

SEARCH INSTITUTE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

**SEARCH INSTITUTE
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YEARS ENDED DECEMBER 31, 2013 AND 2012**

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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, 2013 and 2012, 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, 2013 and 2012, 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.

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

Minneapolis, Minnesota
June 3, 2014

**SEARCH INSTITUTE
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,104,490	\$ 673,396
Publications Receivable, Net	85,230	110,633
Prepaid Expenses and Other Assets	105,556	70,236
Inventory, Net	192,251	313,532
Deferred Costs - Current Portion	48,289	65,061
Contracts Receivable	295,871	136,263
Grants Receivable	125,216	229,701
Total Current Assets	1,956,903	1,598,822
EQUIPMENT AND LEASEHOLD IMPROVEMENTS		
Office Furniture and Equipment	1,064,512	1,064,512
Leasehold Improvements	119,320	119,320
Total	1,183,832	1,183,832
Less: Accumulated Depreciation and Amortization	(1,166,354)	(1,155,274)
Total Equipment and Leasehold Improvements, Net	17,478	28,558
OTHER ASSETS		
Deferred Costs - Long-Term Portion	21,001	68,714
Beneficial Interest in Assets Held by Others	27,956	24,181
Total Other Assets	48,957	92,895
Total Assets	\$ 2,023,338	\$ 1,720,275
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 215,549	\$ 407,872
Accrued Liabilities	136,449	180,986
Deferred Contract Revenue	261,033	108,191
Deferred Lease Credits	54,448	47,233
Capital Lease Payable, Current	4,459	3,582
Total Current Liabilities	671,938	747,864
CAPITAL LEASE, LONG-TERM		
Total Liabilities	4,046	8,505
Total Liabilities	675,984	756,369
NET ASSETS		
Unrestricted	212,252	170,831
Temporarily Restricted	1,110,013	767,986
Permanently Restricted	25,089	25,089
Total Net Assets	1,347,354	963,906
Total Liabilities and Net Assets	\$ 2,023,338	\$ 1,720,275

See accompanying Notes to Financial Statements.

**SEARCH INSTITUTE
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING SUPPORT AND REVENUE				
Grants	\$ 25,000	\$ 1,350,000	\$ -	\$ 1,375,000
Consulting	2,277,964	-	-	2,277,964
Curriculum Sales and Training	1,310,202	-	-	1,310,202
Contributions	107,366	-	-	107,366
Royalties	13,263	-	-	13,263
Net Realized and Unrealized Gain	4,064	-	-	4,064
Other	121,189	-	-	121,189
Subtotal	3,859,048	1,350,000	-	5,209,048
Net Assets Released from Restrictions	1,007,973	(1,007,973)	-	-
Total Support and Revenue	4,867,021	342,027	-	5,209,048
OPERATING EXPENSE				
Program Services	4,164,179	-	-	4,164,179
Management and General	653,155	-	-	653,155
Fundraising	8,266	-	-	8,266
Total Expense	4,825,600	-	-	4,825,600
CHANGE IN NET ASSETS	41,421	342,027	-	383,448
Net Assets - Beginning of Year	170,831	767,986	25,089	963,906
NET ASSETS - END OF YEAR	<u>\$ 212,252</u>	<u>\$ 1,110,013</u>	<u>\$ 25,089</u>	<u>\$ 1,347,354</u>

See accompanying Notes to Financial Statements.

2012

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 61,863	\$ -	\$ 61,863
2,397,321	-	-	2,397,321
1,562,295	-	-	1,562,295
53,297	-	-	53,297
2,839	-	-	2,839
2,756	-	-	2,756
102,108	-	-	102,108
4,120,616	61,863	-	4,182,479
1,968,904	(1,968,904)	-	-
6,089,520	(1,907,041)	-	4,182,479
5,305,913	-	-	5,305,913
1,218,919	-	-	1,218,919
103,672	-	-	103,672
6,628,504	-	-	6,628,504
(538,984)	(1,907,041)	-	(2,446,025)
709,815	2,675,027	25,089	3,409,931
\$ 170,831	\$ 767,986	\$ 25,089	\$ 963,906

**SEARCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Operating Net Assets	\$ 383,448	\$ (2,446,025)
Adjustments to Reconcile Change in Operating Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	11,080	19,964
Unrealized Gains on Investments	(4,064)	(2,756)
(Increase) Decrease in Assets:		
Publications Receivable	25,403	(5,509)
Prepaid Expenses and Other Assets	(35,320)	71,444
Inventory	121,281	(67,388)
Deferred Costs	64,485	72,879
Contracts Receivable	(159,608)	(85,197)
Grants Receivable	104,485	1,156,586
Increase (Decrease) in Liabilities:		
Accounts Payable	(192,323)	106,554
Accrued Liabilities	(44,537)	(145,436)
Deferred Contract Revenue	152,842	(90,264)
Deferred Lease Credits	7,215	15,362
Net Cash Provided (Used) by Operating Activities	<u>434,387</u>	<u>(1,399,786)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Fixed Assets	-	(14,389)
Proceeds from Sale of Investments	289	5,697
Net Cash Provided (Used) by Investing Activities	<u>289</u>	<u>(8,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease	<u>(3,582)</u>	<u>(2,878)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	431,094	(1,411,356)
Cash and Cash Equivalents - Beginning	<u>673,396</u>	<u>2,084,752</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,104,490</u>	<u>\$ 673,396</u>

See accompanying Notes to Financial Statements.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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.

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.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Equivalents (Continued)

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 \$25,245 and \$75,000 at December 31, 2013 and 2012, respectively.

At December 31, 2013, two organizations comprised 28% of publications receivable; one organization comprise 72% of contracts receivable; and one organization comprised 99% of grants receivable. 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.

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 \$130,153 and \$131,005 at December 31, 2013 and 2012, 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.

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.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 100% and 93% of grant revenue for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, the Institute recorded shipping and handling fees of \$62,611 and \$70,284, 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.

Advertising Costs

Advertising costs are charged to operations when the advertising takes place. Advertising expense was \$15,834 and \$101,619 for the years ended December 31, 2013 and 2012, respectively.

SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Institute's 2010 to 2012 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.

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.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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.

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.

Reclassifications

Certain reclassifications of the functional expenses have been made to prior year financial statements to confirm to the current year presentation. The reclassifications had no effects on the change in net assets or total net assets as previously reported.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through June 3, 2014, 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:

	<u>2013</u>	<u>2012</u>
Beneficial Interest in Assets Held by Others	<u>\$ 27,956</u>	<u>\$ 24,181</u>

SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 INVESTMENTS (CONTINUED)

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, 2013 and 2012:

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

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

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, 2013 and 2012:

	2013 Limited Partnership	2013 Beneficial Interest	2013 Combined Total
Balance as of January 1, 2013	\$ -	\$ 24,181	\$ 24,181
Unrealized Gain in Net Asset Value	-	4,732	4,732
Withdrawals	-	(957)	(957)
Balance as of December 31, 2013	<u>\$ -</u>	<u>\$ 27,956</u>	<u>\$ 27,956</u>

	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	2,402	2,827
Withdrawals	(4,839)	(929)	(5,768)
Balance as of December 31, 2012	<u>\$ -</u>	<u>\$ 24,181</u>	<u>\$ 24,181</u>

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.

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:

	2013	2012
Net Realized and Unrealized Gain on Investments	\$ 4,064	\$ 2,756
Other Revenue - Interest and Dividends	1,434	2,947
Total	<u>\$ 5,498</u>	<u>\$ 5,703</u>

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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, 2013. There were no advances under the line of credit as of December 31, 2013 and 2012, respectively. The line of credit is unsecured.

NOTE 4 NET ASSETS

Temporarily Restricted

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

	<u>2013</u>	<u>2012</u>
Purpose Restrictions:		
Altria Phase III	\$ 434,260	\$ -
Disney	242,919	-
The Rural School and Community Trust	188,188	330,564
Best Buy	94,094	165,282
Minneapolis Foundation	37,638	66,113
Cargill Foundation	37,638	66,113
Carlson Foundation	37,638	66,113
Target Corporation	18,819	33,056
Bremer Foundation	18,819	33,056
Other Projects Related to Children and Adolescents	-	7,689
Total Temporarily Restricted Net Assets	<u>\$ 1,110,013</u>	<u>\$ 767,986</u>

Permanently Restricted

	<u>2013</u>	<u>2012</u>
Peter L. Benson Endowment	<u>\$ 25,089</u>	<u>\$ 25,089</u>

Net Assets Released from Restrictions

	<u>2013</u>	<u>2012</u>
Purpose Restriction	<u>\$ 1,007,973</u>	<u>\$ 1,968,904</u>

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 the Institute have 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:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 2,867	\$ 25,089	\$ 27,956
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>
Donor-Restricted Endowment Funds	\$ (908)	\$ -	\$ 25,089	\$ 24,181

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>
Endowment Investments, January 1, 2013	\$ (908)	\$ -	\$ 25,089	\$ 24,181
Investment Income	1,865	2,867	-	4,732
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	(957)	-	-	(957)
Endowment Investments, December 31, 2013	\$ -	\$ 2,867	\$ 25,089	\$ 27,956

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 5 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>
Endowment Investments, January 1, 2012	\$ (2,381)	\$ -	\$ 25,089	\$ 22,708
Investment Income	2,402	-	-	2,402
Contributions	-	-	-	-
Appropriations of Endowment Assets for Expenditure	<u>(929)</u>	<u>-</u>	<u>-</u>	<u>(929)</u>
Endowment Investments, December 31, 2012	<u>\$ (908)</u>	<u>\$ -</u>	<u>\$ 25,089</u>	<u>\$ 24,181</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 \$-0- and \$908 at December 31, 2013 and 2012, respectively. The deficiency in 2012 resulted from unfavorable market fluctuations.

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 \$957 and \$929 for the years ended December 31, 2013 and 2012, respectively. All amounts distributed from the fund were spent during the respective years.

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 6 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, 2013 and 2012 were \$-0- .

NOTE 7 COMMITMENTS

Rental expense for office space and equipment was \$303,311 and \$288,240 for the years ended December 31, 2013 and 2012, respectively. Operating lease agreements for equipment 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 307,318
2015	315,926
2016	307,334
2017	<u>287,446</u>
Total	<u><u>\$ 1,218,024</u></u>

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 \$54,448 and \$47,233 was included in the liability for Deferred Lease Credits at December 31, 2013 and 2012, 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, 2013 and 2012 in the amount of \$7,215 and \$15,361, 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:

	<u>2013</u>	<u>2012</u>
Cost of Equipment	\$ 18,107	\$ 18,107
Less: Accumulated Depreciation	<u>11,769</u>	<u>8,148</u>
Total	<u><u>\$ 6,338</u></u>	<u><u>\$ 9,959</u></u>

**SEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 8 CAPITAL LEASE OBLIGATION (CONTINUED)

The amount of depreciation expense was \$3,621 on equipment under capital lease for each of the years ended December 31, 2013 and 2012. The capital lease payable was \$8,505 and \$12,087 as of December 31, 2013 and 2012, respectively.

Future minimum capital lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 5,904
2015	4,428
Less: Interest Expense	(1,827)
Total	<u>\$ 8,505</u>

NOTE 9 RENTAL INCOME

As of December 31, 2013 the Institute had entered into a sublease agreement for certain office space. The sublease runs through November 30, 2017 and has varying monthly payments plus shared service costs. Future minimum sublease receipts are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 50,497
2015	58,232
2016	59,106
2017	54,924
Total	<u>\$ 222,759</u>

Subsequent to year-end, the Institute entered into two additional sublease agreements. The subleases all run through November 30, 2017 and have varying monthly payments plus shared service costs. The future payments on these two leases are \$480,114.

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:

	<u>2013</u>	<u>2012</u>
Publishing of Books	<u>\$ 8,551</u>	<u>\$ 14,000</u>

SEARCH INSTITUTE
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013			Total
	Program	Management and General	Fundraising	
Payroll	\$ 1,089,600	\$ 241,072	\$ 5,090	\$ 1,335,762
Fringe Benefits and Payroll Taxes	271,423	60,052	1,268	332,743
Office Expenses	97,890	21,055	461	119,406
Advertising and Promotion	15,833	-	-	15,833
Travel & Business Meeting	164,555	5,778	545	170,878
Professional and Outside Services	523,765	229,841	184	753,790
Pass-through Payments	1,071,586	-	-	1,071,586
Professional Development	13,930	3,327	718	17,975
Occupancy and Maintenance	453,418	54,521	-	507,939
Cost of Goods Sold	462,157	-	-	462,157
Bad Debt Expense	-	21,127	-	21,127
Other and Miscellaneous	22	5,302	-	5,324
Total Expenses Before Depreciation	<u>4,164,179</u>	<u>642,075</u>	<u>8,266</u>	<u>4,814,520</u>
Depreciation and Amortization	-	11,080	-	11,080
Total Expenses	<u>\$ 4,164,179</u>	<u>\$ 653,155</u>	<u>\$ 8,266</u>	<u>\$ 4,825,600</u>
	86%	14%	0%	100%

2012

Program	Management and General	Fundraising	Total
\$ 1,349,883	\$ 598,512	\$ 64,143	\$ 2,012,538
311,373	138,057	14,796	464,226
106,969	67,052	4,934	178,955
101,619	-	-	101,619
250,646	12,987	1,891	265,524
1,712,436	176,550	257	1,889,243
699,554	-	-	699,554
15,217	2,892	-	18,109
334,637	148,372	15,901	498,910
386,755	-	-	386,755
-	58,170	-	58,170
23,433	10,390	1,114	34,937
5,292,522	1,212,982	103,036	6,608,540
13,391	5,937	636	19,964
\$ 5,305,913	\$ 1,218,919	\$ 103,672	\$ 6,628,504
80%	18%	2%	100%