SUMMER SEARCH

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

Years Ended September 30, 2014 and 2013

TABLE OF CONTENTS

LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Summer Search
San Francisco, California

We have audited the accompanying financial statements of *Summer Search* (the Organization), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities, functional expenses, 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.

Auditor's 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 auditor's 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.

To the Board of Directors
Summer Search

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Summer Search* as of September 30, 2014 and 2013, 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.

Lautze & Lautze

San Francisco, California
January 29, 2015

SUMMER SEARCH

STATEMENTS OF FINANCIAL POSITION

September 30,

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and cash equivalents	$ 638,916	$ 1,045,482	$ 130,000	$ 1,814,398	$ 857,611	$ 997,352	$ 60,000	$ 1,914,963
Short-term investments	-	-	-	-	1,054,375	-	-	1,054,375
Other receivables	15,041	-	-	15,041	20,889	-	-	20,889
Prepaid expenses and other assets	518,559	-	-	518,559	346,894	-	-	346,894
Promises to give, net	284,830	4,082,064	-	4,366,894	145,933	4,319,655	-	4,465,588
Long-term investments	4,835,328	8,563	-	4,843,891	4,275,827	8,701	-	4,284,528
Property and equipment, net	255,254	-	-	255,254	136,051	-	-	136,051
Total assets	$ 6,547,928	$ 5,136,109	$ 130,000	$ 11,814,037	$ 6,837,580	$ 5,325,708	$ 60,000	$ 12,223,288
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable and accrued expenses	$ 348,254	$ -	$ -	$ 348,254	$ 316,598	$ -	$ -	$ 316,598
Accrued vacation	341,113	-	-	341,113	269,645	-	-	269,645
Deferred rent	82,626	-	-	82,626	83,047	-	-	83,047
Total liabilities	771,993	-	-	771,993	669,290	-	-	669,290
Commitments								
Net assets	5,775,935	5,136,109	130,000	11,042,044	6,168,290	5,325,708	60,000	11,553,998
Total liabilities and net assets	$ 6,547,928	$ 5,136,109	$ 130,000	$ 11,814,037	$ 6,837,580	$ 5,325,708	$ 60,000	$ 12,223,288

See notes to financial statements.

SUMMER SEARCH
STATEMENTS OF ACTIVITIES
Years Ended September 30,

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains (losses), and other support:								
Contributions	$ 7,457,308	$ 3,292,716	$ 70,000	$ 10,820,024	$ 5,877,449	$ 4,014,452	$ -	$ 9,891,901
Special events, net of direct benefit to donors of $743,457 ($652,533 in 2013)	4,301,014	652,983	-	4,953,997	4,074,588	259,688	-	4,334,276
Contributed goods and services	2,259,663	-	-	2,259,663	1,886,014	-	-	1,886,014
Investment income, net of investment fees of $31,578 ($30,065 in 2013)	604,563	53	-	604,616	684,982	53	-	685,035
Other income	38,481	-	-	38,481	887	-	-	887
Bad debt losses	(45,901)	(80,000)	-	(125,901)	(32,383)	-	-	(32,383)
Net assets released from restrictions	4,055,351	(4,055,351)	-	-	4,085,268	(4,085,268)	-	-
Total revenue, gains (losses), and other support	18,670,479	(189,599)	70,000	18,550,880	16,576,805	188,925	-	16,765,730
Expenses:								
Program services:								
Summer placement and mentoring	10,537,357	-	-	10,537,357	9,655,586	-	-	9,655,586
Staff training and development	1,599,884	-	-	1,599,884	1,247,948	-	-	1,247,948
College counseling	465,995	-	-	465,995	502,255	-	-	502,255
Alumni	390,167	-	-	390,167	446,254	-	-	446,254
College success	351,228	-	-	351,228	334,484	-	-	334,484
Total program services	13,344,631	-	-	13,344,631	12,186,527	-	-	12,186,527
Supporting services:								
Fundraising and development	3,175,893	-	-	3,175,893	2,639,436	-	-	2,639,436
Management and general	2,542,310	-	-	2,542,310	1,749,818	-	-	1,749,818
Total expenses	19,062,834	-	-	19,062,834	16,575,781	-	-	16,575,781
Change in net assets	(392,355)	(189,599)	70,000	(511,954)	1,024	188,925	-	189,949
Net assets:								
Beginning of year	6,168,290	5,325,708	60,000	11,553,998	6,167,266	5,136,783	60,000	11,364,049
End of year	$ 5,775,935	$ 5,136,109	$ 130,000	$ 11,042,044	$ 6,168,290	$ 5,325,708	$ 60,000	$ 11,553,998

See notes to financial statements.

SUMMER SEARCH
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended September 30, 2014

	Program Services						Supporting Services		
	Summer Placement and Mentoring	Staff Training and Development	College Counseling	Alumni	College Success	Total	Fundraising and Development	Management and General	Total
Salaries and employee benefits	$ 3,793,001	$ 901,653	$ 340,803	$ 245,129	$ 314,038	$ 5,594,624	$ 2,618,671	$ 1,736,967	$ 9,950,262
Scholarships and student support	5,281,479	-	28,049	111,698	25,066	5,446,292	-	-	5,446,292
Occupancy	1,115,149	92,052	-	-	-	1,207,201	-	-	1,207,201
Professional fees	31,090	175,758	78,615	1,223	-	286,686	111,835	449,098	847,619
Direct benefit to donors	-	-	-	-	-	-	743,457	-	743,457
Travel and training	35,531	286,588	6,771	13,225	3,500	345,615	125,652	116,194	587,461
Equipment purchase and repair	88,002	84,671	-	-	-	172,673	60,107	30,146	262,926
Postage and printing	28,211	742	1,542	9,421	878	40,794	84,199	37,583	162,576
Communication	60,773	13,756	4,856	3,510	3,105	86,000	30,885	22,746	139,631
Promotional materials	-	-	-	-	-	-	54,267	45,051	99,318
Depreciation	50,500	34,434	-	-	-	84,934	-	-	84,934
Supplies and materials	18,775	4,045	2,113	1,034	455	26,422	7,674	28,440	62,536
Program event expenses	29,028	1,437	1,373	4,747	2,571	39,156	-	-	39,156
Insurance	-	-	-	-	-	-	-	27,225	27,225
Other	5,818	4,748	1,873	180	1,615	14,234	82,603	80,438	177,275
	10,537,357	1,599,884	465,995	390,167	351,228	13,344,631	3,919,350	2,573,888	19,837,869
Less expenses included with revenues on the statement of activities	-	-	-	-	-	-	(743,457)	(31,578)	(775,035)
	$ 10,537,357	$ 1,599,884	$ 465,995	$ 390,167	$ 351,228	$ 13,344,631	$ 3,175,893	$ 2,542,310	$ 19,062,834

See notes to financial statements.

SUMMER SEARCH

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended September 30, 2013

	Program Services						Supporting Services		
	Summer Placement and Mentoring	Staff Training and Development	College Counseling	Alumni	College Success	Total	Fundraising and Development	Management and General	Total
Salaries and employee benefits	$ 3,451,986	$ 713,592	$ 322,846	$ 286,079	$ 290,725	$ 5,065,228	$ 2,221,301	$ 1,180,729	$ 8,467,258
Scholarships and student support	5,081,929	-	44,551	121,527	28,208	5,276,215	-	-	5,276,215
Occupancy	742,602	92,062	-	-	-	834,664	-	-	834,664
Professional fees	12,425	103,695	114,300	8,650	-	239,070	162,092	365,847	767,009
Direct benefit to donors	-	-	-	-	-	-	652,533	-	652,533
Travel and training	29,337	132,108	8,646	10,950	4,647	185,688	102,185	61,847	349,720
Equipment purchase and repair	134,918	163,643	-	-	-	298,561	-	-	298,561
Postage and printing	21,093	796	1,816	3,803	1,161	28,669	50,310	24,762	103,741
Communication	63,674	12,827	5,722	5,426	1,976	89,625	25,620	15,073	130,318
Promotional materials	-	-	-	367	-	367	8,654	27,775	36,796
Depreciation	41,221	25,284	-	-	-	66,505	-	-	66,505
Supplies and materials	19,069	2,420	2,097	1,381	461	25,428	7,130	15,412	47,970
Program event expenses	54,023	-	411	7,348	5,412	67,194	-	-	67,194
Insurance	-	-	-	-	-	-	-	26,160	26,160
Other	3,309	1,521	1,866	723	1,894	9,313	62,144	62,278	133,735
	9,655,586	1,247,948	502,255	446,254	334,484	12,186,527	3,291,969	1,779,883	17,258,379
Less expenses included with revenues on the statement of activities	-	-	-	-	-	-	(652,533)	(30,065)	(682,598)
	$ 9,655,586	$ 1,247,948	$ 502,255	$ 446,254	$ 334,484	$ 12,186,527	$ 2,639,436	$ 1,749,818	$ 16,575,781

See notes to financial statements.

SUMMER SEARCH

STATEMENTS OF CASH FLOWS

Years Ended September 30,

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash flows from operating activities:								
Change in net assets	$ (392,355)	$ (189,599)	$ 70,000	$ (511,954)	$ 1,024	$ 188,925	$ -	$ 189,949
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:								
Discount on promises to give	-	-	-	-	-	(13,604)	-	(13,604)
Bad debt losses	45,901	80,000	-	125,901	32,383	-	-	32,383
Net realized and unrealized gains on investments	(465,766)	-	-	(465,766)	(563,097)	-	-	(563,097)
Depreciation	84,934	-	-	84,934	66,505	-	-	66,505
Loss on disposal of property and equipment	1,231	-	-	1,231	3,483	-	-	3,483
(Increase) decrease in assets:								
Other receivables	5,848	-	-	5,848	(14,865)	-	-	(14,865)
Prepaid expenses and other assets	(171,665)	-	-	(171,665)	20,360	-	-	20,360
Promises to give	(184,798)	157,591	-	(27,207)	(9,201)	399,460	-	390,259
Increase (decrease) in liabilities:								
Accounts payable and accrued expenses	31,656	-	-	31,656	(38,745)	-	-	(38,745)
Accrued vacation	71,468	-	-	71,468	38,261	-	-	38,261
Deferred rent	(421)	-	-	(421)	9,962	-	-	9,962
Net cash provided (used) by operating activities	(973,967)	47,992	70,000	(855,975)	(453,930)	574,781	-	120,851
Cash flows from investing activities:								
Purchase of investments	(458,060)	(8,563)	-	(466,623)	(818,166)	(8,701)	-	(826,867)
Proceeds from the sale or maturity of investments	1,418,700	8,701	-	1,427,401	689,027	-	-	689,027
Purchase of property and equipment	(205,368)	-	-	(205,368)	(113,539)	-	-	(113,539)
Net cash provided (used) by investing activities	755,272	138	-	755,410	(242,678)	(8,701)	-	(251,379)
Cash flows from financing activities:								
Line of credit draws	300,000	-	-	300,000	-	-	-	-
Line of credit repayments	(300,000)	-	-	(300,000)	-	-	-	-
Net cash provided (used) by investing activities	-	-	-	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(218,695)	48,130	70,000	(100,565)	(696,608)	566,080	-	(130,528)
Cash and cash equivalents:								
Beginning of year	857,611	997,352	60,000	1,914,963	1,554,219	431,272	60,000	2,045,491
End of year	$ 638,916	$ 1,045,482	$ 130,000	$ 1,814,398	$ 857,611	$ 997,352	$ 60,000	$ 1,914,963

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

SUMMER SEARCH (the Organization) is a not-for-profit organization with a comprehensive transformative program that gives students the inspiration, knowledge, and skills necessary to unlock their potential, achieve academic and professional success, and become positive leaders within their communities. The Organization’s mission is to identify resilient, low-income high school students and inspire them to become responsible and altruistic leaders by providing a combination of year-round mentoring, life-changing summer experiences, college advising, and a lasting support network.

Linda Mornell, an adolescent counselor in private practice, founded the Organization in 1990 when she sent fourteen low-income students on summer experiential education programs. After seeing the difficulties students faced in reconciling their personal growth on their summer programs with the roadblocks and isolation of persistent poverty in their home communities, she began to redefine the Organization. Over the years, it has evolved into an innovative youth development program that works intensively with young people beginning in their sophomore year of high school and continuing through college. Founded in San Francisco, the Organization currently has operations in the following locations: San Francisco, Napa/Sonoma, San Jose, Boston, New York, Philadelphia, and Seattle.

The accounting, financial, and administrative functions are centralized in San Francisco.

The Organization has developed a unique combination, sequencing, and duration of services which sets it apart from other youth development organizations. Summer Search’s program includes:

Weekly Mentoring – full-time staff mentors work one-on-one with students, providing holistic support and challenging students to gain greater self-awareness and accept personal responsibility for their growth and academic success. Through mentoring, students build a trusting and enduring relationship with an adult, some for the first time in their lives.

Two Summer Experiential Education Programs – each student receives two full scholarships to life-changing summer experiential education programs, including wilderness leadership expeditions, academic enrichment programs, community service, and home-stays abroad. These programs enable students to push themselves and succeed beyond what they think is possible physically, emotionally, and intellectually.

College and Financial Aid Advisory Services – the Organization helps students realize the best educational opportunities possible by providing one-on-one college and financial aid counseling and college preparation workshops throughout their junior and senior years of high school. These services ensure that students have the tools to successfully navigate the college admissions process.

Post-secondary and Alumni Services – the Organization provides structured mentoring and support in students’ freshman and sophomore years of post-secondary school. An array of alumni services helps graduates be successful in the world beyond high school and college. Examples include networking events with other alumni and donors and professional development services such as career workshops, internships, and professional mentors.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized as incurred.

Basis of Presentation

Classification of Net Assets

U.S. GAAP requires that the Organization report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of the Organization are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the Organization's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables are discounted using the discount rates established in the year in which the promises are received

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less, from the date of purchase, to be cash equivalents. Cash and cash equivalents held in money market funds and intended for investment purposes are classified separately under investments.

Short-Term Investments

Investments held in equity and debt securities intended for operating purposes are classified as short-term investments.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give which are scheduled to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

The Organization uses the allowance method to account for uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Long-Term Investments

The Organization considers investments held in equity and debt securities intended for investment purposes to be long-term investments.

The Organization's Investment Committee is responsible for establishing investment criteria and overseeing all the Organization's investments.

Property and Equipment

The Organization capitalizes acquisitions of property and equipment with a cost or value in excess of $1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 5 years. Leasehold improvements are stated at cost and are amortized over the shorter of the asset life or the lease term. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statements of activities.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Rent

Deferred rent results from the Organization's leases with free-rent-periods or guaranteed rate increases which are recognized on a straight-line basis over the term of the lease.

Revenue Recognition

Contributions

Contributions are recognized as revenue when they are received or unconditionally promised. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statements of activities. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

Contributed Goods and Services

Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributed marketable securities are sold immediately and the cash proceeds are recorded as revenue.

The Organization records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

Contributed goods and services included in the statements of activities for the year ended September 30, 2014 were $2,259,663 ($1,886,014 for the year ended September 30, 2013). Contributed scholarships from summer program partners represent 84% (96% in 2013) of this amount. The remaining 16% (4% in 2013) consists of contributed rent for the Organization's New York location and contributed supplies.

Investment Income

Realized and unrealized gains and losses and investment income (losses) derived from investment transactions are included as income in the year earned.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a qualified organization exempt from Federal and California income taxes under the provisions of §501(c)(3) of the Internal Revenue Code and §23701d of the California Revenue and Taxation Code.

The Organization has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. This standard also requires the Organization to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions.

The Organization's evaluation on September 30, 2014 revealed no tax positions that would have a material impact on the financial statements. The 2010 through 2013 tax years remain subject to examination by the Internal Revenue Service. In addition, the tax years 2009 through 2013 remain subject to examination by the California Franchise Tax Board. The Organization does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Concentrations of Risk

Financial Instruments

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, promises to give, and investments. The Organization maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Concentrations of credit risk with respect to promises to give are limited because the promises are from a variety of entities and individuals. The Organization attempts to limit its credit risk associated with investments by utilizing outside investment managers to place the Organization's investments with highly rated corporate and financial institutions. Management believes that the Organization is not exposed to any significant credit risk related to concentrations.

Contributions and Other Support

The Organization is dependent upon donations and other support from individuals, foundations, corporations and other entities; changes in level of support may have a resulting effect on the level and type of activities and program services offered.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The cost of providing various program services and other activities has been summarized on a functional basis in the statements of activities and functional expenses. Certain costs have been allocated, principally on a direct cost basis, among the programs and support services benefited.

Reclassifications

Certain amounts in the comparative totals for 2013 have been reclassified to conform to the 2014 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

Recent Accounting Pronouncements

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-05, *Statement of Cash Flows (Topic 230)-Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB Emerging Issues Task Force)*. In accordance with this ASU, not-for-profit entities are required to classify as operating cash flows receipts from the sale of donated financial assets, unless the donor has restricted the use of the contributed securities to long-term purposes, in which case, the cash receipts should be classified as financing cash flows. Cash receipts from the sale of all other donated securities must be classified as investing cash flows. The effective date of the guidance, to be applied prospectively, was for cash received from the sale of donated assets in fiscal years, and interim periods within such years, beginning after June 15, 2013. Since this new guidance only amends the disclosure requirements, it will not have a material impact on the Organization's financial statements.

2. FAIR VALUE MEASUREMENTS

The Organization's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

2. FAIR VALUE MEASUREMENTS (CONTINUED)

The levels of the fair value hierarchy are as follows:

Level 1: Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2: Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3: Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization’s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual Funds: Valued at the net asset value of shares held by the Organization at year end and are generally categorized in Level 1 of the fair value hierarchy.

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded and is generally categorized in Level 1 of the fair value hierarchy.

The following tables provide information as of September 30, 2014 and 2013 about the Organization’s financial assets measured at fair value on a recurring basis:

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments:				
Domestic equity	$ 2,234,837	$ -	$ -	$ 2,234,837
Bonds (U.S. fixed income)	1,025,787	-	-	1,025,787
International equity	927,419	-	-	927,419
Cash	552,818	-	-	552,818
Convertibles	103,030	-	-	103,030
	$ 4,843,891	$ -	$ -	$ 4,843,891

2. FAIR VALUE MEASUREMENTS (CONTINUED)

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Investments:				
Domestic equity	$ 1,858,883	$ -	$ -	$ 1,858,883
Bonds (U.S. fixed income)	1,631,402	-	-	1,631,402
International equity	1,044,852	-	-	1,044,852
Cash	671,946	-	-	671,946
Convertibles	131,820	-	-	131,820
	$ 5,338,903	$ -	$ -	$ 5,338,903

The Organization's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. The Organization had no transfers into or out of levels of the fair value hierarchy during the years ended September 30, 2014 and 2013.

3. INVESTMENTS

Investments are held as follows at September 30:

	2014	2013
Short-term investments:		
Domestic equity	$ -	$ 42,426
Bonds (U.S. fixed income)	-	909,940
Cash	-	102,009
Total short-term investments	-	1,054,375
Long-term investments:		
Domestic equity	2,234,837	1,816,457
Bonds (U.S. fixed income)	1,025,787	721,462
International equity	927,419	1,044,852
Cash	552,818	569,937
Convertibles	103,030	131,820
Total long-term investments	4,843,891	4,284,528
Total investments	$ 4,843,891	$ 5,338,903

3. INVESTMENTS (CONTINUED)

Investment income, net of investment fees, for the years ended September 30 consists of the following:

	2014	2013
Net realized and unrealized gains on investments	$ 465,766	$ 563,097
Dividend and interest income	138,850	121,938
Total investment income	$ 604,616	$ 685,035

4. PROMISES TO GIVE, NET

Unconditional promises to give at September 30, 2014 consist of the following:

	Due in Less Than 1 Year	Due in 1 to 5 Years	Total
Unrestricted:			
Promises to give to local offices	$ 325,937	$ -	$ 325,937
Allowance for doubtful accounts	(41,107)	-	(41,107)
	284,830	-	284,830
Temporarily restricted:			
Expand the Dream Campaign	695,599	217,000	912,599
Annual Fund and other time restricted promises to give	2,309,253	1,053,214	3,362,467
Allowance for doubtful accounts	(92,346)	(39,037)	(131,383)
Discount to net present value	-	(61,619)	(61,619)
	2,912,506	1,169,558	4,082,064
	$ 3,197,336	$ 1,169,558	$ 4,366,894

4. PROMISES TO GIVE, NET (CONTINUED)

Unconditional promises to give at September 30, 2013 consist of the following:

	Due in Less Than 1 Year	Due in 1 to 5 Years	Total
Unrestricted:			
Promises to give to local offices	$ 170,137	$ -	$ 170,137
Allowance for doubtful accounts	(24,204)	-	(24,204)
	145,933	-	145,933
Temporarily restricted:			
Expand the Dream Campaign	1,225,362	527,014	1,752,376
Annual Fund and other time restricted promises to give	1,558,189	1,156,261	2,714,450
Allowance for doubtful accounts	(53,313)	(32,239)	(85,552)
Discount to net present value	-	(61,619)	(61,619)
	2,730,238	1,589,417	4,319,655
	$ 2,876,171	$ 1,589,417	$ 4,465,588

Promises to give due in one to five years are stated at their present values. Management has discounted these promises to give at rates ranging from 0.69% to 3.43% and 0.42% to 3.38% at September 30, 2014 and 2013, respectively.

One donor comprises approximately 11% and 22% of total promises to give at September 30, 2014 and 2013, respectively.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at September 30:

	2014	2013
Computer equipment	$ 285,903	$ 262,366
Leasehold improvements	274,849	180,279
Furniture, fixtures, and equipment	213,565	183,325
Software	156,178	152,628
	930,495	778,598
Less accumulated depreciation	(675,241)	(642,547)
	$ 255,254	$ 136,051

6. LINE OF CREDIT

The Organization has a revolving line of credit agreement with Wells Fargo Bank for a maximum borrowing amount of $600,000. The line of credit, due to expire June 1, 2014, was extended to April 1, 2015. Interest is payable at the greater of the prime rate plus 1.75%, or 5.00%. At September 30, 2014 and 2013, the prime rate was 3.25%. The line of credit is secured by all of the Organization's assets, and borrowing under the line is intended for general working capital purposes. At September 30, 2014 and 2013, there was no outstanding balance.

7. UNRESTRICTED NET ASSETS

Unrestricted net assets are as follows at September 30:

	2014	2013
Net investment in property and equipment	$ 255,254	$ 136,051
Board-designated for operation reserves	4,229,486	4,229,486
Undesignated	1,291,195	1,802,753
	$ 5,775,935	$ 6,168,290

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30 may be expended for:

	2014	2013
Annual Fund:		
2013/2014	$ -	$ 620,000
2014/2015	1,480,240	520,000
2015/2016	1,025,050	520,000
2016/2017	120,600	30,000
2017/2018	20,000	-
Expand the Dream Campaign*	708,713	1,602,214
Operations*	670,247	985,903
Signature Events	591,322	362,195
Salaries	250,000	560,000
Innovation	119,617	15,000
Scholarships	125,320	60,396
Marketing	25,000	50,000
	$ 5,136,109	$ 5,325,708

*Both the Expand the Dream Campaign and Operations categories represent funds which can be used for operations with donor imposed time restrictions.

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include gifts with respect to which donors have stipulated, as a condition in the gift instrument, that the principal is to be held indefinitely. Permanently restricted net assets total $130,000 and $60,000 at September 30, 2014 and 2013, respectively, and are to generate income restricted for scholarships.

10. ENDOWMENT

The Organization’s endowment consists of one individual donor-restricted fund (Note 9) established for the purpose of funding college scholarships. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

10. ENDOWMENT (CONTINUED)

The Board of Directors of the Organization has interpreted California's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

Due to the nature of the endowment and donor requirements, the endowment is invested in cash and cash equivalents.

Changes in the endowment net assets for the years ended September 30, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
Endowment net assets, September 30, 2012	$ -	$ -	$ 60,000	$ 60,000
Contributions:				
2013	-	-	-	-
2014	-	-	70,000	70,000
Investment Income				
2013	-	53	-	53
2014	-	53	-	53
Endowment net assets, September 30, 2014	$ -	$ 106	$ 130,000	$ 130,106

11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying restricted purposes or by the occurrence of other events specified by donors. During the year ended September 30, 2014, net assets were released from restrictions as follows:

Expand the Dream Campaign	$ 1,396,350
Annual Fund 2013/2014	1,159,316
Operations	483,952
Signature Events	423,856
Salaries	310,000
Scholarships	178,619
Innovation	78,258
Marketing	25,000
	$ 4,055,351

During the year ended September 30, 2013, net assets were released primarily due to the passage of time.

12. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2014 and 2013, the Organization received contributions in the form of cash, shares of marketable securities and unconditional promises to give from members of its Board of Directors in the amount of $4,832,858 and $2,915,090, respectively.

The Organization invests in Dodge & Cox and Osterweis Capital Management, each of which employs a member of the Board of Directors of the Organization. The Board of Directors do not actively participate in managing the Organization's investments.

13. RETIREMENT PLAN

The Organization sponsors a defined contribution retirement plan. The plan covers all employees who are at least 21 years of age and who have completed six months of service. The Organization matches dollar-for-dollar employee contributions to the plan, subject to a maximum of $2,000 per year. Participants are vested at 33.33% upon completion of one year of vesting service in the plan, 66.67% upon completion of two years of service, and 100% vested at the end of three years of service. During the years ended September 30, 2014 and 2013, the Organization contributed $170,373 and $126,442, respectively, to the plan.

14. COMMITMENTS

The Organization leases its office facilities under monthly and annual operating leases expiring through February 2022. The leases generally provide that the Organization pay for a percentage of insurance, taxes, and maintenance.

Future minimum rental payments under the Organization's operating leases for the years ending September 30, are as follows:

2015	$ 808,347
2016	661,324
2017	463,849
2018	430,640
2019	409,191
Thereafter	509,578
	$ 3,282,929

Rent expense for the years ended September 30, 2014 and 2013 was $1,056,275 and $763,135, respectively.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest during the years ended September 30, 2014 and 2013 was $500 and $0, respectively.

16. SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through January 29, 2015, the date the financial statements were available to be issued.