SEARCH INSTITUTE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

SEARCH INSTITUTE
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Search Institute
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Search Institute (a nonprofit organization), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of activity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Search Institute as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Search Institute

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2013, on our consideration of Search Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Search Institute's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
July 19, 2013

SEARCH INSTITUTE
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 673,396	$ 2,084,752
Publications Receivable, Net	110,633	105,124
Prepaid Expenses and Other Assets	70,236	141,680
Inventory, Net	313,532	246,144
Deferred Costs - Current Portion	65,061	64,643
Contracts Receivable	136,263	51,066
Grants Receivable	229,701	1,227,149
Total Current Assets	1,598,822	3,920,558
EQUIPMENT AND LEASEHOLD IMPROVEMENTS		
Office Furniture and Equipment	1,064,512	1,059,800
Leasehold Improvements	119,320	109,642
Total	1,183,832	1,169,442
Less: Accumulated Depreciation and Amortization	(1,155,274)	(1,135,309)
Total Equipment and Leasehold Improvements, Net	28,558	34,133
OTHER ASSETS		
Investments	-	4,414
Long-Term Receivables, Net of Present Value Discount of $-0- and $15,862 for 2012 and 2011, Respectively	-	159,138
Deferred Costs - Long-Term Portion	68,714	142,011
Beneficial Interest in Assets Held by Others	24,181	22,708
Total Other Assets	92,895	328,271
Total Assets	$ 1,720,275	$ 4,282,962
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 407,872	$ 301,318
Accrued Liabilities	180,986	326,422
Deferred Contract Revenue	108,191	198,455
Deferred Lease Credits	47,233	31,871
Capital Lease Payable, Current	3,582	2,878
Total Current Liabilities	747,864	860,944
CAPITAL LEASE, LONG TERM	8,505	12,087
Total Liabilities	756,369	873,031
NET ASSETS		
Unrestricted Net Assets	170,831	709,815
Temporarily Restricted	767,986	2,675,027
Permanently Restricted	25,089	25,089
Total Net Assets	963,906	3,409,931
Total Liabilities and Net Assets	$ 1,720,275	$ 4,282,962

See accompanying Notes to Financial Statements.

SEARCH INSTITUTE
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Grants	$ -	$ 61,863	$ -	$ 61,863
Consulting	2,397,321	-	-	2,397,321
Curriculum Sales and Training	1,562,295	-	-	1,562,295
Contributions	53,297	-	-	53,297
Royalties	2,839	-	-	2,839
Net Realized and Unrealized Gain	2,756	-	-	2,756
Other	102,108	-	-	102,108
Subtotal	4,120,616	61,863	-	4,182,479
Net Assets Released from Restrictions	1,968,904	(1,968,904)	-	-
Total Support and Revenue	6,089,520	(1,907,041)	-	4,182,479
OPERATING EXPENSE				
Program Services	5,305,913	-	-	5,305,913
Management and General	1,218,919	-	-	1,218,919
Fundraising	103,672	-	-	103,672
Total Expense	6,628,504	-	-	6,628,504
CHANGE IN NET ASSETS FROM OPERATING ACTIVITY	(538,984)	(1,907,041)	-	(2,446,025)
NON-OPERATING ACTIVITY				
Life Insurance Proceeds	-	-	-	-
CHANGE IN NET ASSETS	(538,984)	(1,907,041)	-	(2,446,025)
Net Assets - Beginning of Year	709,815	2,675,027	25,089	3,409,931
NET ASSETS - END OF YEAR	$ 170,831	$ 767,986	$ 25,089	$ 963,906

See accompanying Notes to Financial Statements.

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ -	$ 1,651,909	$ -	$ 1,651,909
1,589,960	-	-	1,589,960
1,717,978	-	-	1,717,978
120,253	-	-	120,253
6,645	-	-	6,645
9,484	-	-	9,484
15,438	-	-	15,438
3,459,758	1,651,909	-	5,111,667
1,474,008	(1,474,008)	-	-
4,933,766	177,901	-	5,111,667
4,434,513	-	-	4,434,513
1,537,712	-	-	1,537,712
118,688	-	-	118,688
6,090,913	-	-	6,090,913
(1,157,147)	177,901	-	(979,246)
2,005,740	-	-	2,005,740
848,593	177,901	-	1,026,494
(138,778)	2,497,126	25,089	2,383,437
$ 709,815	$ 2,675,027	$ 25,089	$ 3,409,931

SEARCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Operating Net Assets	$ (2,446,025)	$ (979,246)
Adjustments to Reconcile Change in Operating Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	19,964	17,061
Unrealized Gains on Investments	(2,756)	(9,484)
(Increase) Decrease in Assets:		
Publications Receivable	(5,509)	100,770
Prepaid Expenses and Other Assets	71,444	(14,547)
Inventory	(67,388)	99,015
Deferred Costs	72,879	199
Contracts Receivable	(85,197)	190,216
Grants Receivable	1,156,586	(307,682)
Increase (Decrease) in Liabilities:		
Accounts Payable	106,554	(67,752)
Accrued Liabilities	(145,436)	(50,692)
Deferred Contract Revenue	(90,264)	10,805
Deferred Lease Credits	15,362	23,253
Net Cash Provided Used by Operating Activities	(1,399,786)	(988,084)
CASH FLOWS FROM INVESTING ACTIVITIES		
Life Insurance Proceeds	-	2,005,740
Purchases of Fixed Assets	(14,389)	(13,818)
Proceeds from Sale of Investments	5,697	315,125
Net Cash Provided (Used) by Investing Activities	(8,692)	2,307,047
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Line of Credit	-	(87,004)
Payments on Capital Lease	(2,878)	(2,312)
Net Cash Used by Financing Activities	(2,878)	(89,316)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,411,356)	1,229,647
Cash and Cash Equivalents - Beginning	2,084,752	855,105
CASH AND CASH EQUIVALENTS - ENDING	$ 673,396	$ 2,084,752

See accompanying Notes to Financial Statements.

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

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.

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.

Non-Operating Activity

Non-operating income as of December 31, 2011 includes proceeds from a life insurance policy on the former President in which the Institute owned and was the beneficiary of.

Accounting Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles (GAAP). 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.

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 statements 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 $75,000 and $10,000 at December 31, 2012 and 2011, respectively. At December 31, 2012, one organization comprised 13% of publications receivable; no concentrations were noted in contracts receivable; and two organizations comprised 90% of grants receivable. At December 31, 2011, three organizations comprised 41% of publications receivable; four organizations comprised 95% of contracts receivable; and two organizations comprised 90% of grants receivable.

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 not be saleable based on historical data. The allowances for obsolescence were $131,005 and $185,371 at December 31, 2012 and 2011, respectively.

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. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 five years.

Leasehold Improvements

Leasehold improvements are recorded at cost and are being amortized over the shorter of the useful life or the term of the lease.

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. Two organizations comprised 93% and four organizations comprised 95% of grant revenue of grant revenue for the years ended December 31, 2012 and 2011, respectively.

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. Amounts received related to contract revenue and not yet earned, are recorded is deferred contract revenue.

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, 2012 and 2011, the Institute recorded shipping and handling fees of $70,284 and $60,369, respectively, which are included in curriculum sales revenue on the statement of activity.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are charged to operations when the advertising takes place. Advertising expense was $101,619 and $71,699 for the years ended December 31, 2012 and 2011, 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 follows a policy that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this policy had no impact on the Institute's financial statements.

The Institute's 2009 to 2011 tax years are open for examination by the IRS.

Fair Value Measurements

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 valued at fair value 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

Uniform Prudent Management of Institutional Funds Act

The Institute follows the rules relating to Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance on the classification of endowment fund net assets for states that have enacted versions of the UPMIFA, and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment fund assets are considered restricted. The financial statement impact of UPMIFA is detailed in Note 5.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through July 19, 2013, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS

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

	2012	2011
Limited Partnership	$ -	$ 4,414
Beneficial Interest in Assets Held by Others	24,181	22,708
Total	$ 24,181	$ 27,122

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, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total
Limited Partnership	$ -	$ -	$ -	$ -
Beneficial Interest in Assets Held by Others	-	-	24,181	24,181
Total	$ -	$ -	$ 24,181	$ 24,181

	2011			
	Level 1	Level 2	Level 3	Total
Limited Partnership	$ -	$ -	$ 4,414	$ 4,414
Beneficial Interest in Assets Held by Others	-	-	22,708	22,708
Total	$ -	$ -	$ 27,122	$ 27,122

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 years ended December 31, 2012 and 2011:

	2012 Limited Partnership	2012 Beneficial Interest	2012 Combined Total
Balance as of January 1, 2012	$ 4,414	$ 22,708	$ 27,122
Unrealized Gain in Net Asset Value	425	1,473	1,898
Withdrawals	(4,839)	-	(4,839)
Balance as of December 31, 2012	$ -	$ 24,181	$ 24,181

	2011 Limited Partnership	2011 Beneficial Interest	2011 Combined Total
Balance as of January 1, 2011	$ 308,844	$ 23,919	$ 332,763
Unrealized Gain (Loss) in Net Asset Value	10,695	(1,211)	9,484
Withdrawals	(315,125)	-	(315,125)
Balance as of December 31, 2011	$ 4,414	$ 22,708	$ 27,122

NOTE 2 INVESTMENTS (CONTINUED)

Level 3 Assets and Liabilities (Continued)

The organization's assets at The Minneapolis Foundation are held in the "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.

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:

	2012	2011
Net Realized and Unrealized Gain on Investments	$ 2,756	$ 9,484
Other Revenue - Interest and Dividends	2,947	4,566
Total	$ 5,703	$ 14,050

NOTE 3 LINE OF CREDIT

The Institute entered into a $100,000 revolving line of credit agreement bearing interest at 7% (based on prime plus 3.75%) as of December 31, 2012. There were no advances under the line of credit as of December 31, 2012 and 2011, respectively. The line of credit is unsecured.

NOTE 4 NET ASSETS

Temporarily Restricted

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

	2012	2011
Purpose Restrictions:		
Altria Phase III	$ -	$ 1,600,000
The Rural School and Community Trust	330,564	419,422
Best Buy	165,282	229,423
Minneapolis Foundation	66,113	95,122
Cargill Foundation	66,113	95,122
Carlson Foundation	66,113	93,326
Annie E. Casey	-	75,000
Target Corporation	33,056	47,561
Trillium	-	30,000
Bremer Foundation	33,056	-
Other Projects Related to Children and Adolescents	7,689	5,913
Present Value Discount	-	(15,862)
Total Temporarily Restricted Net Assets	$ 767,986	$ 2,675,027

NOTE 4 NET ASSETS (CONTINUED)

Permanently Restricted

	2012	2011
Peter L. Benson Endowment	$ 25,089	$ 25,089

Net Assets Released from Restrictions

	2012	2011
Purpose Restriction	$ 1,968,904	$ 1,474,008

NOTE 5 ENDOWMENT

The Institute's endowment consists of one fund established as the Peter Benson Endowment. The endowment includes permanent endowments only. As required by GAAP, 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 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:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Donor-Restricted Endowment Funds	$ (908)	$ -	$ 25,089	$ 24,181

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Donor-Restricted Endowment Funds	$ (2,381)	$ -	$ 25,089	$ 22,708

NOTE 5 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

The following is a summary of endowment funds subject to UPMIFA for the years ended December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Endowment Investments, January 1, 2012	$ (2,381)	$ -	$ 25,089	$ 22,708
Investment Income	1,473	-	-	1,473
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	-	-	-	-
Endowment Investments, December 31, 2012	$ (908)	$ -	$ 25,089	$ 24,181

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Endowment Investments, January 1, 2011	$ (1,170)	$ -	$ 25,089	$ 23,919
Investment Loss	(281)	-	-	(281)
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	(930)	-	-	(930)
Endowment Investments, December 31, 2011	$ (2,381)	$ -	$ 25,089	$ 22,708

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 $908 and $2,381 at December 31, 2012 and 2011, respectively. The deficiency resulted from unfavorable market fluctuations. The Institute continued appropriation for operations that were deemed prudent by the board of directors.

NOTE 5 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 $929 and $930 for the years ended December 31, 2012 and 2011, respectively. All amounts distributed from the fund were spent during the respective years.

NOTE 6 RETIREMENT PLAN

In 2011, The Institute had a Tax Sheltered Annuity Plan for substantially all employees. Under this plan, participants contributed amounts subject to IRS limitations. The Institute matched 50% of eligible participants' contributions up to a maximum of 3.0% of compensation. An employee became eligible for the plan after 90 days of employment. In 2012, this pension plan was terminated and the remaining retirement plan is a 403(b) plan that only accepts employee contributions. Total contributions by the Institute for the years ended December 31, 2012 and 2011 were $-0- and $39,579, respectively.

NOTE 7 COMMITMENTS

Rental expense for office space and equipment was $288,240 and $286,581 for the years ended December 31, 2012 and 2011, respectively. Operating lease agreements for equipment expire on various dates through 2013. The operating lease for office space expires in 2017. Minimum annual payments under terms of these operating leases are as follows:

Year Ending December 31,	Amount
2013	$ 301,167
2014	307,318
2015	315,926
2016	307,334
2017	287,446
Total	$ 1,519,191

NOTE 7 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 $47,233 and $31,872 was included in the liability for Deferred Lease Credits at December 31, 2012 and 2011, respectively. As part of the renegotiated lease, as of August 31, 2010 Search and the lessor agreed to terminate a portion of the Suite leased by Search. The remaining portion of the suite rented will continue through November 30, 2017. Also included in the Deferred Lease Credit balance is the difference between straight-line rent expense and cash paid for rent for the years ended December 31, 2012 and 2011 in the amount of $15,361 and $23,254, respectively.

NOTE 8 CAPITAL LEASE OBLIGATION

The Institute entered into a telephone equipment capital lease expiring in 2015. The liability is payable in monthly installments of $492, including principal and interest. The following summarizes the cost of property financed under the lease:

	2012	2011
Cost of Equipment	$ 18,107	$ 18,107
Less: Accumulated Depreciation	8,148	4,527
Total	$ 9,959	$ 13,580

The amount of depreciation expense was $3,621 on equipment under capital lease for each of the years ended December 31, 2012 and 2011. The capital lease payable was $12,087 and $14,965 as of December 31, 2012 and 2011, respectively.

Future minimum capital lease payments are as follows:

Year Ending December 31,	Amount
2013	$ 5,904
2014	5,904
2015	4,428
Less: Interest Expense	(4,149)
Total	$ 12,087

NOTE 9 RENTAL INCOME

In January 2012, the Institute entered into a sublease agreement for certain office space. This lease runs through January 2013 with an option for renewal for three years. The sublease agreement was not renewed in January 2013. Search Institute agreed to continue subleasing the space on a month-to-month basis to the same sub lessee for the same price of $6,678 plus additional shared service costs.

NOTE 10 RELATED-PARTY TRANSACTIONS

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

	2012	2011
Publishing of Books	$ 14,000	$ 31,000

NOTE 11 CONTRIBUTED SERVICES

The Institute received contributed services that do not qualify to be recognized as revenue under GAAP. For the years ended December 31, 2012 and 2011, contributed services of $-0- and $1,125,660, respectively, were received from Altria's tobacco operating companies (Philip Morris USA, U.S. Smokeless Tobacco Co. and John Middleton Co.), to provide branding and communication services from Young & Rubicam to develop and promote Search Institute's website, www.parentfurther.com.

NOTE 12 OPERATIONS

The significant change in Search Institute's total current assets from 2011 to 2012 was a result of the receipt in 2011 of a $2 million life insurance settlement following the death of its president. Much of the settlement was used for operations in 2011 and the remainder in 2012. The total assets reported in Search Institute's 2012 audited financial statements reflect historic norms prior to the insurance settlement. Search Institute's Board of Directors and senior management have concluded that those historic norms do not provide a sound financial foundation upon which the organization's future growth can be built. As a result, the board and management have launched a comprehensive effort to develop a new organizational strategy, structure and business model.

NOTE 12 OPERATIONS (CONTINUED)

The redesign and restructuring of Search Institute began with the selection of a new president and CEO in August 2012. Since that time, management has reduced expenses by cutting 45% of the staff and eliminating or significantly reducing costs in every area of the organization. As a result of these reductions, all of the departments and functions at Search Institute have been reorganized. Those functions notably include finance and accounting, which has been re-staffed and is being reorganized in 2013 to improve the financial management of the organization. Search Institute's largest continuing expense is the cost of leasing its office space under an agreement that extends through the end of 2017. To reduce the effect of that obligation, one major subtenant has moved into Search Institute's office space and another is negotiating to do so in early 2014.

Over the course of the past year, a new strategic direction and mode of operation has also been developed. Search Institute's previous business model focused on conducting research funded through grants and disseminating the conclusions of that research through Search Institute Press; Search Institute's new business model focuses on conducting research and helping organizations and partnerships act upon that research through consulting and technical assistance.

As Search Institute transitions from functioning as a research and dissemination organization into a research and improvement organization, three major strategic shifts are underway. First, Search Institute has formed a new partnership with a software and data management company to make its surveys and services available on a much broader scale. Second, Search Institute is currently negotiating to transfer Search Institute Press to a respected publisher of books and materials for young people. When an agreement is executed and fully implemented, Search Institute will receive royalty payments for its most marketable books and materials but will not bear the cost of producing, marketing or distributing those products. Third, Search Institute has designed and launched a consulting practice that helps schools, youth programs and community coalitions understand and act upon the information and the data that is generated by Search Institute's surveys and qualitative research processes.

SEARCH INSTITUTE
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2012			
	Program	Management and General	Fundraising	Total
Payroll	$ 1,349,883	$ 598,512	$ 64,143	$ 2,012,538
Fringe Benefits and Payroll Taxes	311,373	138,057	14,796	464,226
Telephone	15,230	6,753	724	22,707
Postage and Shipping	55,952	24,808	2,659	83,419
Supplies	19,284	8,550	916	28,750
Equipment Expense	2,338	20,793	-	23,131
Advertising and Promotion	101,619	-	-	101,619
Photocopies	13,355	5,921	635	19,911
Travel	238,828	10,661	1,421	250,910
Business Meetings	11,818	2,326	470	14,614
Professional and Outside Services	2,411,990	176,550	257	2,588,797
Professional Development	15,217	2,892	-	18,109
Books and Magazines	810	227	-	1,037
Occupancy and Maintenance	334,637	148,372	15,901	498,910
Cost of Goods Sold	386,755	-	-	386,755
Bad Debt Expense	-	58,170	-	58,170
Other and Miscellaneous	23,433	10,390	1,114	34,937
Total Expenses Before Depreciation	5,292,522	1,212,982	103,036	6,608,540
Depreciation and Amortization	13,391	5,937	636	19,964
Total Expenses	$ 5,305,913	$ 1,218,919	$ 103,672	$ 6,628,504
	80%	18%	2%	100%

2011			
Program	Management and General	Fundraising	Total
$ 1,629,517	$ 687,732	$ 28,288	$ 2,345,537
494,368	218,064	10,275	722,707
2,702	16,840	368	19,910
91,736	995	717	93,448
19,516	21,170	118	40,804
2,297	28,007	-	30,304
71,640	-	59	71,699
3,169	13,258	-	16,427
154,635	27,243	2,100	183,978
16,918	7,826	346	25,090
1,097,861	162,083	62,212	1,322,156
31,974	9,045	3,308	44,327
1,877	744	26	2,647
363,307	152,694	10,531	526,532
415,385	-	-	415,385
-	129,270	-	129,270
25,838	57,793	-	83,631
4,422,740	1,532,764	118,348	6,073,852
11,773	4,948	340	17,061
$ 4,434,513	$ 1,537,712	$ 118,688	$ 6,090,913
73%	25%	2%	100%