



YOUTH SCIENCE INSTITUTE

FINANCIAL STATEMENTS

**YEAR ENDED SEPTEMBER 30, 2014 WITH COMPARATIVE TOTALS
FOR YEAR ENDED SEPTEMBER 30, 2013**

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Youth Science Institute
Los Gatos, California

We have reviewed the accompanying statement of financial position of Youth Science Institute (the "Institute") as of September 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2014 financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Institute will continue as a going concern. As discussed in Note 4 to the financial statements, the Institute has suffered recurring losses in unrestricted activities and has experienced significant reduction in revenue and support, all of which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our report is not modified with respect to this matter.

The financial statements for the year ended September 30, 2013, were audited by us, and we expressed an unmodified opinion on them in our report dated April 21, 2014, but we have not performed any auditing procedures since that date.



January 23, 2015

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YOUTH SCIENCE INSTITUTE

STATEMENTS OF FINANCIAL POSITION

Assets

	September 30,	
	2014 (Unaudited)	2013 (Audited)
Current assets:		
Cash and cash equivalents	\$ 40,594	\$ 242,692
Investments	149,986	3,615
Accounts receivable	6,635	10,168
Grants and pledges receivable, current portion	880	2,580
Cash restricted for temporary purposes	209,648	291,682
Prepaid expenses	2,486	16,749
Total current assets	410,229	567,486
Property and equipment, net	1,050,889	1,106,077
Noncurrent assets:		
Grants and pledges receivable, net of current portion	-	940
Investments restricted for endowment	13,040	13,040
Accumulated endowment earnings:		
Cash	10,925	-
Investments	1,930	10,953
Total noncurrent assets	25,895	24,933
Total assets	<u>\$ 1,487,013</u>	<u>\$ 1,698,496</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 14,178	\$ 11,905
Accrued liabilities	22,084	31,858
Deferred revenue	19,705	57,387
Total current liabilities	55,967	101,150
Net assets:		
Unrestricted	1,195,503	1,281,671
Temporarily restricted	222,503	302,635
Permanently restricted	13,040	13,040
Total net assets	1,431,046	1,597,346
Total liabilities and net assets	<u>\$ 1,487,013</u>	<u>\$ 1,698,496</u>

YOUTH SCIENCE INSTITUTE

STATEMENTS OF ACTIVITIES (with Comparative Totals for the Year Ended September 30, 2013)

	Year Ended September 30, 2014 (Unaudited)				September 30, 2013 (Audited)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue:					
Program fees	\$ 419,400	\$ -	\$ -	\$ 419,400	\$ 474,296
Contributions in-kind	229,368	-	-	229,368	450,462
Grants and contributions	32,455	426,814	-	459,269	407,705
Government grants and contracts	62,500	-	-	62,500	50,475
Special events	31,600	34,350	-	65,950	24,155
Less: special events costs	(34,722)	-	-	(34,722)	(9,121)
Membership dues	3,489	-	-	3,489	2,151
Other income	3,746	-	-	3,746	5,083
Interest and dividends	582	387	-	969	770
Gain on disposal of assets	-	-	-	-	31,341
Net realized/unrealized gain on investments	-	1,502	-	1,502	1,145
Total support and revenue	<u>748,418</u>	<u>463,053</u>	<u>-</u>	<u>1,211,471</u>	<u>1,438,462</u>
Net assets released from restrictions	<u>543,185</u>	<u>(543,185)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restrictions	<u>1,291,603</u>	<u>(80,132)</u>	<u>-</u>	<u>1,211,471</u>	<u>1,438,462</u>
Functional expenses:					
Program services:					
Instruction	<u>883,122</u>	<u>-</u>	<u>-</u>	<u>883,122</u>	<u>1,005,478</u>
Supporting services:					
Management and general	415,877	-	-	415,877	457,356
Fundraising	78,772	-	-	78,772	82,862
Thrift store costs	-	-	-	-	86,508
Total supporting services	<u>494,649</u>	<u>-</u>	<u>-</u>	<u>494,649</u>	<u>626,726</u>
Total functional expenses	<u>1,377,771</u>	<u>-</u>	<u>-</u>	<u>1,377,771</u>	<u>1,632,204</u>
Change in net assets	(86,168)	(80,132)	-	(166,300)	(193,742)
Net assets, beginning of year	<u>1,281,671</u>	<u>302,635</u>	<u>13,040</u>	<u>1,597,346</u>	<u>1,791,088</u>
Net assets, end of year	<u>\$ 1,195,503</u>	<u>\$ 222,503</u>	<u>\$ 13,040</u>	<u>\$ 1,431,046</u>	<u>\$ 1,597,346</u>

See accompanying independent accountant's review report and notes to financial statements.

YOUTH SCIENCE INSTITUTE

STATEMENTS OF FUNCTIONAL EXPENSES (with Comparative Totals for the Year Ended September 30, 2013)

	Program Services - Instruction	Supporting Services			Totals	
		Management and General	Fundraising	Total	Year Ended September 30, 2014 (Unaudited)	Year Ended September 30, 2013 (Audited)
Personnel costs:						
Salaries and wages	\$ 378,195	\$ 125,541	\$ 62,054	\$ 187,595	\$ 565,790	\$ 498,115
Employee benefits	80,082	9,278	341	9,619	89,701	57,212
Payroll taxes	37,108	12,059	5,861	17,920	55,028	56,573
Total personnel costs	495,385	146,878	68,256	215,134	710,519	611,900
Rent, including in-kind	206,040	1,680	630	2,310	208,350	366,960
Depreciation	54,108	-	1,081	1,081	55,189	96,611
Professional services, including in-kind	6,352	233,699	6,359	240,058	246,410	295,102
Outside services, including in-kind	9,613	5,284	1,422	6,706	16,319	57,571
Interest	-	-	-	-	-	34,588
Utilities, including in-kind	19,016	276	104	380	19,396	25,505
Computer/internet/telephone	14,988	514	167	681	15,669	16,758
Taxes and licenses	-	-	-	-	-	11,427
Insurance	-	13,950	-	13,950	13,950	15,725
Repairs/maintenance/small equipment	12,718	1,189	125	1,314	14,032	14,363
Supplies, including in-kind	12,953	580	72	652	13,605	16,114
Bank and payroll fees	11,119	2,341	248	2,589	13,708	13,481
Advertising	14,031	3,883	145	4,028	18,059	5,946
Travel, including in-kind	5,275	1,337	52	1,389	6,664	7,228
Printing	4,352	168	63	231	4,583	4,834
Animal care, including in-kind	11,098	-	-	-	11,098	7,979
Site improvements	3,407	-	-	-	3,407	23,343
Miscellaneous	(21)	(124)	-	(124)	(145)	(165)
Postage and shipping, including in-kind	550	22	48	70	620	487
Development and recognition	1,551	4,200	-	4,200	5,751	2,281
Event expenses, including in-kind	587	-	-	-	587	4,166
Total expenses	<u>\$ 883,122</u>	<u>\$ 415,877</u>	<u>\$ 78,772</u>	<u>\$ 494,649</u>	<u>\$ 1,377,771</u>	<u>\$ 1,632,204</u>
Percentage of total expenses	64%	30%	6%	36%	100%	

See accompanying independent accountant's review report and notes to financial statements.

YOUTH SCIENCE INSTITUTE

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

	Year Ended September 30,	
	2014 (Unaudited)	2013 (Audited)
Cash flows from operating activities:		
Change in net assets	\$ (166,300)	\$ (193,742)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	55,189	96,611
Gain on disposal of assets	-	(31,341)
Net realized/unrealized gain on investments	(1,502)	(1,145)
Changes in operating assets and liabilities:		
Accounts receivable	3,533	(3,411)
Grants and pledges receivable	2,640	20,352
Prepaid expenses	14,263	181
Accounts payable	2,273	(26,968)
Accrued liabilities	(9,774)	(7,252)
Deferred revenue	(37,682)	33,392
Net cash used in operating activities	(137,360)	(113,323)
Cash flows from investing activities:		
Purchase of property and equipment	-	(4,745)
Proceeds from sale of property	-	365,638
Proceeds from sale of investments	50,000	79,766
Purchases of investments	(185,847)	-
Net cash (used in) provided by investing activities	(135,847)	440,659
Cash flows from financing activities:		
Borrowings on line of credit	-	50,000
Mortgage payments	-	(9,649)
Net cash provided by financing activities	-	40,351
Net (decrease) increase in cash and cash equivalents	(273,207)	367,687
Cash and cash equivalents, beginning of year	534,374	166,687
Cash and cash equivalents, end of year	<u>\$ 261,167</u>	<u>\$ 534,374</u>
Reconciliation of cash and cash equivalents at end of year:		
Cash and cash equivalents	\$ 40,594	\$ 242,692
Cash restricted for temporary purposes	209,648	291,682
Cash restricted for endowment	10,925	-
Cash and cash equivalents at end of year	<u>\$ 261,167</u>	<u>\$ 534,374</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 34,588</u>
Non-cash investing and financing activities:		
Mortgage note, line of credit, and closing costs paid during close of escrow related to the sale of land and building	<u>\$ -</u>	<u>\$ 684,362</u>

See accompanying independent accountant's review report and notes to financial statements.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 1 - Organization

The mission of Youth Science Institute (the "Institute") is to "inspire enthusiasm for science and a love of learning" in preschool through sixth-grade students in Santa Clara County, California. Through its School and Group Programs, Summer Science Camps, and Science Safaris, the Institute teaches hands-on, nature-based science to more than 30,000 children per year. Since Youth Science Institute's founding in 1953, the Institute has taught hundreds of thousands of children.

Youth Science Institute maintains three Science and Nature Centers where the Institute delivers its inquiry-based science programs: Alum Rock Park, San Jose, California; Sanborn County Park, Saratoga, California; and Vasona Lake County Park, Los Gatos, California. Each Youth Science Institute Science and Nature Center has specialized and unique artifacts, collections, and resources that connect children with nature while teaching science.

"Children must be taught how to think, not what to think." – Margaret Mead

Youth Science Institute attempts to transform the typical teacher-centered classroom by providing a curriculum that is student-centered. The Institute encourages students to develop (and use) their critical thinking skills, problem solving skills, and deductive reasoning skills. The Institute encourages them to question everything, think differently, and solve problems in creative and innovative ways. By arming young children with the tools they need to excel in science, Youth Science Institute hopes to prepare them for success when they are faced with more advanced science courses (and standardized testing) in middle school and beyond.

Youth Science Institute's programs reinforce and enrich the science education that schools provide. They are age-appropriate and impactful for students along the broad-spectrum from at-risk to high achieving. The Institute provides unique hands-on teaching materials that teachers don't have the resources to provide on their own. For example, 50% of programs delivered include live animals – from injured and non-releasable birds of prey to chinchillas, bearded dragons, and newts. The hands-on nature of the Institute's programs helps children see that science is fun and exciting and has real world applications. When children see the relevance of science, learning becomes more meaningful and memorable.

Furthermore, since most* of the Institute's programs are delivered at its three park-based Science and Nature Centers and include a nature hike, it addresses the need to get children outdoors (*Note: if schools cannot afford bus transportation to bring their students to Youth Science Institute, the Institute brings its programs to them). The startling lack of time that children spend outdoors has become known as "Nature Deficit Disorder," as clearly and effectively brought forth by Richard Louv, author of *Last Child in the Woods: Saving our Children from Nature Deficit Disorder*. His book gave birth to an international movement to reconnect children with nature.

A noted researcher underscored people's need for nature in an article entitled *Science Suggests Access to Nature Is Essential to Human Health*. According to Frances Kuo, professor of natural resources and environmental science and psychology at the University of Illinois, access to nature is critical for people of all ages. "In our studies, people with less access to nature show relatively poor attention or cognitive function, poor management of major life issues, poor impulse control," she said. The beneficial effects of nature extend to children as well: those with Attention Deficit Hyperactivity Disorder (ADHD) had better concentration after a walk in a park compared to a walk in an urban setting (<http://www.sciencedaily.com/releases/2009/02/090217092758.htm>).

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 1 - Organization (continued)

Finally, Youth Science Institute addresses the need for environmental stewardship. Its programs, whether delivered indoors or outdoors, connect children with the wonders of nature through the principles of the scientific process. Youth Science Institute builds its programs on the materials and experiences that both science and nature provide, helping children make sense of the world around them. They learn cause and effect, and that each decision has an impact. This understanding helps to develop skills for making good stewardship choices for local environments and the planet.

"When we tug at a single thing in nature, we find it is attached to the rest of the world." –
John Muir

In Youth Science Institute's programs, the human connection to and impact on nature and the environment is taught in a variety of ways. For example, on the trail, the Institute tells children why poking sticks or kicking dirt into holes is not a good choice...it could be someone's home! Introducing its chinchilla (just one of many live animals in its care) and its unique characteristics and habitat provides the opportunity to discuss how the species' original population was nearly exterminated by human activity. In the creek, the Institute collects garbage and discusses the devastating effect it has on water quality. The Institute also discusses ways to minimize the negative impact on the environment through good choices and reduce/reuse/recycle practices.

Note 2 - Program services

School and group programs

Youth Science Institute School and Group Programs are correlated to science content standards for California public schools. They specialize in life, physical, and earth sciences. They support teachers in delivering the required science content they simply don't have the time, resources, and/or training to provide on their own. The Institute offers 9 different programs that are fun and educational for preschool through sixth grade students.

The students the Institute teaches mirror the diversity of Santa Clara County's public schools: 2.3% African-American not Hispanic, 0.4% American Indian or Alaska Native, 27.7% Asian, 4.2% Filipino, 39.2% Hispanic or Latino, 0.6% Pacific Islander, 21.4% White not Hispanic, 3.7% Two or More Races, 0.6% None Reported (Ethnicity). 38.9% are eligible for Free and Reduced Price Meals; 24.6% are English language learners (Source: California Department of Education, Educational Demographics Unit).

Summer science camps

Youth Science Institute Summer Science Camps, offered at its Vasona site, take advantage of its outdoor setting to get preschool to entering sixth grade children out into nature to discover, think, and learn about the world around them. In 2014, 690 children attended the Institute's educational and fun, one-week, day camps.

Family science safaris

Family science safaris are park-based science and nature programs and interpretive hikes led by Youth Science Institute instructors or guest experts. They are held on weekends and evenings throughout the year. From October 1, 2013 to September 30, 2014, 246 people participated in its Science Safaris.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 2 - Program services (continued)

Annual community events

The Insect Fair is a one-day event held in May at the Institute's Sanborn Science and Nature Center; the Wildlife Festival is a one-day event held in October at its Alum Rock Science and Nature Center. Both events are free and open to the public. They are family-oriented, and include live animals, hands-on activities, food, and stage entertainment.

Note 3 - Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Financial statement presentation

In accordance with U.S. generally accepted accounting principles, the Institute reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Institute. Under this category, the Institute maintains an operating fund plus any net assets designated by the Board for specific purposes.
- Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.
- Permanently restricted net assets include resources with permanent donor-imposed restrictions, which required the assets to be maintained in perpetuity but permit the Institute to expend all or part of the income derived from the donated assets.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended September 30, 2013, from which the summarized information was derived.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 3 - Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the period. Significant estimates used in preparing these financial statements include the useful lives of property and equipment, and the value of donated materials, use of facilities, and professional services. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor amounts designated for long-term purposes. The Institute maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Institute has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on its cash accounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in temporarily restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Fair value measurements

The Institute measures and discloses fair value measurements as required by the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 3 - Summary of significant accounting policies (continued)

Revenue recognition and deferred revenue

Contributions are considered to be unrestricted unless specifically restricted by the donor. Contributions are recorded as revenue when received or promised (pledged) unconditionally, at their fair value. Gifts received with donor stipulations that limit the use of the donated assets are reported as temporarily restricted support. When a donor restriction expires, that is, when a time restriction ends or the purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. Deferred revenue represents advances of resources or revenue received in advance of the earnings process being completed.

Accounts and grants receivable

The Institute considers all accounts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Promises to give

Unconditional promises to give (pledges) are recognized as contribution support in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Present value is measured using a risk-adjusted discount rate of return at initial recognition and is not revised in future years.

Contributions in-kind

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services which create or enhance a nonfinancial asset (such as inventory) and contributed services which require a specialized skill and which the Institute would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Institute also receives donated services which do not meet the recognition criteria above but which are nonetheless central to the Institute's operations. Accordingly, the value of these contributed services has not been determined and is not reflected in the accompanying financial statements.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items at the time of the donation. Equipment purchases over \$1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed when incurred. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 3 - Summary of significant accounting policies (continued)

Collections

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statements of activities. Proceeds from deaccessions or insurance recoveries are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions.

Expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect expense allocations are based on salary expense or square footage.

Income taxes

Youth Science Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Additionally, the Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code. Although the Institute is recognized as a tax-exempt nonprofit organization, it is still liable for tax on any unrelated business taxable income (UBI). The Institute does not believe it has UBI that should have been reported for tax purposes and accordingly, no provision for income taxes is included in these financial statements.

The Institute adopted the accounting standard related to uncertainties in income taxes which requires the Institute to recognize the impact of tax positions in the financial statements, if that position is not more likely than not to be sustained on audit, based on the technical merits of the position.

The Institute recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the years ended September 30, 2014 and 2013, the Institute performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which may have an effect on its tax-exempt status.

The Institute's federal Return of Organization Exempt from Income Tax (Forms 990) for the years ended September 30, 2011 through 2013 could be subject to examination by the Internal Revenue Service, generally for three years after they are filed. The Institute's state returns (Forms 199) for the years ended September 30, 2010 through 2013 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising

The Institute's policy is to expense advertising costs as they are incurred. Advertising expense for the years ended September 30, 2014 and 2013 was \$18,059 and \$5,946, respectively.

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Notes to Financial Statements

September 30, 2014 and 2013

Note 3 - Summary of significant accounting policies (continued)

Subsequent events

In preparing its financial statements, management has evaluated subsequent events through January 23, 2015, which is the date the financial statements were available to be issued.

Note 4 - Going concern and management's plan

For the fiscal year ended September 30, 2014, the Institute experienced a decline in revenue and support of approximately \$227,000 (16%) as compared to the prior fiscal year. This decline was a contributing factor that resulted in a decrease in net assets for the fourth consecutive year. The Institute also experienced negative cash flows from operations for the fiscal years ended September 30, 2014 and 2013 of \$137,360 and \$113,323, respectively. These factors have created an uncertainty about the Institute's ability to continue as a going concern.

In response to the consecutive losses, the Institute has taken extensive measures to achieve a balanced budget through (a) revenue increases and (b) expense reduction.

The Institute has eliminated all School and Group Program discounts and has raised School and Group Program prices. The Institute has eliminated undersubscribed School and Group Programs and has added a new School and Group Program that highlights one of the things that makes the Institute unique: the three injured and non-releasable owls cared for by the Institute. Furthermore, with California schoolteachers looking to implement the Next Generation Science Standards (NGSS) and the Common Core State Standards (CCSS), the Institute has aligned all of its School and Group Programs to both the NGSS and the CCSS to proactively meet teacher demand.

To reduce expenses, the Institute has successfully solicited pro bono services for board development, printing, and graphic design. The Institute has renegotiated one of its lease agreements such that the Institute will no longer be responsible for buildings and grounds maintenance at that site. The Institute has reduced its contract service expenses by hiring accounting expertise on staff.

The Institute is undertaking a Strategic Planning process with both board and staff. The Institute's goal in undertaking Strategic Planning efforts at this time is to assess how the Institute can make the best decisions going forward to achieve impact and financial sustainability. A related goal is for these two elements—Mission Impact and Financial Impact—to drive the Institute's decision-making about its future programmatic and fund-raising activities.

Furthermore, the Institute is in the process of hiring a fund development consultant to assist staff and board with developing and implementing a fund development plan, to bridge the gap between revenues and expense.

The Institute is beginning a financial diagnostic to shed light on its trends, challenges, and opportunities. The findings will then be used for program profitability modeling. The modeling will identify the drivers of revenue, triggers for expense, and reveal areas where the Institute is effectively funded and where the Institute must heavily subsidize a program. Understanding the subsidy required or provided by each program can enable management to make more informed decisions around the allocation and distribution of resources based on an assessment of the mission contribution of each of its various programs. This exercise will help management and board members set program priorities, tackle deficits, improve the financial bottom line, and identify ideal cost savings.

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Notes to Financial Statements

September 30, 2014 and 2013

Note 4 - Going concern and management's plan (continued)

The ability of the Institute to continue as a going concern is dependent upon the success of the steps outlined above to enable the Institute to meet its liquidity needs, comply with donor restrictions, and provide adequate working capital to meet obligations as they become due through and beyond the year ending September 30, 2015. The financial statements do not include any adjustments that might be necessary if the Institute is unable to continue as a going concern.

Note 5 - Investments

The Institute's investment objectives are the preservation and protection of the Institute's assets, as well as the maintenance of liquid reserves to meet obligations arising from unanticipated activities, by earning an appropriate return on investments.

All of the following investments are classified as Level 1 investments within the fair value hierarchy (see Note 3). The fair value of investments as of September 30, 2014 and 2013 was as follows:

	September 30,	
	2014	2013
Fixed income securities	\$ 149,986	\$ -
Equity securities	9,612	13,448
Mutual funds	5,358	14,160
	<u>\$ 164,956</u>	<u>\$ 27,608</u>

Investments are classified as follows as of September 30, 2014 and 2013:

	September 30,	
	2014	2013
Unrestricted and temporarily restricted investments	\$ 151,916	\$ 14,568
Investments restricted for endowment	13,040	13,040
	<u>\$ 164,956</u>	<u>\$ 27,608</u>

Unrestricted investment income is comprised of the following for the years ended September 30, 2014 and 2013:

	September 30,	
	2014	2013
Dividends and interest	\$ 969	\$ 770
Net realized/unrealized gain on investments	1,502	1,145
	<u>\$ 2,471</u>	<u>\$ 1,915</u>

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 6 - Grants and pledges receivable

Grants and pledges receivable as of September 30, 2014 and 2013 consisted of the following:

	September 30,	
	2014	2013
Receivable in less than one year	\$ 880	\$ 2,580
Receivable in one to five years	-	940
Total grants and pledges receivable	<u>\$ 880</u>	<u>\$ 3,520</u>

Note 7 - Property and equipment

The cost and related accumulated depreciation of property and equipment as of September 30, 2014 and 2013 consisted of the following:

	September 30,	
	2014	2013
Leasehold improvements	\$ 1,602,309	\$ 1,602,309
Furniture and fixtures	236,137	236,137
Equipment and machinery	<u>64,457</u>	<u>64,457</u>
	1,902,903	1,902,903
Less: accumulated depreciation	<u>(852,014)</u>	<u>(796,826)</u>
Property and equipment, net	<u>\$ 1,050,889</u>	<u>\$ 1,106,077</u>

Depreciation expense for the years ended September 30, 2014 and 2013 was \$55,189 and \$96,611, respectively.

Note 8 - Collections

Youth Science Institute has a collection of animal skins and mounts, bird mounts, rocks and other geological artifacts, Native American artifacts, and other nature-based teaching materials of value, that have been donated to or purchased by the Institute since 1953.

A portion of the overall collection is on display at the Institute's three Science and Nature Centers. A significant portion is in storage due to lack of display space. The Institute does not currently have a staff curator; care and inventory of the collection is taken care of by staff on an as-needed basis. Contributions or purchases of items for the collection are not reflected in the accompanying statements of financial position since the Institute does not capitalize collections.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 9 - Accrued liabilities

Accrued liabilities consisted of the following as of September 30, 2014 and 2013:

	September 30,	
	2014	2013
Accrued vacation	\$ 14,220	\$ 18,826
Accrued payroll	7,864	7,949
Other	-	5,083
	<u>\$ 22,084</u>	<u>\$ 31,858</u>

Note 10 - Mortgage payable

The Institute owned land and a building used as a thrift store which was financed by a mortgage note. The land and building were sold during the year ended September 30, 2013, and the proceeds were used to pay off the remaining balance of the mortgage note.

Note 11 - Temporarily restricted net assets

The Institute's temporarily restricted net assets as of September 30, 2014 and 2013 consisted of the following:

	September 30,	
	2014	2013
Purpose restriction:		
Fundraising	\$ 69,726	\$ -
School programs	58,955	80,151
Organizational development	14,000	184,864
Summer science camp	8,333	16,667
Care and feeding of animals	-	10,000
Events	3,339	-
Time restriction:		
Fiscal year 2014 - 2015 operating support	55,295	-
Endowment accumulated earnings - unappropriated	<u>12,855</u>	<u>10,953</u>
Total temporarily restricted net assets	<u>\$ 222,503</u>	<u>\$ 302,635</u>

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 12 - Contributions in-kind

The estimated fair value of donated rent, utilities, materials and expert services received are recorded as contributions. In-kind contributions received by the Institute for the year ended September 30, 2014 and 2013 consisted of the following:

	September 30,	
	2014	2013
Rent	\$ 208,350	\$ 366,960
Utilities	7,050	11,280
Professional services	6,469	8,438
Meals/entertainment	2,638	-
Animal care	1,759	951
Travel	1,270	-
Outside services	750	51,620
Supplies	649	-
Event food	393	11,213
Postage and shipping	40	-
Total contributions in-kind	<u>\$ 229,368</u>	<u>\$ 450,462</u>

Note 13 - Net assets released from restrictions

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	September 30,	
	2014	2013
School programs	\$ 230,211	\$ 124,999
Fiscal year operating support	195,699	93,645
Sanborn and Vasona General program support	62,500	-
Summer science camp	26,028	15,862
Care and feeding of animals	11,250	-
Employee recognition	6,120	1,241
Fundraising	5,775	-
Events	5,602	-
Organizational development	-	13,136
Program delivery	-	2,000
Total net assets released from restrictions	<u>\$ 543,185</u>	<u>\$ 250,883</u>

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 14 - Contingencies

Grants and contracts awarded to Youth Science Institute are subject to the funding agencies' criteria, contract terms, and regulations under which expenditures may be charged and are subject to audit under such terms, regulations, and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Institute could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Institute would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

Note 15 - Operating lease commitments

The Institute leases office equipment. The office equipment leases expire at various periods through September 22, 2015.

Future minimum lease payments are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2015	\$ <u>1,340</u>

Note 16 - Endowment

The Institute's endowment consists of funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Directors of the Institute has interpreted the California 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 Institute 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 Institute in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 16 - Endowment (continued)

Interpretation of relevant law (continued)

In accordance with the California version of UPMIFA, the Institution 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 Institute 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 Institute
- (7) The investment policies of the Institute

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are required to be reported in unrestricted net assets. There were no such deficiencies as of September 30, 2014 and 2013.

Return objectives, risk parameters and strategies

The Institute's investment objectives are the preservation and protection of the Institute's assets, as well as the maintenance of liquid reserves to meet obligations arising from unanticipated activities, by earning an appropriate return on investments. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity.

Allowable investments of the Institute shall be made exclusively with the following securities:

- 1) Federally-insured Certificates of Deposit at commercial banks or savings loan institutions; not to exceed current FDIC limits;
- 2) U.S. Treasury securities and securities of Federal agencies and instrumentalities;
- 3) Repurchase agreements with financial institutions, collateralized by U.S. Treasury or Federal agency securities;
- 4) Money market funds that invest in securities approved under these guidelines.

In addition to the above instruments, the endowment fund may invest in investment grade corporate bonds. The endowment fund may also invest in common stocks or mutual funds up to 50% of the total endowment fund as deemed appropriate by the Finance Committee and the investment counselors.

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 16 - Endowment (continued)

Spending policy and how the investment objectives relate to spending policy

The Institute has a policy of appropriating for distribution each year an amount not to exceed 50% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Institute considered the long-term expected return on its endowment. This is consistent with the Institute's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the fiscal year ended September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 10,953	\$ 13,040	\$ 23,993
Interest and dividends	-	387	-	387
Net realized and unrealized gain on investments	<u>-</u>	<u>1,515</u>	<u>-</u>	<u>1,515</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 12,855</u>	<u>\$ 13,040</u>	<u>\$ 25,895</u>

Changes in endowment net assets for the fiscal year ended September 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 9,576	\$ 13,040	\$ 22,616
Interest and dividends	-	382	-	382
Net realized and unrealized gain on investments	<u>-</u>	<u>995</u>	<u>-</u>	<u>995</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 10,953</u>	<u>\$ 13,040</u>	<u>\$ 23,993</u>

YOUTH SCIENCE INSTITUTE

Notes to Financial Statements

September 30, 2014 and 2013

Note 16 - Endowment (continued)

Endowment net asset composition by type of fund

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>As of September 30, 2014</u>				
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>12,855</u>	\$ <u>13,040</u>	\$ <u>25,895</u>
<u>As of September 30, 2013</u>				
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>10,953</u>	\$ <u>13,040</u>	\$ <u>23,993</u>

Note 17 - Related party transactions

During the year ended September 30, 2014, the Institute received contributed support of \$125,250 from a charitable fund controlled by an officer of the Institute; an additional \$14,290 of contributed support was received directly from this officer.

Note 18 - Reclassification

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications have no effect on net assets or changes in net assets.