

SEARCH INSTITUTE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

**SEARCH INSTITUTE
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	2
STATEMENTS OF ACTIVITY	3
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6
SUPPLEMENTAL INFORMATION	
SCHEDULES OF FUNCTIONAL EXPENSES	18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Search Institute
Minneapolis, Minnesota

We have audited the accompanying balance sheets of Search Institute at December 31, 2008 and 2007, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of Search Institute's management. 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Search Institute at December 31, 2008 and 2007, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our report on our audits of the basic financial statements of Search Institute for the years ended December 31, 2008 and 2007 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



LarsonAllen LLP

Minneapolis, Minnesota
June 4, 2009

**SEARCH INSTITUTE
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007**

ASSETS	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,843,072	\$ 165,681
Publications Receivable, Net	162,608	102,418
Prepaid Expenses and Other Assets	82,148	80,862
Inventory, Net	370,978	393,303
Deferred Costs: Current Portion	170,859	172,695
Contracts Receivable	138,380	110,618
Grants Receivable	1,060,146	1,242,667
Total Current Assets	3,828,191	2,268,244
EQUIPMENT AND LEASEHOLD IMPROVEMENTS		
Office Furniture and Equipment	1,093,211	1,093,211
Leasehold Improvements	108,893	104,220
Less: Accumulated Depreciation and Amortization	(1,173,702)	(1,167,770)
Total Equipment and Leasehold Improvements	28,402	29,661
OTHER ASSETS		
Grants Receivable, Net	-	50,000
Investments	237,067	589,972
Deferred Costs - Long-Term Portion	152,442	178,605
Beneficial Interest in Assets Held by Others	22,100	30,978
Total Other Assets	411,609	849,555
Total Assets	\$ 4,268,202	\$ 3,147,460
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 246,574	\$ 156,484
Accrued Liabilities	620,136	550,125
Deferred Lease Credits	129,048	156,690
Line of Credit Payable	95,000	-
Total Current Liabilities	1,090,758	863,299
NET ASSETS		
Unrestricted:		
Undesignated	382,242	229,254
Board Designated	237,067	337,525
Total Unrestricted Net Assets	619,309	566,779
Temporarily Restricted	2,533,046	1,692,293
Permanently Restricted	25,089	25,089
Total Net Assets	3,177,444	2,284,161
Total Liabilities and Net Assets	\$ 4,268,202	\$ 3,147,460

See accompanying Notes to Financial Statements.

**SEARCH INSTITUTE
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Grants	\$ -	\$ 3,887,956	\$ -	\$ 3,887,956
Consulting	562,000	-	-	562,000
Curriculum Sales and Training	3,224,914	-	-	3,224,914
Contributions	314,808	-	-	314,808
Royalties	31,307	-	-	31,307
Net Realized and Unrealized Gain (Loss)	(110,413)	-	-	(110,413)
Other	42,838	-	-	42,838
Subtotal	<u>4,065,454</u>	<u>3,887,956</u>	<u>-</u>	<u>7,953,410</u>
Net Assets Released from Restrictions	<u>3,047,203</u>	<u>(3,047,203)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	7,112,657	840,753	-	7,953,410
EXPENSE				
Program Services	5,876,794	-	-	5,876,794
Management and General	1,076,559	-	-	1,076,559
Fundraising	106,774	-	-	106,774
Total Expense	<u>7,060,127</u>	<u>-</u>	<u>-</u>	<u>7,060,127</u>
CHANGE IN NET ASSETS	52,530	840,753	-	893,283
Net Assets - Beginning of Year	<u>566,779</u>	<u>1,692,293</u>	<u>25,089</u>	<u>2,284,161</u>
NET ASSETS - END OF YEAR	<u>\$ 619,309</u>	<u>\$ 2,533,046</u>	<u>\$ 25,089</u>	<u>\$ 3,177,444</u>

See accompanying Notes to Financial Statements.

2007

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ -	\$ 1,778,906	\$ -	\$ 1,778,906
18,962	-	-	18,962
4,371,573	-	-	4,371,573
141,305	-	-	141,305
40,623	-	-	40,623
53,813	-	-	53,813
54,209	-	-	54,209
<u>4,680,485</u>	<u>1,778,906</u>	<u>-</u>	<u>6,459,391</u>
<u>2,209,347</u>	<u>(2,209,347)</u>	<u>-</u>	<u>-</u>
6,889,832	(430,441)	-	6,459,391
5,568,023	-	-	5,568,023
1,073,290	-	-	1,073,290
<u>355,399</u>	<u>-</u>	<u>-</u>	<u>355,399</u>
<u>6,996,712</u>	<u>-</u>	<u>-</u>	<u>6,996,712</u>
(106,880)	(430,441)	-	(537,321)
<u>673,659</u>	<u>2,122,734</u>	<u>25,089</u>	<u>2,821,482</u>
<u>\$ 566,779</u>	<u>\$ 1,692,293</u>	<u>\$ 25,089</u>	<u>\$ 2,284,161</u>

**SEARCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 893,283	\$ (537,321)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,932	26,556
Realized Losses on Investments	40,361	-
Unrealized (Gains) Losses on Investments	70,052	(17,695)
(Increase) Decrease in Current Assets:		
Publications Receivable	(60,190)	(1,758)
Prepaid Expenses and Other Assets	(1,286)	6,045
Inventory	22,325	169,569
Deferred Costs	27,999	14,601
Contracts Receivable	(27,762)	(74,101)
Grants Receivable	232,521	83,758
Increase (Decrease) in Current Liabilities:		
Accounts Payable	85,417	(339,649)
Accrued Liabilities	70,011	57,883
Deferred Contract Revenue	-	(6,962)
Deferred Lease Credits	(27,642)	(19,976)
Net Cash Provided (Used) by Operating Activities	1,331,021	(639,050)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Fixed Assets	-	(10,515)
Purchases of Investments	(8,359)	(92,056)
Proceeds from Sale of Investments	259,729	174,838
Net Cash Provided by Investing Activities	251,370	72,267
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	95,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,677,391	(566,783)
Cash and Cash Equivalents - Beginning	165,681	732,464
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,843,072	\$ 165,681
SUPPLEMENTAL INFORMATION		
Non-cash Additions of Fixed Assets	\$ 4,673	\$ -

See accompanying Notes to Financial Statements.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Search Institute (the Institute) is a Minnesota not-for-profit corporation that engages in research and educational services that promote the well being of children and adolescents. The Institute fulfills its mission by engaging in in-depth applied research and evaluation, and by conducting surveys that explore young people's needs and the effectiveness of youth-serving programs. The Institute's primary sources of revenues are contracts, contributions from corporations and private foundations, and sales of research-based books and materials.

Financial Statement Presentation

Under the provision of the Statement of Financial Accounting Standards (SFAS) No. 117, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Institute has discretionary control. Designated amounts represent those revenues which the Institute's board of directors has set aside for a particular purpose. All property, equipment and related debt are considered unrestricted.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Institute or passage of time.

Permanently Restricted – Those resources that are restricted by donors to investment in perpetuity. The income may be expended for such purpose as specified by the donor, or if none, then for any purpose of the Institute.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Donor-restricted contributions, the restrictions of which are met in the same year as the gift is made, are reported as temporarily restricted contributions in the current year. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Accounting Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those 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 the estimates that were used.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Equivalents

The Institute deposits its temporary cash investments in high credit quality financial institutions. At times, such investments may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

For purposes of the statement of cash flows, short-term investments with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents include cash on hand, savings and money market accounts.

Receivables

Accounts, contracts and grants receivable are stated at net realizable value. Bad debts are provided on the reserve method based on historical experience and management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. The allowance for uncollectible accounts was \$0 and \$10,000 for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, three organizations comprised 36% of publications receivable; two organizations comprised 59% of contracts receivable; and three organizations comprised 79% of grants receivable. At December 31, 2007, two organizations comprised 30% of publications receivable; two organizations comprised 81% of contracts receivable; and three organizations comprised 78% of grants receivable.

Unconditional grants receivable were as follows at December 31:

	2008	2007
Less than One Year	\$ 1,060,146	\$ 1,242,667
One to Five Years	-	50,000
	\$ 1,060,146	\$ 1,292,667

The above grants receivable amounts are net of a present value discount of \$-0- at December 31, 2008 and 2007.

The Institute received two challenge grants. The first challenge grant received in 2005 was to provide funds of up to \$400,000, contingent upon the Institute raising matching funds of new or increased sources of support of \$200,000 (\$100,000 prior to September 1, 2007 and \$100,000 prior to September 1, 2008). The Institute satisfied the matching requirements of \$100,000 as of September 1, 2008 and 2007. The second challenge grant received in 2006 was to provide funds of up to \$1,000,000, contingent upon the Institute completing program goals and deliverables, as defined, over the four years commencing January 1, 2007.

Total revenue in the amount of \$625,000 and \$375,000 was recognized on the second grant as of December 31, 2008 and December 31, 2007 respectively. Revenues of \$125,000 for the second challenge grant were recognized as of December 31, 2007 and was restricted for use in fiscal year 2008, and \$125,000 of revenues were recognized as of December 31, 2008, for use in fiscal year 2009. Revenues for both challenge grants will be recognized when the conditions of the grants are satisfied.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists of published books and books in the process of being published. Inventory is valued at the lower of cost, determined on an average cost basis, or market. An allowance for excess and obsolete inventory has been recorded for books, which may be unsaleable based on historical data. The allowance for obsolescence is \$81,435 at December 31, 2008 and 2007.

Deferred Costs

Deferred costs represent pre-publication costs of research-based books and materials. Such costs are amortized over their estimated three-year useful lives using the half-year convention method in the first and last year. Deferred costs associated with discontinued publications or seminars are written off and charged to expense in the period discontinued.

Beneficial Interests in Assets Held by Others

The Institute's beneficial interest in a donor designated fund with The Minneapolis Foundation is recognized as an asset, in accordance with Statement on Accounting Standard No. 136, *Transfers to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. The governing instrument of The Minneapolis Foundation states that The Minneapolis Foundation shall have the sole and exclusive right to manage, control, and conduct the affairs of the donor-designated fund and to modify any direction, restriction or condition and the timing of distributions from the fund. In accordance with the agreement, the Institute has no legal control over these assets.

Office Furniture and Equipment

Office furniture and equipment acquisitions in excess of \$1,000 are recorded at cost. Depreciation is computed using the straight-line method over an estimated useful life of the asset of five years.

Leasehold Improvements

Leasehold improvements are recorded at cost and are being amortized over the term of the lease, which is ten years.

Investments

The limited partnership investment represents an interest in an investment portfolio managed by The Minneapolis Foundation, the general partner. Assets in the investment portfolio of the limited partnership are stated at quoted market value. Changes in market value are recorded as unrealized gains or losses in the period of change. The cash surrender value of life insurance is stated at account value as published by the insurance company. All other investments are stated at fair market value based on quoted market prices. The net changes in market prices and the realized gains and losses on investments sold are reflected in the statement of activities as net realized and unrealized gain on investments. These life insurance policies were liquidated in 2008.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants

Grant revenue is recognized when notification is received, absent any condition clauses on recognition. Expenditures under grant 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 Institute will record such disallowance at the time the determination is made. For the year ended December 31, 2008 two organizations comprised 61% of grant revenue. For the year ended December 31, 2007 two organizations comprised 42% of grant revenue.

Contract Revenue

Contract revenue relates to amounts received from organizations and governmental agencies to fund various projects undertaken by the Institute. Revenue related to such contracts is recognized as services are provided over the life of the contract. Expenses are recorded as incurred.

Contributions

Contributions are recognized as revenues in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions to be received after one year are discounted to reflect the time value of money.

Shipping and Handling Fees

The Institute charges a fee to customers for reimbursement of shipping and handling costs associated with sales of publications. For the years ended December 31, 2008 and 2007, the Institute recorded shipping and handling fees of \$89,712 and \$107,759, respectively, which are included in curriculum sales revenue on the statement of activities.

Functional Allocation of Expense

Salaries and related expenses are allocated to the program and supporting services based on actual time employees spend on each function. The remaining expenses are allocated as a percentage of direct labor hours devoted to that function or using another systematic methodology.

Advertising Costs

Advertising costs are charged to operations when the advertising takes place. Advertising expense was \$147,530 and \$232,073 for the years ended December 31, 2008 and 2007, respectively.

Tax Exempt Status

The Institute qualifies as a tax-exempt organization described in Section 501(c)(3) and is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. As such, it is subject to federal and state income taxes on net unrelated business income. The Institute currently has no unrelated business income. The Institute has elected to defer application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The Institute follows Financial Accounting Standard No. 5, *Accounting for Contingencies*, for evaluating uncertain tax positions.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

In accordance with SFAS No. 157, the Institute has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities, whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Institute has the ability to access.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3

Financial assets and liabilities, whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Securities valued using Level 3 inputs include funds held on behalf of Search Institute at the Minneapolis Foundation. The inputs used to determine the funds held are based on the underlying value of the holdings as well as the Institute's proportionate share at the Minneapolis Foundation.

The Institute also adopted Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159), on January 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Institute has not elected to measure any existing financial instruments at fair value at January 1, 2008, as permitted under SFAS 159. However, the Institute may elect to measure newly acquired financial instruments at fair value in the future.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uniform Prudent Management of Institutional Funds Act

During 2008, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective in the State of Minnesota. In August 2008, the FASB released FASB Staff Position 117-1 (FSP 117-1) which provides guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment fund assets are considered restricted. During 2008, no such reclassifications of unrestricted net assets were warranted.

Reclassification

Certain 2007 amounts were reclassified to conform to 2008 presentation. The reclassification had no impact on the change in net assets.

NOTE 2 INVESTMENTS

The following is a summary of investments in securities at December 31:

	<u>2008</u>	<u>2007</u>
Limited Partnership	\$ 237,067	\$ 337,525
Cash Surrender Value of Deferred Compensation		
Life Insurance Policy	-	155,279
Mutual Funds	-	97,168
	<u>\$ 237,067</u>	<u>\$ 589,972</u>

The following table presents the fair value hierarchy for the balances of the assets of the Institute measured at fair value on a recurring basis as of December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment	\$ -	\$ -	\$ 237,067	\$ 237,067

Level 3 Assets and Liabilities

The following table provides a summary of changes in fair value of the Institute's Level 3 financial assets for the year ended December 31, 2008:

	<u>Investment</u>
Balance as of January 1, 2008	\$ 337,525
Unrealized Loss in Net Asset Value	(100,458)
Balance as of December 31, 2008	<u>\$ 237,067</u>

The Organization's assets at The Minneapolis Foundation are held in "Master Fund". The Minneapolis Foundation invests the Master Fund's assets in a diversified portfolio consisting principally of domestic and foreign fixed income and equity securities.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 2 INVESTMENTS (CONTINUED)

The following is a summary of investment activity, of which the interest and dividend is included in other income, during the years ended December 31:

	2008	2007
Net Realized and Unrealized Gain (Loss) on Investments	\$ (110,413)	\$ 17,695
Interest and Dividends	9,955	36,118
	\$ (100,458)	\$ 53,813

NOTE 3 DEFERRED COMPENSATION AGREEMENT

In 1997, the Institute entered into an agreement whereby its president is eligible to receive a payout of \$250,000 upon reaching age 62 by January 1, 2009, or a lesser amount upon termination of employment prior to January 1, 2009. The Institute is accruing the payout over the term of the agreement. The liability for the deferred compensation agreements totaled \$250,000 and \$201,000 at December 31, 2008 and 2007, respectively, and is included in accrued liabilities. To fund the payout, the Institute purchased mutual funds and a corporate-owned life insurance policy on its president. At December 31, 2008 and 2007, the value of the mutual funds and the cash surrender value on the life insurance policy were \$-0- and \$252,447, respectively, and are included in Investments.

NOTE 4 LINE OF CREDIT

The Institute entered into a \$100,000 revolving line of credit agreement commencing August 10, 2006 and bearing interest at 8% (based on prime plus 3.75%) as of December 31, 2008. Advances under the line of credit were \$95,000 and \$-0- as of December 31, 2008 and 2007, respectively.

NOTE 5 NET ASSETS

Board Designated

The Institute, under the authority of the board of directors, invested in The Minneapolis Foundation Investment Partnership L.P. fund for the purpose of generating additional investment returns to fund the Institute's operations and to extend the Institute's marketing initiatives to potential new parties. The Board-designated investment is included in unrestricted net assets at December 31, 2008 and 2007.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 5 NET ASSETS (CONTINUED)

Temporarily Restricted

Temporarily restricted net assets were restricted as follows at December 31:

	<u>2008</u>	<u>2007</u>
Purpose Restrictions:		
Otto Bremer Foundation Human Rights Grant	\$ 10,000	\$ 76,321
Lilly Youth Development Work Grant	-	15,000
CNCS Learn and Serve Community Based Program	450,390	353,951
O'Shaughnessy	134,367	335,231
Thrive Foundation	125,000	125,000
Curtis Carlson Family Foundation	-	1,307
Capital One	216,581	112,581
Varenhorst Grant	-	40,000
Houston Endowment Conference Grant	50,000	100,000
Templeton Spirituality Grant	-	477,321
Altria	664,548	-
Lilly Foundation	719,427	-
Other Projects Related to Children and Adolescents	7,733	30,581
Total Purpose Restrictions	<u>2,378,046</u>	<u>1,667,293</u>
Time Restriction	155,000	25,000
Total Temporarily Restricted Net Assets	<u>\$ 2,533,046</u>	<u>\$ 1,692,293</u>

Permanently Restricted

	<u>2008</u>	<u>2007</u>
Peter L. Benson Endowment	<u>\$ 25,089</u>	<u>\$ 25,089</u>

Net Assets Released from Restrictions

	<u>2008</u>	<u>2007</u>
Purpose Restriction	\$ 2,927,203	\$ 1,984,347
Time Restriction	120,000	225,000
	<u>\$ 3,047,203</u>	<u>\$ 2,209,347</u>

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 6 ENDOWMENT

The Institute's endowment consists of one fund established for the Peter Benson Endowment. The endowment includes permanent endowments only. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the board of directors to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Search Institute has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (1) the original value of the gifts to the permanent endowment, (2) the value of subsequent gifts to the permanent endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift investment at the time the accumulation is added to the fund.

Endowment net asset composition by type and changes in endowment net assets for the years ended December 31 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>
Donor-Restricted Endowment Funds	\$ (2,989)	\$ -	\$ 25,089	\$ 22,100
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Donor-Restricted Endowment Funds	\$ 5,889	\$ -	\$ 25,089	\$ 30,978

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 6 ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) for the years ended December 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>
Endowment Investments, January 1, 2008	\$ 5,889	\$ -	\$ 25,089	\$ 30,978
Adoption of FSP 117-1	(5,889)	5,889	-	-
Investment Loss	(2,989)	(5,889)	-	(8,878)
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	-	-	-
Endowment Investments, December 31, 2008	<u>\$ (2,989)</u>	<u>\$ -</u>	<u>\$ 25,089</u>	<u>\$ 22,100</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Endowment Investments, January 1, 2007	\$ 1,252	\$ -	\$ 25,089	\$ 26,341
Investment Income	4,637	-	-	4,637
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	-	-	-
Endowment Investments, December 31, 2007	<u>\$ 5,889</u>	<u>\$ -</u>	<u>\$ 25,089</u>	<u>\$ 30,978</u>

Endowment Fund Deficiency

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted net assets were \$2,989 and \$-0- at December 31, 2008 and 2007, respectively. The deficiency resulted from unfavorable market fluctuations that occurred during 2007 and 2008 and continued appropriation for scholarships that were deemed prudent by the board of directors.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 6 ENDOWMENT (CONTINUED)

Investment Strategy, Return Objectives and Risk Parameters

The Institute invests its endowment fund in an interest in an investment portfolio managed by The Minneapolis Foundation, the general partner. Assets in the investment portfolio of the limited partnership are stated at quoted market value. The investment portfolio held by The Minneapolis Foundation invests the assets in a diversified portfolio consisting principally of domestic and foreign fixed income and equity securities.

Spending Policy and How Investment Objectives Relate to Spending

The net income from the endowment fund is to be distributed to the Institute to be used to carry out its general charitable purposes. Distributions of net income from the endowment fund shall be made at such time or times as the Minneapolis Foundation shall determine to be appropriate from time to time; provided, however, that whenever the Institute so requests, the net income of the endowment fund shall be added to and become a part of the principal of the Fund rather than being distributed to Search Institute. Grants distributed from the fund were \$1,015 in the years ended December 31, 2008 and 2007. All amounts distributed from the fund were spent during the respective years.

NOTE 7 RETIREMENT PLAN

The Institute has a Tax Sheltered Annuity Plan for substantially all employees. Under this plan, participants may contribute amounts subject to IRS limitations. The Institute matches 50% of eligible participants' contributions up to a maximum of 3.0% of compensation. An employee becomes eligible for the plan after 90 days of employment. Total contributions by the Institute for the years ended December 31, 2008 and 2007 were \$64,763 and \$58,628, respectively.

NOTE 8 COMMITMENTS

Rental expense for office space and equipment was \$595,300 and \$604,043 for the years ended December 31, 2008 and 2007, respectively. Operating lease agreements for equipment expire on various dates through 2009. The operating lease for office space expires in 2011. Minimum annual payments under terms of these operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 385,763
2010	391,356
2011	389,480
2012	544
Total	<u>\$ 1,167,143</u>

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 8 COMMITMENTS (CONTINUED)

In November 2005, the Institute amended their office lease to reduce the amount of leased space effective February 1, 2006, for purposes of reducing the minimum lease payments. The amendment included a termination penalty of \$113,000 to be paid over the remaining lease term, including interest at 9%. The termination penalty was included in rent expense in 2005, and the corresponding liability of \$64,171 and \$81,727 was included in the liability for Deferred Lease Credits at December 31, 2008 and 2007, respectively. Also included in Deferred Lease Credits is the difference between straight-line rent expense and cash paid for rent for the years ended December 31, 2008 and 2007 in the amounts of \$64,877 and \$74,963, respectively.

The Institute has entered into various hospitality contracts for purposes of hosting the Institute's annual conferences. The contracts include terms for the minimum room nights to be reserved by conference attendees and the minimum number of meals served. The Institute is generally liable for compensating the hospitality providers if minimum room and meal quotas are not met. At December 31, 2008, the Institute's commitments to hospitality providers totaled approximately \$200,000 for conferences scheduled through 2010.

NOTE 9 RELATED-PARTY TRANSACTIONS

The Institute has entered into certain business transactions with related parties consisting of one board member and two spouses of Search Institute employees. Payments to related parties were as follows for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Publishing of Books	<u>\$ 74,255</u>	<u>\$ 54,511</u>

SEARCH INSTITUTE
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			
	Program	Management and General	Fundraising	Total
Payroll	\$ 2,387,307	\$ 507,535	\$ 17,663	\$ 2,912,505
Fringe Benefits	382,510	81,679	2,838	467,027
Payroll Taxes	204,766	43,532	1,515	249,813
Telephone	5,535	15,312	215	21,062
Postage and Shipping	153,243	3,051	739	157,033
Supplies	36,707	19,234	92	56,034
Equipment Expense	16,203	47,223	100	63,527
Advertising and Promotion	142,363	4,770	397	147,530
Photocopies	20,969	7,022	-	27,991
Travel	186,822	22,920	34,125	243,867
Business Meetings	218,698	3,493	1,015	223,207
Professional and Outside Services	1,115,848	61,315	21,942	1,199,105
Professional Development	13,615	888	7,265	21,768
Books and Magazines	13,246	3,912	39	17,198
Occupancy and Maintenance	397,184	217,913	18,370	633,467
Cost of Goods Sold	482,180	-	-	482,180
Other and Miscellaneous	95,878	34,719	285	130,882
Total Expenses Before Depreciation	5,873,075	1,074,518	106,602	7,054,195
Depreciation	3,719	2,041	172	5,932
Total Expenses	\$ 5,876,794	\$ 1,076,559	\$ 106,774	\$ 7,060,127
	83%	15%	2%	100%

2007

Program	Management and General	Fundraising	Total
\$ 1,942,351	\$ 431,869	\$ 62,574	\$ 2,436,794
668,908	148,727	21,549	839,184
165,827	36,871	5,342	208,040
7,860	14,934	130	22,924
194,228	5,391	842	200,461
53,978	22,062	1,752	77,792
11,766	54,005	249	66,020
231,230	487	356	232,073
16,571	3,817	60	20,448
258,396	28,595	18,752	305,743
211,237	2,145	1,170	214,552
730,888	49,903	216,851	997,642
23,669	10,295	6,500	40,464
7,286	1,729	-	9,015
393,273	215,766	18,189	627,228
537,080	-	-	537,080
93,027	41,383	286	134,696
<u>5,547,575</u>	<u>1,067,979</u>	<u>354,602</u>	<u>6,970,156</u>
20,448	5,311	797	26,556
<u>\$ 5,568,023</u>	<u>\$ 1,073,290</u>	<u>\$ 355,399</u>	<u>\$ 6,996,712</u>
80%	15%	5%	100%

