



**SUMMER
SEARCH**

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

Years Ended September 30, 2015 and 2014

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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* (a not-for-profit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, 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, 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.

Lautze & Lautze

San Francisco, California
March 23, 2016



SUMMER SEARCH
STATEMENTS OF FINANCIAL POSITION
September 30,

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and cash equivalents	\$ 222,376	\$ 1,847,739	\$ 184,360	\$ 2,254,475	\$ 638,916	\$ 1,045,482	\$ 130,000	\$ 1,814,398
Other receivables	9,119	-	-	9,119	15,041	-	-	15,041
Prepaid expenses and other assets	611,707	-	-	611,707	518,559	-	-	518,559
Promises to give, net	504,175	4,103,980	-	4,608,155	284,830	4,082,064	-	4,366,894
Investments	4,685,229	219	3,343	4,688,791	4,835,328	8,563	-	4,843,891
Property and equipment, net	266,082	-	-	266,082	255,254	-	-	255,254
Total assets	<u>\$ 6,298,688</u>	<u>\$ 5,951,938</u>	<u>\$ 187,703</u>	<u>\$ 12,438,329</u>	<u>\$ 6,547,928</u>	<u>\$ 5,136,109</u>	<u>\$ 130,000</u>	<u>\$ 11,814,037</u>
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable and accrued expenses	\$ 144,041	\$ -	\$ -	\$ 144,041	\$ 348,254	\$ -	\$ -	\$ 348,254
Accrued vacation	359,173	-	-	359,173	341,113	-	-	341,113
Deferred rent	71,237	-	-	71,237	82,626	-	-	82,626
Line of credit	200,000	-	-	200,000	-	-	-	-
Total liabilities	774,451	-	-	774,451	771,993	-	-	771,993
Net assets	<u>5,524,237</u>	<u>5,951,938</u>	<u>187,703</u>	<u>11,663,878</u>	<u>5,775,935</u>	<u>5,136,109</u>	<u>130,000</u>	<u>11,042,044</u>
Total liabilities and net assets	<u>\$ 6,298,688</u>	<u>\$ 5,951,938</u>	<u>\$ 187,703</u>	<u>\$ 12,438,329</u>	<u>\$ 6,547,928</u>	<u>\$ 5,136,109</u>	<u>\$ 130,000</u>	<u>\$ 11,814,037</u>

SUMMER SEARCH
STATEMENTS OF ACTIVITIES
Years Ended September 30,

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains (losses), and other support:								
Contributions	\$ 7,101,208	\$ 6,957,398	\$ 57,703	\$ 14,116,309	\$ 7,457,308	\$ 3,292,716	\$ 70,000	\$ 10,820,024
Special events, net of direct benefit to donors of \$1,004,084 (\$743,457 in 2014)	5,131,564	177,692	-	5,309,256	4,301,014	652,983	-	4,953,997
Contributed goods and services	2,048,198	-	-	2,048,198	2,259,663	-	-	2,259,663
Other income	1,771	-	-	1,771	38,481	-	-	38,481
Investment income (loss), net of investment fees of \$30,487 (\$31,578 in 2014)	(212,695)	41	-	(212,654)	604,563	53	-	604,616
Bad debt losses	(141,227)	(561,500)	-	(702,727)	(45,901)	(80,000)	-	(125,901)
Net assets released from restrictions	5,757,802	(5,757,802)	-	-	4,055,351	(4,055,351)	-	-
Total revenue, gains (losses), and other support	19,686,621	815,829	57,703	20,560,153	18,670,479	(189,599)	70,000	18,550,880
Expenses:								
Program services:								
Summer placement and mentoring	10,352,185	-	-	10,352,185	10,537,357	-	-	10,537,357
Staff training and development	1,628,367	-	-	1,628,367	1,599,884	-	-	1,599,884
College counseling	470,409	-	-	470,409	465,995	-	-	465,995
Bridge program	451,051	-	-	451,051	351,228	-	-	351,228
Alumni	349,867	-	-	349,867	390,167	-	-	390,167
Total program services	13,251,879	-	-	13,251,879	13,344,631	-	-	13,344,631
Supporting services:								
Fundraising and development	3,683,434	-	-	3,683,434	3,175,893	-	-	3,175,893
Management and general	3,003,006	-	-	3,003,006	2,542,310	-	-	2,542,310
Total expenses	19,938,319	-	-	19,938,319	19,062,834	-	-	19,062,834
Change in net assets	(251,698)	815,829	57,703	621,834	(392,355)	(189,599)	70,000	(511,954)
Net assets:								
Beginning of year	5,775,935	5,136,109	130,000	11,042,044	6,168,290	5,325,708	60,000	11,553,998
End of year	\$ 5,524,237	\$ 5,951,938	\$ 187,703	\$ 11,663,878	\$ 5,775,935	\$ 5,136,109	\$ 130,000	\$ 11,042,044

SUMMER SEARCH
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended September 30, 2015

	Program Services					Supporting Services			
	Summer Placement and Mentoring	Staff Training and Development	College Counseling	Bridge Program	Alumni	Total	Fundraising and Development	Management and General	Total
Salaries and employee benefits	\$ 3,810,623	\$ 1,216,657	\$ 374,600	\$ 354,754	\$ 193,590	\$ 5,950,224	\$ 3,197,840	\$ 2,249,680	\$ 11,397,744
Scholarships and student support	5,305,253	-	48,486	75,936	121,478	5,551,153	-	-	5,551,153
Direct benefit to donors	-	-	-	-	-	-	1,004,084	-	1,004,084
Occupancy	902,955	95,667	-	-	-	998,622	-	-	998,622
Professional fees	13,957	102,604	34,145	-	1,000	151,706	89,596	355,000	596,302
Travel and training	19,664	106,751	3,037	7,227	14,304	150,983	102,782	111,764	365,529
Equipment purchase and repair	74,038	29,579	-	-	-	103,617	28,573	100,981	233,171
Postage and printing	33,256	4,485	2,352	2,803	4,862	47,758	90,175	57,384	195,317
Communication	53,006	15,268	4,936	4,656	2,615	80,481	31,622	30,055	142,158
Depreciation	78,012	48,880	-	-	-	126,892	-	-	126,892
Supplies and materials	17,683	4,159	1,521	1,488	553	25,404	9,162	20,965	55,531
Program event expenses	38,668	-	597	4,144	3,241	46,650	-	-	46,650
Promotional materials	-	-	-	-	7,775	7,775	35,819	1,560	45,154
Insurance	698	-	-	-	-	698	-	31,186	31,884
Other	4,372	4,317	735	43	449	9,916	97,865	74,918	182,699
	<u>10,352,185</u>	<u>1,628,367</u>	<u>470,409</u>	<u>451,051</u>	<u>349,867</u>	<u>13,251,879</u>	<u>4,687,518</u>	<u>3,033,493</u>	<u>20,972,890</u>
Less expenses included with revenues on the statement of activities	-	-	-	-	-	-	(1,004,084)	(30,487)	(1,034,571)
	<u>\$ 10,352,185</u>	<u>\$ 1,628,367</u>	<u>\$ 470,409</u>	<u>\$ 451,051</u>	<u>\$ 349,867</u>	<u>\$ 13,251,879</u>	<u>\$ 3,683,434</u>	<u>\$ 3,003,006</u>	<u>\$ 19,938,319</u>

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

	Program Services					Supporting Services			Total
	Summer Placement and Mentoring	Staff Training and Development	College Counseling	Bridge Program	Alumni	Total	Fundraising and Development	Management and General	
Salaries and employee benefits	\$ 3,793,001	\$ 901,653	\$ 340,803	\$ 314,038	\$ 245,129	\$ 5,594,624	\$ 2,618,671	\$ 1,736,967	\$ 9,950,262
Scholarships and student support	5,281,479	-	28,049	25,066	111,698	5,446,292	-	-	5,446,292
Direct benefit to donors	-	-	-	-	-	-	743,457	-	743,457
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
Travel and training	35,531	286,588	6,771	3,500	13,225	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	878	9,421	40,794	84,199	37,583	162,576
Communication	60,773	13,756	4,856	3,105	3,510	86,000	30,885	22,746	139,631
Depreciation	50,500	34,434	-	-	-	84,934	-	-	84,934
Supplies and materials	18,775	4,045	2,113	455	1,034	26,422	7,674	28,440	62,536
Program event expenses	29,028	1,437	1,373	2,571	4,747	39,156	-	-	39,156
Promotional materials	-	-	-	-	-	-	54,267	45,051	99,318
Insurance	-	-	-	-	-	-	-	27,225	27,225
Other	5,818	4,748	1,873	1,615	180	14,234	82,603	80,438	177,275
	10,537,357	1,599,884	465,995	351,228	390,167	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)
	<u>\$ 10,537,357</u>	<u>\$ 1,599,884</u>	<u>\$ 465,995</u>	<u>\$ 351,228</u>	<u>\$ 390,167</u>	<u>\$ 13,344,631</u>	<u>\$ 3,175,893</u>	<u>\$ 2,542,310</u>	<u>\$ 19,062,834</u>

SUMMER SEARCH
STATEMENTS OF CASH FLOWS
Years Ended September 30,

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash flows from operating activities:								
Change in net assets	\$ (251,698)	\$ 815,829	\$ 57,703	\$ 621,834	\$ (392,355)	\$ (189,599)	\$ 70,000	\$ (511,954)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:								
Discount on promises to give	-	63,548	-	63,548	-	-	-	-
Bad debt losses	141,227	561,500	-	702,727	45,901	80,000	-	125,901
Net realized and unrealized (gains) losses on investments	385,173	-	-	385,173	(465,766)	-	-	(465,766)
Depreciation	126,892	-	-	126,892	84,934	-	-	84,934
Gain on disposal of property and equipment	-	-	-	-	1,231	-	-	1,231
Contributions restricted for long-term purposes	-	-	(57,703)	(57,703)	-	-	(70,000)	(70,000)
(Increase) decrease in assets:								
Other receivables	5,922	-	-	5,922	5,848	-	-	5,848
Prepaid expenses and other assets	(93,148)	-	-	(93,148)	(171,665)	-	-	(171,665)
Promises to give	(360,572)	(646,964)	-	(1,007,536)	(184,798)	157,591	-	(27,207)
Increase (decrease) in liabilities:								
Accounts payable and accrued expenses	(204,213)	-	-	(204,213)	31,656	-	-	31,656
Accrued vacation	18,060	-	-	18,060	71,468	-	-	71,468
Deferred rent	(11,389)	-	-	(11,389)	(421)	-	-	(421)
Net cash provided (used) by operating activities	(243,746)	793,913	-	550,167	(973,967)	47,992	-	(925,975)
Cash flows from investing activities:								
Purchase of investments	(636,495)	-	(3,343)	(639,838)	(458,060)	(8,563)	-	(466,623)
Proceeds from the sale or maturity of investments	401,421	8,344	-	409,765	1,418,700	8,701	-	1,427,401
Purchase of property and equipment	(137,720)	-	-	(137,720)	(205,368)	-	-	(205,368)
Net cash provided (used) by investing activities	(372,794)	8,344	(3,343)	(367,793)	755,272	138	-	755,410
Cash flows from financing activities:								
Collections of contributions restricted for long-term purposes	-	-	57,703	57,703	-	-	70,000	70,000
Line of credit draws	500,000	-	-	500,000	300,000	-	-	300,000
Line of credit repayments	(300,000)	-	-	(300,000)	(300,000)	-	-	(300,000)
Net cash provided by investing activities	200,000	-	57,703	257,703	-	-	70,000	70,000
Net increase (decrease) in cash and cash equivalents	(416,540)	802,257	54,360	440,077	(218,695)	48,130	70,000	(100,565)
Cash and cash equivalents:								
Beginning of year	638,916	1,045,482	130,000	1,814,398	857,611	997,352	60,000	1,914,963
End of year	\$ 222,376	\$ 1,847,739	\$ 184,360	\$ 2,254,475	\$ 638,916	\$ 1,045,482	\$ 130,000	\$ 1,814,398

See notes to financial statements.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

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.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

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

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.

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 intended for investment purposes are classified separately under investments.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

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

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.

Investments

Investments in marketable securities are stated at fair value based on quoted market prices.

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 three to five 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.

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.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

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

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 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, 2015, were \$2,048,198 (\$2,259,663 for the year ended September 30, 2014). Contributed scholarships from summer program partners represent 90% (84% in 2014) of this amount. The remaining 10% (16% in 2014) consists of contributed supplies and event expenses.

Investment Income

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

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.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

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

Income Taxes (Continued)

Management has evaluated the Organization's tax positions and concluded that they have maintained their tax-exempt status and have taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

The 2011 through 2014 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2010 through 2014 tax years remain subject to examination by the California Franchise Tax Board.

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.

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 2014 have been reclassified to conform to the 2015 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

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

Recent Accounting Pronouncements

Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* eliminates the transaction-specific and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principle-based approach for determining revenue recognition. The core principle of this new standard is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Financial Accounting Standard's Board also issued ASU 2015-14 which deferred the effective date. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management has not evaluated the impact of this new guidance.

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). The levels of the fair value hierarchy are as follows:

- | | |
|-----------------|---|
| <i>Level 1:</i> | Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date. |
| <i>Level 2:</i> | 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. |
| <i>Level 3:</i> | 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 generally categorized in Level 1 of the fair value hierarchy.

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

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2. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2015 and 2014.

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.

3. INVESTMENTS

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2015:				
Mutual funds:				
Domestic equity	\$ 2,577,953	\$ -	\$ -	\$ 2,577,953
Bonds (U.S. fixed income)	1,110,123	-	-	1,110,123
International equity	220,135	-	-	220,135
Cash	552,576	-	-	552,576
ETFs and common stock:				
International equity	119,124	-	-	119,124
Domestic equity	108,880	-	-	108,880
	<u>\$ 4,688,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,688,791</u>
2014:				
Mutual funds:				
Domestic equity	\$ 2,727,461	\$ -	\$ -	\$ 2,727,461
Bonds (U.S. fixed income)	1,112,306	-	-	1,112,306
International equity	262,650	-	-	262,650
Cash	139,792	-	-	139,792
ETFs and common stock:				
International equity	551,683	-	-	551,683
Domestic equity	49,999	-	-	49,999
	<u>\$ 4,843,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,843,891</u>

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3. INVESTMENTS (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
Net realized and unrealized gains (losses) on investments	\$ (385,173)	\$ 465,766
Dividend and interest income	<u>172,519</u>	<u>138,850</u>
	<u><u>\$ (212,654)</u></u>	<u><u>\$ 604,616</u></u>

4. PROMISES TO GIVE

Unconditional promises to give at September 30, 2015, consist of the following:

	<u>Due in Less Than 1 Year</u>	<u>Due in 1 to 5 Years</u>	<u>Total</u>
Unrestricted:			
Promises to give to local offices	\$ 560,305	\$ -	\$ 560,305
Allowance for doubtful accounts	<u>(56,130)</u>	<u>-</u>	<u>(56,130)</u>
	<u>504,175</u>	<u>-</u>	<u>504,175</u>
Temporarily restricted:			
Expand the Dream Campaign Annual Fund and other time restricted promises to give	198,891	-	198,891
Allowance for doubtful accounts	2,235,148	1,959,082	4,194,230
Discount to net present value	<u>(90,851)</u>	<u>(73,123)</u>	<u>(163,974)</u>
	<u>-</u>	<u>(125,167)</u>	<u>(125,167)</u>
	<u>2,343,188</u>	<u>1,760,792</u>	<u>4,103,980</u>
	<u><u>\$ 2,847,363</u></u>	<u><u>\$ 1,760,792</u></u>	<u><u>\$ 4,608,155</u></u>

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4. PROMISES TO GIVE (CONTINUED)

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)
	<u>284,830</u>	<u>-</u>	<u>284,830</u>
Temporarily restricted:			
Expand the Dream Campaign Annual Fund and other time restricted promises to give	695,599	217,000	912,599
Allowance for doubtful accounts	2,309,253	1,053,214	3,362,467
Discount to net present value	(92,346)	(39,037)	(131,383)
	<u>-</u>	<u>(61,619)</u>	<u>(61,619)</u>
	<u>2,912,506</u>	<u>1,169,558</u>	<u>4,082,064</u>
	<u>\$ 3,197,336</u>	<u>\$ 1,169,558</u>	<u>\$ 4,366,894</u>

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 2.51 % to 2.95% and 0.69% to 3.43% at September 30, 2015 and 2014, respectively.

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

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5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	<u>2015</u>	<u>2014</u>
Computer equipment	\$ 326,131	\$ 285,903
Leasehold improvements	297,150	274,849
Furniture, fixtures, and equipment	250,116	213,565
Software	<u>164,178</u>	<u>156,178</u>
	1,037,575	930,495
Less accumulated depreciation	<u>(771,493)</u>	<u>(675,241)</u>
	<u>\$ 266,082</u>	<u>\$ 255,254</u>

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 April 1, 2015, was extended to May 1, 2016. Interest is payable at the greater of the prime rate plus 1.75%, or 5.00%. At September 30, 2015 and 2014, 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, 2015 and 2014, there were outstanding balances of \$200,000 and \$0, respectively.

7. UNRESTRICTED NET ASSETS

Unrestricted net assets are as follows at September 30:

	<u>2015</u>	<u>2014</u>
Net investment in property and equipment	\$ 266,082	\$ 255,254
Board-designated for operation reserves	4,579,911	4,229,486
Undesignated	<u>678,244</u>	<u>1,291,195</u>
	<u>\$ 5,524,237</u>	<u>\$ 5,775,935</u>

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8. TEMPORARILY RESTRICTED NET ASSETS

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

	2015	2014
Inherent time restrictions:		
Annual Fund:		
2014/2015	\$ -	\$ 760,240
2015/2016	1,390,756	1,005,050
2016/2017	930,776	120,600
2017/2018	285,443	20,000
2018/2019	216,691	-
Operations*	375,028	670,247
Signature Events	304,188	540,768
Innovation	249,999	-
Expand the Dream Campaign*	198,891	708,713
Salaries	110,070	250,000
Mentor program	32,501	-
Scholarships	9,637	6,446
Cash:		
Annual Fund:		
2014/2015	-	720,000
2015/2016	766,634	20,000
Innovation	597,925	119,617
Mentor program	200,787	-
Scholarships	139,520	118,874
Salaries	62,236	-
Signature Events	25,762	50,554
Alumni program	25,610	-
Summer program	25,000	-
Marketing	4,484	25,000
	\$ 5,951,938	\$ 5,136,109

*Both the Expand the Dream Campaign and Operations categories represent funds which can be used for operations.

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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 \$187,703 and \$130,000 at September 30, 2015 and 2014, respectively, and are to generate income restricted for scholarships.

10. ENDOWMENT

The Organization's endowment consists of two individual donor-restricted funds (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 restriction.

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.

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10. ENDOWMENT (CONTINUED)

Changes in the endowment net assets for the years ended September 30, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Endowment net assets, September 30, 2013	\$ -	\$ 53	\$ 60,000	\$ 60,053
Contributions	-	-	70,000	70,000
Investment income	<u>-</u>	<u>53</u>	<u>-</u>	<u>53</u>
Endowment net assets, September 30, 2014	-	106	130,000	130,106
Contributions	-	-	57,703	57,703
Investment income	<u>-</u>	<u>41</u>	<u>-</u>	<u>41</u>
Endowment net assets, September 30, 2015	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ 187,703</u>	<u>\$ 187,850</u>

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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 years ended September 30, as follows:

	2015	2014
Annual Fund	\$ 2,738,994	\$ 1,159,316
Expand the Dream Campaign	514,154	1,396,350
Innovation	495,979	78,258
Salaries	416,495	310,000
Signature Events	394,745	423,856
Mentor program	390,505	-
College success	307,000	-
Operations	265,407	483,952
Scholarships	156,257	178,619
Marketing	55,516	25,000
Summer program	22,750	-
	\$ 5,757,802	\$ 4,055,351

12. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2015 and 2014, 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 \$5,295,690 and \$4,832,858, 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, 2015 and 2014, the Organization contributed \$186,885 and \$170,373, respectively, to the plan.

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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:

2016	\$ 973,209
2017	1,218,998
2018	1,085,260
2019	1,078,168
2020	945,707
Thereafter	<u>644,815</u>
	<u>\$ 5,946,157</u>

Rent expense for the years ended September 30, 2015 and 2014, was \$816,582 and \$1,056,275, respectively.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest during the years ended September 30, 2015 and 2014, was \$958 and \$500, respectively.

16. SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through March 23, 2016, the date the financial statements were available to be issued.