SEARCH INSTITUTE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

SEARCH INSTITUTE
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YEARS ENDED DECEMBER 31, 2014 AND 2013

CliftonLarsonAllen LLP
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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, 2014 and 2013, 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. Those standards require that we plan and perform the audit 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, 2014 and 2013, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 10, 2015

SEARCH INSTITUTE
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,085,090	$ 1,104,490
Publications Receivable, Net	33,420	85,230
Prepaid Expenses and Other Assets	160,600	105,556
Inventory, Net	168,360	192,251
Deferred Costs - Current Portion	20,425	48,289
Contracts Receivable	206,235	295,871
Grants Receivable	-	125,216
Total Current Assets	1,674,130	1,956,903
PROPERTY, PLANT AND EQUIPMENT		
Office Furniture and Equipment	1,073,637	1,064,512
Website	84,350	-
Leasehold Improvements	119,320	119,320
Total	1,277,307	1,183,832
Less: Accumulated Depreciation and Amortization	(1,177,138)	(1,166,354)
Total Property, Plant and Equipment, Net	100,169	17,478
OTHER ASSETS		
Deferred Costs - Long-Term Portion	-	21,001
Beneficial Interest in Assets Held by Others	28,092	27,956
Total Other Assets	28,092	48,957
Total Assets	$ 1,802,391	$ 2,023,338
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 101,808	$ 215,549
Accrued Liabilities	137,284	136,449
Deferred Contract Revenue	241,967	261,033
Deferred Lease Credits	53,296	54,448
Capital Lease Payable, Current	4,047	4,459
Total Current Liabilities	538,402	671,938
CAPITAL LEASE, LONG-TERM	-	4,046
Total Liabilities	538,402	675,984
NET ASSETS		
Unrestricted	455,912	212,252
Temporarily Restricted	779,985	1,110,013
Permanently Restricted	28,092	25,089
Total Net Assets	1,263,989	1,347,354
Total Liabilities and Net Assets	$ 1,802,391	$ 2,023,338

See accompanying Notes to Financial Statements.

SEARCH INSTITUTE
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Grants	$ -	$ 841,060	$ -	$ 841,060
Consulting	2,312,422	-	-	2,312,422
Curriculum Sales and Training	1,137,020	-	-	1,137,020
Contributions	67,340	-	-	67,340
Royalties	27,107	-	-	27,107
Net Realized and Unrealized Gain	-	-	3,003	3,003
Other	214,884	-	-	214,884
Subtotal	3,758,773	841,060	3,003	4,602,836
Net Assets Released from Restrictions	1,171,088	(1,171,088)	-	-
Total Support and Revenue	4,929,861	(330,028)	3,003	4,602,836
OPERATING EXPENSE				
Program Services	3,926,610	-	-	3,926,610
Management and General	731,876	-	-	731,876
Fundraising	27,715	-	-	27,715
Total Expense	4,686,201	-	-	4,686,201
CHANGE IN NET ASSETS	243,660	(330,028)	3,003	(83,365)
Net Assets - Beginning of Year	212,252	1,110,013	25,089	1,347,354
NET ASSETS - END OF YEAR	$ 455,912	$ 779,985	$ 28,092	$ 1,263,989

See accompanying Notes to Financial Statements.

2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 25,000	$ 1,350,000	$ -	$ 1,375,000
2,277,964	-	-	2,277,964
1,310,202	-	-	1,310,202
107,366	-	-	107,366
13,263	-	-	13,263
4,064	-	-	4,064
121,189	-	-	121,189
3,859,048	1,350,000	-	5,209,048
1,007,973	(1,007,973)	-	-
4,867,021	342,027	-	5,209,048
4,164,179	-	-	4,164,179
653,155	-	-	653,155
8,266	-	-	8,266
4,825,600	-	-	4,825,600
41,421	342,027	-	383,448
170,831	767,986	25,089	963,906
$ 212,252	$ 1,110,013	$ 25,089	$ 1,347,354

SEARCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Operating Net Assets	$ (83,365)	$ 383,448
Adjustments to Reconcile Change in Operating Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	10,783	11,080
Change in Investment Value in Beneficial Interests	(136)	(4,064)
(Increase) Decrease in Assets:		
Publications Receivable	51,810	25,403
Prepaid Expenses and Other Assets	(55,044)	(35,320)
Inventory	23,891	121,281
Deferred Costs	48,865	64,485
Contracts Receivable	89,636	(159,608)
Grants Receivable	125,216	104,485
Increase (Decrease) in Liabilities:		
Accounts Payable	(113,741)	(192,323)
Accrued Liabilities	835	(44,537)
Deferred Contract Revenue	(19,066)	152,842
Deferred Lease Credits	(1,152)	7,215
Net Cash Provided by Operating Activities	78,532	434,387
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property, Plant and Equipment	(93,474)	-
Proceeds from Sale of Investments	-	289
Net Cash Provided (Used) by Investing Activities	(93,474)	289
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease	(4,458)	(3,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,400)	431,094
Cash and Cash Equivalents - Beginning	1,104,490	673,396
CASH AND CASH EQUIVALENTS - ENDING	$ 1,085,090	$ 1,104,490

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 survey services, 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.

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.

Contingencies

Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Institute will record such disallowance at the time the final assessment is made. The Institute currently had an indirect cost rate as part of its federal grant that was effective through December 31, 2012. They are currently negotiating their 2013 and 2014 indirect cost rates.

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 $13,031 and $25,245 at December 31, 2014 and 2013, respectively.

At December 31, 2014, three organizations comprised 65% of publications receivable; two organizations comprise 59% of contracts receivable; and no concentrations were noted in grants receivable. At December 31, 2013, two organizations comprised 28% of publications receivable; one organization comprised 72% of contracts receivable; and one organization comprised 99% 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 allowance for obsolescence was $130,153 at December 31, 2014 and 2013.

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.

Website

Websites acquisitions in excess of $1,000 are recorded cost. Depreciation is computed using the straight-line method over an estimated useful life of three years.

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 92% and 100% of grant revenue for the years ended December 31, 2014 and 2013, 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 as 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, 2014 and 2013, the Institute recorded shipping and handling fees of $46,609 and $62,611, 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 $10,494 and $15,834 for the years ended December 31, 2014 and 2013, 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.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 of The Master Fund at The Minneapolis Foundation.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through June 10, 2015, 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:

	2014	2013
Beneficial Interest in Assets Held by Others	$ 28,092	$ 27,956

The following tables present 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, 2014 and 2013:

	2014			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets Held by Others	$ -	$ -	$ 28,092	$ 28,092

	2013			
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets Held by Others	$ -	$ -	$ 27,956	$ 27,956

NOTE 2 INVESTMENTS (CONTINUED)

Level 3 Assets and Liabilities

The following tables provide a summary of changes in fair value of the Institute's Level 3 financial assets for the years ended December 31, 2014 and 2013:

	2014 Beneficial Interest
Balance as of January 1, 2014	$ 27,956
Unrealized Gain in Net Asset Value	1,148
Withdrawals	(1,012)
Balance as of December 31, 2014	$ 28,092

	2013 Beneficial Interest
Balance as of January 1, 2013	$ 24,181
Unrealized Gain in Net Asset Value	4,732
Withdrawals	(957)
Balance as of December 31, 2013	$ 27,956

The Institute'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.

NOTE 3 LINE OF CREDIT

The Institute has a $100,000 revolving line of credit agreement bearing interest at 7% (based on prime plus 3.75%) as of December 31, 2014. There were no advances under the line of credit as of December 31, 2014 and 2013. The line of credit is unsecured.

NOTE 4 NET ASSETS

Temporarily Restricted

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

	2014	2013
Purpose Restrictions:		
Altria Phase III	$ 314,412	$ 434,260
Disney	74,815	242,919
The Rural School and Community Trust	85,133	188,188
Best Buy	42,567	94,094
Minneapolis Foundation	17,027	37,638
Cargill Foundation	17,027	37,638
Carlson Foundation	17,027	37,638
Target Corporation	8,513	18,819
Bremer Foundation	8,513	18,819
Ting Family Foundation Matching Grant	24,951	-
Schulze Family Foundation	170,000	-
Total Temporarily Restricted Net Assets	$ 779,985	$ 1,110,013

Permanently Restricted

	2014	2013
Beneficial Interest in Assets Held by Others	$ 28,092	$ 25,089

Net Assets Released from Restrictions

	2014	2013
Purpose Restriction	$ 1,171,088	$ 1,007,973

NOTE 5 RETIREMENT PLAN

In 2012, the Institute started a new 403(b) retirement plan that only accepts employee contributions. Total contributions by the Institute for the years ended December 31, 2014 and 2013 were $-0-.

NOTE 6 COMMITMENTS

Rental expense for office space and equipment was $306,134 and $303,311 based on agreements for equipment which expire on various dates through 2016. 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
2015	$ 315,925
2016	307,334
2017	287,446
Total	$ 910,705

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 $53,296 and $54,448 was included in the liability for Deferred Lease Credits at December 31, 2014 and 2013, 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.

NOTE 7 CAPITAL LEASE OBLIGATION

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

	2014	2013
Cost of Equipment	$ 18,107	$ 18,107
Less: Accumulated Depreciation	15,391	11,769
Total	$ 2,716	$ 6,338

The amount of depreciation expense was $3,622 on equipment under capital lease for each of the years ended December 31, 2014 and 2013. The capital lease payable was $4,047 and $8,505 as of December 31, 2014 and 2013, respectively.

NOTE 7 CAPITAL LEASE OBLIGATION (CONTINUED)

Future minimum capital lease payments are as follows:

Year Ending December 31,	Amount
2015	$ 4,428
Less: Interest Expense	(381)
Total	$ 4,047

NOTE 8 RENTAL INCOME

As of December 31, 2014 the Institute had entered three sublease agreements for certain office space. The subleases run through November 30, 2017 and have varying monthly payments plus shared service costs. Future minimum sublease receipts are as follows:

Year Ending December 31,	Amount
2015	$ 179,338
2016	183,845
2017	172,699
Total	$ 535,882

SEARCH INSTITUTE
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			
	Program	Management and General	Fundraising	Total
Payroll	$ 1,030,067	$ 266,010	$ 13,537	$ 1,309,614
Fringe Benefits and Payroll Taxes	264,621	68,337	3,478	336,436
Office Expenses	78,174	20,274	1,521	99,969
Advertising and Promotion	8,227	-	2,267	10,494
Travel and Business Meeting	274,656	9,100	64	283,820
Professional and Outside Services	591,914	80,409	3,581	675,904
Pass-Through Payments	1,151,815	-	-	1,151,815
Professional Development	-	-	-	-
Occupancy and Maintenance	250,680	233,059	3,267	487,006
Cost of Goods Sold	274,010	-	-	274,010
Bad Debt Expense	-	40,232	-	40,232
Other and Miscellaneous	2,446	3,672	-	6,118
Total Expenses Before Depreciation	3,926,610	721,093	27,715	4,675,418
Depreciation and Amortization	-	10,783	-	10,783
Total Expenses	$ 3,926,610	$ 731,876	$ 27,715	$ 4,686,201
	84%	16%	1%	100%

2013			
Program	Management and General	Fundraising	Total
$ 1,089,600	$ 241,072	$ 5,090	$ 1,335,762
271,423	60,052	1,268	332,743
97,890	21,055	461	119,406
15,833	-	-	15,833
164,555	5,778	545	170,878
523,765	229,841	184	753,790
1,071,586	-	-	1,071,586
13,930	3,327	718	17,975
453,418	54,521	-	507,939
462,157	-	-	462,157
-	21,127	-	21,127
22	5,302	-	5,324
4,164,179	642,075	8,266	4,814,520
-	11,080	-	11,080
$ 4,164,179	$ 653,155	$ 8,266	$ 4,825,600
86%	14%	0%	100%