



FINANCIAL STATEMENTS

**For the Year Ended
September 30, 2008**

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Summer Search
San Francisco, California

We have audited the accompanying statement of financial position of *Summer Search* (the Organization) as of September 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lautze & Lautze

San Francisco, California
April 7, 2009

SUMMER SEARCH
STATEMENT OF FINANCIAL POSITION
September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents, including \$68,617 board designated for operating reserves	\$ 2,063,510	\$ 68,730	\$ 60,000	\$ 2,192,240
Promises to give, net (Note 2)	214,798	7,689,169	-	7,903,967
Other receivables	10,783	-	-	10,783
Prepaid expenses and other assets	226,799	-	-	226,799
Investments (Note 3)	2,601,924	65,220	-	2,667,144
Property and equipment, net (Note 4)	119,622	-	-	119,622
	<u>5,237,436</u>	<u>7,823,119</u>	<u>60,000</u>	<u>13,120,555</u>
Total assets	<u>\$ 5,237,436</u>	<u>\$ 7,823,119</u>	<u>\$ 60,000</u>	<u>\$ 13,120,555</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 195,714	\$ -	\$ -	\$ 195,714
Accrued vacation	157,027	-	-	157,027
Deferred rent	42,221	-	-	42,221
	<u>394,962</u>	<u>-</u>	<u>-</u>	<u>394,962</u>
Total liabilities	394,962	-	-	394,962
Commitments and contingency (Note 12)				
Net assets (Notes 5, 6 and 7)	<u>4,842,474</u>	<u>7,823,119</u>	<u>60,000</u>	<u>12,725,593</u>
Total liabilities and net assets	<u>\$ 5,237,436</u>	<u>\$ 7,823,119</u>	<u>\$ 60,000</u>	<u>\$ 13,120,555</u>

SUMMER SEARCH
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 5,524,768	\$ 9,124,140	\$ -	\$ 14,648,908
Fundraising events	3,042,102	53,725	-	3,095,827
Donated services and materials	1,324,799	-	-	1,324,799
Investment loss, net (Note 8)	(595,308)	-	-	(595,308)
Other income	30,861	-	-	30,861
Net assets released from restrictions (Note 9)	1,506,146	(1,506,146)	-	-
Total revenues, gains and other support	<u>10,833,368</u>	<u>7,671,719</u>	<u>-</u>	<u>18,505,087</u>
Expenses:				
Program expenses:				
Summer placement and mentoring	6,255,905	-	-	6,255,905
Staff training and development	838,854	-	-	838,854
Alumni	729,630	-	-	729,630
College counseling	266,311	-	-	266,311
Total program expenses	<u>8,090,700</u>	<u>-</u>	<u>-</u>	<u>8,090,700</u>
Supporting services:				
Fundraising and development	1,587,607	-	-	1,587,607
Management and general	1,112,315	-	-	1,112,315
Total expenses	<u>10,790,622</u>	<u>-</u>	<u>-</u>	<u>10,790,622</u>
Change in net assets	42,746	7,671,719	-	7,714,465
Net assets:				
Beginning	<u>4,799,728</u>	<u>151,400</u>	<u>60,000</u>	<u>5,011,128</u>
Ending	<u>\$ 4,842,474</u>	<u>\$ 7,823,119</u>	<u>\$ 60,000</u>	<u>\$ 12,725,593</u>

SUMMER SEARCH
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2008

	Program Services					Supporting Services		
	Summer Placement and Mentoring	Staff Training and Development	Alumni	College Counseling	Total	Fundraising and Development	Management and General	Total
Scholarships and student support	\$ 3,720,093	\$ -	\$ 419,826	\$ 26,130	\$ 4,166,049	\$ -	\$ -	\$ 4,166,049
Salaries and employee benefits	1,816,507	331,773	177,929	188,511	2,514,720	861,983	884,443	4,261,146
Professional fees	4,412	76,417	3,965	45,467	130,261	171,956	80,974	383,191
Equipment purchase and repair	31,463	140,628	-	-	172,091	-	-	172,091
Depreciation	34,343	34,481	-	-	68,824	-	-	68,824
Travel and training	43,494	176,375	14,654	5,193	239,716	73,796	7,079	320,591
Supplies and materials	49,316	2,705	395	481	52,897	2,359	14,975	70,231
Postage and printing	34,984	1,247	2,097	491	38,819	13,865	11,688	64,372
Promotional materials	-	-	-	-	-	4,934	-	4,934
Event expenses	79,246	-	109,975	-	189,221	427,218	-	616,439
Occupancy	367,561	42,913	-	-	410,474	-	-	410,474
Communication	60,406	31,842	586	38	92,872	525	1,585	94,982
Insurance	-	-	-	-	-	-	27,630	27,630
Other	14,080	473	203	-	14,756	30,971	23,851	69,578
Bad debt	-	-	-	-	-	-	60,090	60,090
	<u>\$ 6,255,905</u>	<u>\$ 838,854</u>	<u>\$ 729,630</u>	<u>\$ 266,311</u>	<u>\$ 8,090,700</u>	<u>\$ 1,587,607</u>	<u>\$ 1,112,315</u>	<u>\$ 10,790,622</u>

SUMMER SEARCH
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash flows from operating activities:				
Change in net assets	\$ 42,746	\$ 7,671,719	\$ -	\$ 7,714,465
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Discount on promises to give	-	295,216	-	295,216
Bad debts	60,090	32,832	-	92,922
In-kind contribution of investments	(435,653)	(65,220)	-	(500,873)
Net realized and unrealized losses on investments	718,644	-	-	718,644
Depreciation	68,824	-	-	68,824
Decrease (increase) in assets:				
Promises to give	377,790	(8,017,217)	-	(7,639,427)
Other receivables	(939)	-	-	(939)
Prepaid expenses and other assets	(94,753)	-	-	(94,753)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(39,123)	-	-	(39,123)
Accrued vacation	34,062	-	-	34,062
Deferred rent	(25,206)	-	-	(25,206)
	<u>706,482</u>	<u>(82,670)</u>	<u>-</u>	<u>623,812</u>
Cash flows from investing activities:				
Purchase of investments	(372,040)	-	-	(372,040)
Proceeds from the sale or maturity of investments	709,131	-	-	709,131
Purchase of property and equipment	(74,596)	-	-	(74,596)
	<u>262,495</u>	<u>-</u>	<u>-</u>	<u>262,495</u>
Cash flows from financing activities:				
Principal payments on capital lease obligations	(17,597)	-	-	(17,597)
	<u>(17,597)</u>	<u>-</u>	<u>-</u>	<u>(17,597)</u>
	951,380	(82,670)	-	868,710
Cash and cash equivalents:				
Beginning	<u>1,112,130</u>	<u>151,400</u>	<u>60,000</u>	<u>1,323,530</u>
Ending	<u>\$ 2,063,510</u>	<u>\$ 68,730</u>	<u>\$ 60,000</u>	<u>\$ 2,192,240</u>

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

Summer Search (the Organization) is a not-for-profit organization whose mission is to find resilient low-income high school students and inspire them to become responsible and altruistic leaders by providing year-round mentoring, life-changing summer experiences, college advising, and a lasting support network.

The Organization has operations in San Francisco, Napa, Sonoma, and Silicon Valley, California; New York, New York; Seattle, Washington; Boston, Massachusetts; and Philadelphia, Pennsylvania. The programs of Summer Search are conducted in seven locations; however, the accounting, financial and administrative functions are centralized in San Francisco, California.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis. The significant accounting policies which follow are described to enhance the usefulness of the financial statements to the reader.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Financial Statement Format

The Organization classifies its net assets and activities into one of three categories: unrestricted, temporarily restricted, and permanently restricted. A description of these categories is as follows:

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.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Format (continued)

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 specific purpose, be preserved, and not be sold; or (b) assets donated with stipulation that they be invested to provide a permanent source of income.

From time to time, the Organization's Board of Directors designates funds and related assets to be used for specific purposes, generally designated programs. Such funds are included in unrestricted fund balances, as they are not legally restricted.

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.

Cash and Cash Equivalents

The Organization considers all financial instruments with a maturity of three months or less, from the date of purchase, to be cash equivalents.

Investments

The Organization accounts for its investments in marketable securities with readily determinable fair values and all investments in debt securities at fair value in the statement of financial position.

Property and Equipment

Property and equipment are stated at cost or fair value at time of receipt, if contributed. Major additions and improvements are capitalized; maintenance and repairs are expensed. The Organization capitalizes individual items valued at more than \$1,000 with an estimated useful life beyond one year. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the books, and gains or losses, if any, are reflected in operations in the year of retirement or disposal.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Rent

Leases with free-rent-periods or guaranteed rate increases are recognized on a straight-line basis over the life of the lease.

Revenue Recognition

Contributions

The Organization recognizes all contributions in the year of receipt, regardless of compliance with restrictions. 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 statement of activities. Such transactions are recorded as *net assets released from restrictions* and are reported separately from other transactions.

Unconditional promises to give are recorded when the promise is made; such receivables are subject to an allowance for uncollectible amounts. The allowance is based on prior years' experience and management's analysis of specific promises made. Conditional promises to give are recognized in income when conditions on which they depend are substantially met. As of September 30, 2008, there was a conditional promise to give of \$1,000,000 (Note 10) that is conditioned upon reaching a certain fundraising threshold. Promises to give which are due beyond one accounting cycle are recorded at the present value of the contribution. The interest portion earned in future periods is recorded as a contribution in the period earned.

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.

Contributions of equipment are capitalized at estimated fair value and depreciated over their estimated useful life or, if not to be used in the Organization's operations, are immediately sold and the proceeds recorded as revenues. Donated marketable securities are immediately sold and the cash proceeds recorded as revenues. Any event fees received in advance are recorded as temporarily restricted revenues until the event occurs.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Contributed Goods and Services (continued)

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.

Donated services and materials included in the statement of activities were \$1,324,799. Donated scholarships for summer program partners represent 99% of this amount. The remaining 1% consists of contributed supplies.

Investment Income

Income earned and realized and unrealized gains and losses on investment transactions are included in income in the year earned, and reported as increases and decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Functional Allocation of Expenses

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

Income Taxes

The Organization is a qualified organization exempt from Federal and California income taxes under the provisions of Sections §501(c)(3) of the Internal Revenue Code and §23701d of the California Revenue and Tax Code. The Organization has no unrelated business activities; accordingly, there is no provision for unrelated business income taxes.

Concentrations of Risk

Financial Instruments

Financial instruments, which potentially subject the Organization to a concentration of credit risk, principally consist of cash and short-term investments. The Organization invests temporary cash in short-term investments, which are not covered by federal insurance. Cash in bank accounts may, at times, exceed federally-insured limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash and short-term investments.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Risk (continued)

Promises to Give

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.

Recent Accounting Pronouncements

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). In addition, the FSP requires extensive new disclosures about an organization's donor-restricted and board-designated endowment funds, whether or not the organization is subject to UPMIFA. The FSP is effective for financial statements issued for years ending after December 15, 2008. The Organization is currently evaluating the effect the FSP will have on its financial statements.

In September 2006, the FASB issued Statement on Accounting Standard No. 157, *Fair Value Measurements* (FASB No. 157). The new FASB rule defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Organization is currently evaluating the impact, if any; FASB No. 157 will have on its financial statements.

2. PROMISES TO GIVE

Promises to give at September 30, 2008, consist of the following:

	<u>Current</u>	<u>2-5 Years</u>	<u>Total</u>
Unrestricted:			
Promises to give to local offices	\$ 247,738	\$ -	\$ 247,738
Signature Events	27,150	-	27,150
Allowance for doubtful accounts	<u>(60,090)</u>	<u>-</u>	<u>(60,090)</u>
	<u>214,798</u>	<u>-</u>	<u>214,798</u>

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

2. PROMISES TO GIVE (CONTINUED)

	<u>Current</u>	<u>2-5 Years</u>	<u>Total</u>
Temporarily restricted:			
Annual Fund and other time restricted promises to give	\$ 859,800	\$ 613,200	\$ 1,473,000
Capital Campaign	947,517	5,596,700	6,544,217
Allowance for doubtful accounts	(7,684)	(25,148)	(32,832)
Discount to net present value	<u>-</u>	<u>(295,216)</u>	<u>(295,216)</u>
	<u>1,799,633</u>	<u>5,889,536</u>	<u>7,689,169</u>
	<u>\$ 2,014,431</u>	<u>\$ 5,889,536</u>	<u>\$ 7,903,967</u>

Promises to give due in two to five years are stated at their present values. Management has discounted these promises to give based on comparable risk-free rates ranging from 1.78% to 2.98%, which are the two to five year U.S. Treasury yields at September 30, 2008.

Three donors comprise approximately 51% of all gross promises to give at September 30, 2008.

3. INVESTMENTS

The Organization's Board of Directors has designated certain marketable securities and brokerage accounts to be invested for future use. The Organization's investments at September 30, 2008, consist of the following:

Mutual funds (Board designated for operating reserves)	\$ 2,601,924
Common stock *	<u>65,220</u>
	<u>\$ 2,667,144</u>

* This represents a stock gift that was made to the Organization in September 2008, which was subsequently sold and converted to cash on October 7, 2008.

Investments at September 30, 2008, are held as follows:

Dodge & Cox mutual funds **	\$ 2,025,434	76%
Osterweis Strategic Income Fund (100% bonds)	576,490	22
Shares of Bare Escentuals, Inc.	<u>65,220</u>	<u>2</u>
	<u>\$ 2,667,144</u>	<u>100%</u>

** Dodge & Cox mutual funds consist of approximately \$1.7 million in the Dodge & Cox Balance Fund (63% stocks, 33% bonds and 4% cash) with the balance in the Dodge & Cox International Stock Fund (100% stocks).

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

4. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2008, consist of the following:

Furniture, fixtures and equipment	\$ 502,317
Less accumulated depreciation	<u>(382,695)</u>
	<u>\$ 119,622</u>

5. UNRESTRICTED NET ASSETS

Unrestricted net assets at September 30, 2008, consist of the following:

Net investment in property and equipment	\$ 119,622
Board designated for operating reserves	2,670,541
Undesignated	<u>2,052,311</u>
	<u>\$ 4,842,474</u>

In 2006, Summer Search - Boston received a conditional grant from the Richard and Susan Smith Family Foundation in the amount of \$701,721. Through September 30, 2008, the Organization has recognized \$459,000 in income, \$164,000 for the year ended September 30, 2008.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2008 consist of the following:

Time restricted	\$ 7,769,394
Signature Event	<u>53,725</u>
	<u>\$ 7,823,119</u>

7. 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 at September 30, 2008, consist of \$60,000 restricted for scholarships.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

8. INVESTMENT LOSS

The net investment loss for the year ended September 30, 2008 consists of the following:

Net realized and unrealized losses on investments	\$ (718,644)
Dividend and interest income	<u>123,336</u>
	<u>\$ (595,308)</u>

9. NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released during the year ended September 30, 2008 primarily due to the passage of time.

10. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2008, 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 \$6,947,879.

The Organization received a conditional promise to give of \$1,000,000 from a Board member during the year ended September 30, 2008.

During the year ended September 30, 2008, the Organization paid scholarship costs of \$486,495 to Outward Bound, an organization whose Chief Executive Officer is on the Organization's Board of Directors.

Investment managers Dodge & Cox and Osterweis Capital Management each employ a Board Director of the Organization. The management fees paid to the investment managers are not material to the financial statements. The Board Directors do not actively participate in managing the Organization's investments.

11. RETIREMENT PLAN

The Organization sponsors a defined contribution plan. The plan covers all employees who are at least 21 years of age and have completed one year 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 year ended September 30, 2008, the Organization contributed \$59,425 to the plan.

SUMMER SEARCH
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

12. COMMITMENTS AND CONTINGENCY

The Organization leases its office facilities under monthly and annual operating leases expiring through 2015. 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:

2009	\$ 434,974
2010	310,999
2011	310,608
2012	265,547
2013	325,113
Thereafter	<u>160,186</u>
	<u>\$ 1,807,427</u>

Rent expense for the year ended September 30, 2008, was \$369,825.

13. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

For the year ended September 30, 2008, the Organization paid interest of \$848.

14. SUBSEQUENT EVENT

The Organization was involved in a legal matter with respect to an incident involving a student. Although they were not assigned liability, they did make a full and final settlement in November 2008, releasing them from any future claims. The settlement does not have a material impact on the financial position of the Organization.