SEARCH INSTITUTE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

SEARCH INSTITUTE
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YEARS ENDED DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, and the related statements of activities 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.

Board of Directors
Search Institute

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, 2015 and 2014, and the changes in its net assets 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 are presented for purposes of additional analysis and are 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
May 23, 2016

SEARCH INSTITUTE
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,133,609	$ 1,085,090
Publications Receivable, Net	16,667	33,420
Prepaid Expenses and Other Assets	99,197	160,600
Inventory, Net	118,381	168,360
Deferred Costs - Current Portion	-	20,425
Contracts Receivable	102,304	206,235
Grants Receivable	102,103	-
Total Current Assets	1,572,261	1,674,130
PROPERTY, PLANT, AND EQUIPMENT		
Office Furniture and Equipment	1,080,470	1,073,637
Website	84,350	84,350
Leasehold Improvements	120,510	119,320
Total	1,285,330	1,277,307
Less Accumulated Depreciation and Amortization	(1,212,721)	(1,177,138)
Total Property, Plant, and Equipment, Net	72,609	100,169
OTHER ASSETS		
Beneficial Interest in Assets Held by Others	25,861	28,092
Total Other Assets	25,861	28,092
Total Assets	$ 1,670,731	$ 1,802,391
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 88,307	$ 101,808
Accrued Liabilities	101,410	137,284
Deferred Contract Revenue	245,479	241,967
Deferred Lease Credits	43,537	53,296
Capital Lease Payable, Current	-	4,047
Total Current Liabilities	478,733	538,402
NET ASSETS		
Unrestricted	485,707	455,912
Temporarily Restricted	680,430	779,985
Permanently Restricted	25,861	28,092
Total Net Assets	1,191,998	1,263,989
Total Liabilities and Net Assets	$ 1,670,731	$ 1,802,391

See accompanying Notes to Financial Statements.

SEARCH INSTITUTE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Grants	$ -	$ 808,619	$ -	$ 808,619
Consulting	768,391	-	-	768,391
Curriculum Sales and Training	1,020,124	-	-	1,020,124
Rental Income	222,626	-	-	222,626
Contributions	65,858	-	-	65,858
Royalties	61,229	-	-	61,229
Net Realized and Unrealized Gain (Loss)	-	-	(2,231)	(2,231)
Other	4,794	-	-	4,794
Subtotal	2,143,022	808,619	(2,231)	2,949,410
Net Assets Released from Restrictions	908,174	(908,174)	-	-
Total Support and Revenue	3,051,196	(99,555)	(2,231)	2,949,410
OPERATING EXPENSE				
Program Services	2,291,705	-	-	2,291,705
Management and General	722,619	-	-	722,619
Fundraising	7,077	-	-	7,077
Total Expense	3,021,401	-	-	3,021,401
CHANGE IN NET ASSETS	29,795	(99,555)	(2,231)	(71,991)
Net Assets - Beginning of Year	455,912	779,985	28,092	1,263,989
NET ASSETS - END OF YEAR	$ 485,707	$ 680,430	$ 25,861	$ 1,191,998

See accompanying Notes to Financial Statements.

2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ -	$ 841,060	$ -	$ 841,060
2,312,422	-	-	2,312,422
1,137,020	-	-	1,137,020
214,884	-	-	214,884
67,340	-	-	67,340
27,107	-	-	27,107
-	-	3,003	3,003
-	-	-	-
3,758,773	841,060	3,003	4,602,836
1,171,088	(1,171,088)	-	-
4,929,861	(330,028)	3,003	4,602,836
3,844,788	-	-	3,844,788
814,872	-	-	814,872
26,541	-	-	26,541
4,686,201	-	-	4,686,201
243,660	(330,028)	3,003	(83,365)
212,252	1,110,013	25,089	1,347,354
$ 455,912	$ 779,985	$ 28,092	$ 1,263,989

SEARCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (71,991)	$ (83,365)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	35,583	10,783
Change in Investment Value in Beneficial Interests	2,231	(136)
(Increase) Decrease in Assets:		
Publications Receivable	16,753	51,810
Prepaid Expenses and Other Assets	61,403	(55,044)
Inventory	49,979	23,891
Deferred Costs	20,425	48,865
Contracts Receivable	103,931	89,636
Grants Receivable	(102,103)	125,216
Increase (Decrease) in Liabilities:		
Accounts Payable	(13,501)	(113,741)
Accrued Liabilities	(35,874)	835
Deferred Contract Revenue	3,512	(19,066)
Deferred Lease Credits	(9,759)	(1,152)
Net Cash Provided by Operating Activities	60,589	78,532
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property, Plant, and Equipment	(8,023)	(93,474)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease	(4,047)	(4,458)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,519	(19,400)
Cash and Cash Equivalents - Beginning	1,085,090	1,104,490
CASH AND CASH EQUIVALENTS - ENDING	$ 1,133,609	$ 1,085,090

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 nonprofit 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.

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 at December 31, 2015 and 2014.

At December 31, 2015, two organizations comprised 40% of publications receivable, three organizations comprised 56% of contracts receivable and one organization comprise 100% of grants receivable. At December 31, 2014, three organizations comprised 65% of publications receivable and two organizations comprised 59% of contracts 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, 2015 and 2014.

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 84% and 92% of grant revenue for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, the Institute recorded shipping and handling fees of $34,077 and $46,609, 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 $16,884 and $10,494 for the years ended December 31, 2015 and 2014, 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 nonactive 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.

Reclassifications

Certain amounts for the year ended December 31, 2014, have been reclassified to conform to the presentation of the December 31, 2015 amounts. The reclassifications have no effect on net assets for the year ended December 31, 2014.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through May 23, 2016, 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:

	2015	2014
Beneficial Interest in Assets Held by Others	$ 25,861	$ 28,092

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:

2015	Level 1	Level 2	Level 3	Total
Beneficial Interest in Assets Held by Others	$ -	$ -	$ 25,861	$ 25,861

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

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, 2015 and 2014:

	2015 Beneficial Interest
Balance as of January 1, 2015	$ 28,092
Unrealized Gain in Net Asset Value	(1,157)
Withdrawals	(1,074)
Balance as of December 31, 2015	$ 25,861

	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

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 8.75% (based on prime plus 3.75%) as of December 31, 2015. There were no advances under the line of credit as of December 31, 2015 and 2014. The line of credit is unsecured.

NOTE 4 NET ASSETS

Temporarily Restricted

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

	2015	2014
Purpose Restrictions:		
Altria Phase III	$ 337,312	$ 314,412
Disney	-	74,815
The Rural School and Community Trust	-	85,133
Best Buy	-	42,567
Minneapolis Foundation	-	17,027
Cargill Foundation	-	17,027
Carlson Foundation	-	17,027
Target Corporation	-	8,513
Bremer Foundation	-	8,513
Ting Family Foundation Matching Grant	4,128	24,951
Schulze Family Foundation	119,280	170,000
St Paul Foundation - Battle Creek MS	56,050	-
Otto Bremer Foundation	163,660	-
Total Temporarily Restricted Net Assets	$ 680,430	$ 779,985

Permanently Restricted

	2015	2014
Beneficial Interest in Assets Held by Others	$ 25,861	$ 28,082

Net Assets Released from Restrictions

	2015	2014
Purpose Restriction	$ 908,174	$ 1,171,088

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, 2015 and 2014 were $-0-.

NOTE 6 COMMITMENTS

Rental expense for office space and equipment was $306,179 in 2015 and $306,134 in 2014 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
2016	$ 307,344
2017	287,446
Total	$ 594,790

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 $43,537 and $53,296 was included in the liability for Deferred Lease Credits at December 31, 2015 and 2014, 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 was payable in monthly installments of $492, including principal and interest. The lease ended in 2015 and the Institute exercised their bargain purchase option. The amount of depreciation expense was $2,716 and $3,622, respectively, on equipment under capital lease for the years ended December 31, 2015 and 2014. The capital lease payable was $-0- and $4,047 as of December 31, 2015 and 2014, respectively.

NOTE 8 RENTAL INCOME

As of December 31, 2015 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
2016	$ 183,845
2017	172,699
Total	$ 356,544

SEARCH INSTITUTE
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			
	Program	Management and General	Fundraising	Total
Payroll	$ 1,162,364	$ 278,385	$ 4,685	$ 1,445,434
Fringe Benefits and Payroll Taxes	268,079	64,205	1,080	333,364
Office Expenses	68,999	20,639	650	90,288
Printing, Advertising, and Promotion	16,884	-	-	16,884
Travel and Business Meeting	140,985	14,211	218	155,414
Professional and Outside Services	236,361	67,839	-	304,200
Pass-Through Payments	-	-	-	-
Occupancy and Maintenance	227,191	267,740	444	495,375
Cost of Publications and Surveys Sold	141,527	-	-	141,527
Bad Debt Expense	-	-	-	-
Other and Miscellaneous	1,198	2,134	-	3,332
Total Expenses Before Depreciation	2,263,588	715,153	7,077	2,985,818
Depreciation and Amortization	28,117	7,466	-	35,583
Total Expenses	$ 2,291,705	$ 722,619	$ 7,077	$ 3,021,401
	76%	24%	0%	100%

2014			
Program	Management and General	Fundraising	Total
$ 965,602	$ 331,409	$ 12,603	$ 1,309,614
247,264	85,934	3,238	336,436
78,174	20,274	1,521	99,969
8,227	-	2,267	10,494
274,656	9,100	64	283,820
591,914	80,409	3,581	675,904
1,151,815	-	-	1,151,815
250,680	233,060	3,267	487,007
274,010	-	-	274,010
-	40,550	-	40,550
2,446	3,353	-	5,799
3,844,788	804,089	26,541	4,675,418
-	10,783	-	10,783
$ 3,844,788	$ 814,872	$ 26,541	$ 4,686,201
82%	17%	1%	100%