and has been reflected as investments.

Accounts receivable:

Accounts receivable are stated at net realizable value, and are considered collectible. The Organization provides an allowance for bad debts, if necessary, using the allowance method, which is based on management judgment considering historical information. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

All amounts due at August 31, 2010 and 2009, are considered collectible. Accordingly, no reserve for doubtful accounts has been provided.

Grants and contributions receivable:

Contributions receivable that are expected to be collected within one year are recorded at their net realizable value. No allowance for doubtful accounts has been provided as all pledges and grants receivable are considered collectible. Grants that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the grant is receivable, which was 0.8% to 3.1% for receivables remaining as of August 31, 2010. Amortization of the discount is included in contribution revenue.

Property and equipment:

Property and equipment purchased are recorded at cost. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted. The Organization uses \$500 for a capitalization threshold.

Depreciation of property and equipment is computed on a straight-line basis over the estimated service lives of the assets as follows:

Computer software and equipment	3 to 5 years
Office furniture and equipment	5 to 7 years
Leasehold improvements	15 years

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

Summary of significant accounting policies (continued):

Investments:

Investments consist primarily of stocks, bonds, and cash reserve funds. They are recorded at fair value based on quoted market prices. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value rather than historical cost. The fair value of investments is based on the underlying value of the securities and will fluctuate based on overall changes in market conditions. Investment income or loss (including interest and dividends) and unrealized gains and losses are recorded in the statement of activities.

Fair value measurements:

The financial statements reflect the adoption of Accounting Standards Codification (ASC) 820 "*Fair Value Measurements*." ASC 820 is effective for financial statements issued for fiscal years beginning after November 17, 2007. The Organization adopted ASC 820 at the beginning of fiscal year 2009.

ASC 820 establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy under ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs.

Deferred revenue:

Tuition received prior to year end for the following year and two-thirds of three-year memberships received prior to year end for subsequent years are deferred from income recognition and recognized as a current liability.

Contributions:

Contributions and government grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

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Summary of significant accounting policies (continued):

Contributions (continued):

All donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized.

Unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

In-kind contributions:

In-kind contributions consist of honoraria tuition, honoraria scholarships, consulting and supplies. These items are recorded at fair value based on the best estimate of management.

Functional allocation of expense:

Expenses which are related to a specific program or supporting service are charges directly to that service. Salaries and related expenses are allocated based on time allocation of personnel. Other indirect expenses are allocated based on personnel time studies in proportion to direct program expenses in proportion to total expenses.

Tax exempt status:

The Organization has a tax exempt status under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute and has been classified as a public charity under the Internal Revenue Code; therefore, charitable contributions by donors are tax deductible.

Management evaluated the Organization's tax positions and concluded that the Organization had

taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance related to uncertain tax positions.

Estimates:

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from those estimates.

Concentration of credit risk:

The Organization maintains its cash deposits with financial institutions. At times, the amount on deposit may exceed federally insured limits. The Organization has not experienced any loss as a result of these deposits.

Risks and uncertainties:

The Organization holds its investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk.

Reclassifications:

Certain other 2009 amounts have been reclassified to conform to the 2010 presentation.

Subsequent events:

The Organization evaluated for subsequent events through December 17, 2010, the date the financial statements were available for issuance.

Subsequent to year end the Organization commenced procedures to replace its database software. As a result, the Organization anticipates an impairment of the previous database software to occur as it is phased out and the new software is brought online. The Organization estimates that the impairment amount could be up to the remaining net book value of the software at August 31, 2010. The net book value of the software was \$136,163 at August 31, 2010.

2. Investments:

In accordance with FASB ASC 820, the Organization has categorized its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. This fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), observable market based inputs or unobservable inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs (Level 3).

Financial assets that are carried at estimated fair value are categorized based on the inputs to the valuation technique as follows for the year ended August 31:

	<u>2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment:				
Money markets	\$ 92,477			\$ 92,477
Bonds:				
Government	199,689			199,689
Corporate	324,510			324,510
Fixed income funds	<u>62,862</u>			<u>62,862</u>
	<u>679,538</u>			<u>679,538</u>
Common stocks	390,009			390,009
Equity mutual funds	<u>968,659</u>			<u>968,659</u>
	<u>1,358,668</u>			<u>1,358,668</u>
Total endowment	<u>2,038,206</u>			<u>2,038,206</u>
Permanently restricted investments:				
Money market	<u>150,000</u>			<u>150,000</u>
Other investments, fixed income funds	<u>85,717</u>			<u>85,717</u>
Total investments	<u>\$ 2,273,923</u>			<u>\$ 2,273,923</u>

**THE LOFT, INC.**  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2010 AND 2009

2. Investments (continued):

	2009			Total
	Level 1	Level 2	Level 3	
Endowment:				
Money markets	\$ 48,816			\$ 48,816
Bonds:				
Government	246,227			246,227
Corporate	337,086			337,086
Fixed income funds	<u>58,662</u>			<u>58,662</u>
	<u>690,791</u>			<u>690,791</u>
Common stocks	381,440			381,440
Equity mutual funds	<u>828,154</u>			<u>828,154</u>
	<u>1,209,594</u>			<u>1,209,594</u>
Total endowment	<u>1,900,385</u>			<u>1,900,385</u>
Permanently restricted investments:				
Money market	<u>150,000</u>			<u>150,000</u>
Other investments:				
Mutual funds	77,659			77,659
Fixed income funds	<u>5,025</u>			<u>5,025</u>
Total other investments	<u>82,684</u>			<u>82,684</u>
	<u>\$ 2,133,069</u>			2,133,069
Certificates of deposit, recorded at cost plus accrued interest				<u>2,019</u>
Total investments				<u>\$ 2,135,088</u>

**THE LOFT, INC.**  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2010 AND 2009

2. Investments (continued):

Investment return on endowment consists of:

	<u>2010</u>	<u>2009</u>
Endowment investments interest and dividends	\$ 49,286	\$ 57,800
Unrealized (loss) gain on endowment	40,722	(88,421)
Realized gains (loss) on endowment	29,010	(127,921)
Fees	<u>(11,197)</u>	<u>(11,579)</u>
	<u>\$ 107,821</u>	<u>\$ (170,121)</u>

3. Grants and contributions receivable:

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

	<u>2010</u>	<u>2009</u>
Jerome Foundation		\$ 45,000
Minnesota State Arts Board		45,717
McKnight Foundation	\$ 360,000	80,000
National Endowment for the Arts	60,000	95,000
Transition Leadership Capacity (TLC)	25,000	50,000
Ford Endowment	4,825	11,383
Bush Foundation		100,000
Arts Access	2,439	
St. Paul Travelers Employee Diversity Committee	2,500	
Other	<u>85,154</u>	<u>13,300</u>
	<u>539,918</u>	<u>440,400</u>
Unamortized discounts	<u>(1,685)</u>	<u>(1,260)</u>
	<u>538,233</u>	<u>439,140</u>
Less long-term portion	<u>58,570</u>	<u>24,745</u>
	<u>\$ 479,663</u>	<u>\$ 414,395</u>

4. Property and equipment:

Property and equipment as of August 31 consist of:

	<u>2010</u>	<u>2009</u>
Equipment and leasehold improvements	\$ 414,257	\$ 402,592
Less accumulated depreciation	<u>240,453</u>	<u>208,980</u>
	<u>\$ 173,804</u>	<u>\$ 193,612</u>

Depreciation expense of \$39,147 and \$32,015 was recorded for the years ended August 31, 2010 and 2009, respectively.

5. Temporarily restricted net assets:

Temporarily restricted net assets as of August 31 consist of:

	<u>2010</u>	<u>2009</u>
Restricted to purpose:		
Mentor Program	\$ 65,000	\$ 94,000
Ink Tank Program	5,000	64,000
McKnight Fellowships	555,832	182,825
Ford Foundation Programs		21,460
Career Initiative	6,022	47,650
Shabo Children's Book	3,334	6,667
Equilibrium Program	10,000	36,000
Scholarships	3,242	4,352
Transition Leadership Capacity		58,740
Writers Services (online) Access Project	30,000	
Open Groups	38,300	
Adult Education	2,500	
Youth Education	15,000	
	<u>27,500</u>	

**THE LOFT, INC.**  
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NOTES TO FINANCIAL STATEMENTS  
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5. Temporarily restricted net assets (continued):

	<u>2010</u>	<u>2009</u>
Online classes	\$ 18,000	
Foreword	5,000	
Readings	2,500	
Inroads	<u>10,475</u>	
Total restricted to purpose	797,705	\$ 515,694
Restricted to time	<u>7,859*</u>	<u>197,104*</u>
Total restricted	<u>\$ 805,564</u>	<u>\$ 712,798</u>

\*Amount includes earnings on endowment used to support the mission and the net investment loss on endowment of \$153,426 and \$261,247 for 2010 and 2009, respectively.

6. Permanently restricted net assets:

The Loft Literary Center Endowment Fund (the Endowment) is permanently restricted net assets invested to generate temporarily restricted income and appreciation to support the fulfillment of the Organization's mission and long-term financial needs.

As required by FASB ASC 958-205-05, "*Endowments of Not-for-Profit Organizations*," net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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, if such directions exist. The remaining portions of the donor-

restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA and its own policies.

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

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- The general economic environment.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide reasonably stable and predictable funds from the endowment for the Organization's operating budget and to preserve purchasing power by striving for long-term returns which either match or exceed the total of the set payout, including any fees and inflation.

The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

6. Permanently restricted net assets (continued):

The Organization has a policy of appropriating up to 4% of its endowment fund's average of the fair market value as of December 31 of the twelve immediately rolling quarters. The Organization's Board of Directors approved a temporary increase of the appropriation up to 5% for the years ending August 31, 2010 and 2011. The maximum distribution amount will revert back to 4% beginning with the fiscal year ending August 31, 2012 unless the Board of Directors votes for a permanent change at that time.

The endowment fund's principal value will not be reduced except as a result of declining market values of investments and pursuant to the spending policies, nor will the endowment's principal be used to secure debt or credit of any kind. When the endowment's principal value is reduced, it shall be restored within 20 calendar quarters, or five years, through new gifts and/or unspent investment earnings and appreciation.

The composition of the Organization's permanently restricted net assets is as follows:

	<u>2010</u>		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total permanently restricted net assets, beginning of year	\$ 2,180,624	\$ 150,000	\$ 2,330,624
(Deficit) surplus, included in temporarily restricted net assets	<u>(280,239)</u>		<u>(280,239)</u>
Donor-restricted funds included in investments, beginning of year	1,900,385	150,000	2,050,385
Investment return:			
New additions	30,000		30,000
Investment income, temporarily restricted	49,286		49,286
Net realized and unrealized income	<u>58,535</u>		<u>58,535</u>
Donor-restricted funds included in investments, end of year	2,038,206	150,000	2,188,206
Amounts appropriated for current operations, distributed subsequent to year end	(82,012)		(82,012)
Deficit (surplus), included in temporarily restricted net assets	<u>319,821</u>		<u>319,821</u>
Total permanently restricted net assets, end of year	<u>\$ 2,276,015</u>	<u>\$ 150,000</u>	<u>\$ 2,426,015</u>

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6. Permanently restricted net assets (continued):

	2009		
	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Total permanently restricted net assets, beginning of year	\$ 2,155,226	\$ 150,000	\$ 2,305,226
(Deficit) surplus included in temporarily restricted net assets, beginning of year	<u>(21,734)</u>	<u>                    </u>	<u>(21,734)</u>
Donor-restricted funds included in investments, beginning of year	2,133,492	150,000	2,283,492
Investment return:			
New additions	19,655		19,655
Investment income, temporarily restricted	57,800		57,800
Net realized and unrealized loss	(227,921)		(227,921)
Amounts appropriated for current operations	<u>(82,641)</u>	<u>                    </u>	<u>(82,641)</u>
Donor-restricted funds included in investments, end of year	1,900,385	150,000	2,050,385
Deficit (surplus), included in temporarily restricted net assets	<u>280,239</u>	<u>                    </u>	<u>280,239</u>
Total permanently restricted net assets, ending of year	<u>\$ 2,180,624</u>	<u>\$ 150,000</u>	<u>\$ 2,330,624</u>

**THE LOFT, INC.**  
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NOTES TO FINANCIAL STATEMENTS  
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7. Net assets released from restrictions:

Net assets released from restrictions:

Net assets released from restrictions consist of the following as of August 31, 2009:

	<u>2010</u>	<u>2009</u>
Purpose restriction:		
Program for Writers	\$ 10,000	\$ 40,000
Mentor Program	69,000	47,981
Youth Program	4,303	13,000
McKnight Awards	166,994	173,000
Career Initiative	41,627	50,000
McKnight Suburban Initiative		33,000
Equilibrium Program	43,296	39,973
Shabo Children's Book Program	3,333	3,334
Transition Leadership Capacity	25,000	70,000
New Stories Old Stories Program		4,000
Inroads Program		19,826
Ink Tank Program	41,389	26,760
Adult Class	17,473	
Leadership	<u>10,000</u>	
Total restricted to purpose met	432,415	520,874
Time restriction met	<u>316,668</u>	<u>339,705</u>
Total released from restriction	<u>\$ 749,083</u>	<u>\$ 860,579</u>

8. In-kind contributions:

In-kind contributions as of August 31, 2009 include the following:

	<u>2010</u>	<u>2009</u>
Education, scholarships	\$ 11,078	\$ 8,720
Other program services:		
Consulting		475
Supplies	1,400	59
Travel, lodging		<u>250</u>
	<u>\$ 12,478</u>	<u>\$ 9,504</u>

9. Concentration:

As of August 31, 2010 and 2009, 78% and 93%, respectively, of the grants and contributions receivable balance is from three and six donors.

For the year ended August 31, 2010, one major donor provided 27% of support and revenue which related to multiple year grant awards.

10. Retirement plan:

The Organization has a defined contribution retirement plan for its employees who meet certain age and service requirements. During the year ending, August 31, 2009, the Organization made monthly matching contributions to the plan of 3% of the gross salaries of qualifying participants through February 28, 2009, and monthly matching contributions to the plan of 1% of the gross salaries of qualifying participants thereafter through August 31, 2010. Retirement expense was \$4,811 and \$11,555 for the years ending August 31, 2010 and 2009, respectively.

11. Leased facilities:

The lease space terms are for one year, January 1, 2010 to December 31, 2010, with yearly renewal options. Monthly rental payments are \$6,244 for a total commitment of about \$24,976 through December 31, 2010. The rental expense for the years ended August 31, 2010 and 2009 was \$75,851 and \$75,328, respectively.

12. Funds held by others:

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The Organization is a beneficiary of a designated fund at The Saint Paul Foundation. Pursuant to the terms of the agreement establishing this fund, property contributed to The Saint Paul Foundation is held as a separate fund designated for the benefit of the Organization. In accordance with its spending policy, the Foundation makes distributions from the fund to the Organization. The distributions are approximately 5% of the market value of the fund per year. The fund totals approximately \$57,000 and is not included in these financial statements, since the initial donations to begin the fund were contributed directly to The Saint Paul Foundation, in accordance with FASB ASC 958-605-30, *“Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others.”*

13. Commitments and contingencies:

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Leases:

The Organization leases office equipment under operating leases expiring through 2012. Total equipment rent expense was \$10,771 and \$11,348 for the years ending August 31, 2010 and 2009, respectively.

Total future minimum rentals under noncancellable operating leases are as follows:

<u>Year ending</u> <u>August 31,</u>	<u>Amount</u>
2011	\$ 7,312
2012	<u>4,780</u>
	<u>\$ 12,092</u>