

Leadership Institute

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Financial Statements

December 31, 2009 and 2008

Leadership Institute

Table of Contents

	Page
Independent Auditors' Report	1
Audited Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 11



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Independent Auditors' Report

The Board of Directors
Leadership Institute
Arlington, VA

We have audited the accompanying Statement of Financial Position of **Leadership Institute** (the **Institute**) as of December 31, 2009 and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the **Institute's** management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the **Institute's** 2008 financial statements, and in our report dated February 23, 2009, we expressed an unqualified opinion on those financial statements.

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 **Leadership Institute** as of December 31, 2009 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.

Berry Group, CPA's

Alexandria, Virginia
February 16, 2010

Leadership Institute

Statements of Financial Position

<i>Year Ended December 31</i>	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 760,728	\$ 888,992
Contributions receivable	584,919	10,893
Beneficial interest in charitable lead trust - current	-	18,017
Prepaid expenses and other	4,997	223
Total current assets	1,350,644	918,125
Other assets		
Investments	5,676,038	9,107,195
Property and equipment, net	6,934,073	5,655,784
Total other assets	12,610,111	14,762,979
Total assets	\$ 13,960,755	\$ 15,681,104
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 154,682	\$ 196,694
Gift annuity liability - current	522,701	519,823
Total current liabilities	677,383	716,517
Long-term liabilities		
Gift annuity liability, long-term	3,232,131	3,368,532
Total long-term liabilities	3,232,131	3,368,532
Total liabilities	3,909,514	4,085,049
Net assets		
Unrestricted	7,463,054	8,369,214
Temporarily restricted	2,538,187	3,176,841
Permanently restricted	50,000	50,000
Total net assets	10,051,241	11,596,055
Total liabilities and net assets	\$ 13,960,755	\$ 15,681,104

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Leadership Institute

Statements of Activities and Changes in Net Assets

<i>Year Ended December 31</i>	2009	2008
Unrestricted net assets		
Support and revenue		
Contributions and pledges	\$ 7,170,541	\$ 4,709,093
Investment income	(1,341,835)	(4,797,395)
Foundation contributions	878,760	1,011,372
School income	286,410	227,798
Rental income	242,163	230,063
Media center income	56,132	115,002
Event income	20,954	16,885
Other income	12,417	13,227
Net assets released from restrictions	665,385	1,905,346
Total unrestricted support and revenue	7,990,927	3,431,391
Expenses		
Program Services	6,746,470	8,368,631
Total program services	6,746,470	8,368,631
Supporting services		
Fundraising	1,406,545	1,621,535
General and administrative	744,072	1,169,159
Total supporting services	2,150,617	2,790,694
Total expenses	8,897,087	11,159,325
Change in unrestricted net assets	(906,160)	(7,727,934)
Temporarily restricted net assets		
Contributions and pledges	26,731	239,705
Net assets released from restrictions	(665,385)	(1,905,346)
Change in temporarily restricted net assets	(638,654)	(1,665,641)
Change in net assets	(1,544,814)	(9,393,575)
Net assets, beginning of year	11,596,055	20,989,630
Net assets, end of year	\$ 10,051,241	\$ 11,596,055

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Leadership Institute

Statement of Functional Expenses

<i>Year Ended December 31, 2009 (With comparative totals for year ended December 31, 2008)</i>	Program Services		Supporting Services			Total 2009	Total 2008
	Program Expenses	General and Administrative	Fundraising	Total Supporting Services			
Expenses							
Salaries	\$ 2,511,062	\$ 385,097	\$ 540,645	\$ 925,742	\$ 3,436,804	\$ 4,390,584	
Employee benefits and payroll taxes	487,037	74,695	104,846	179,541	666,578	785,181	
Printing and publications	984,809	65,654	262,616	328,270	1,313,079	1,076,033	
Postage	479,424	31,962	127,846	159,808	639,232	852,763	
Travel	371,709	-	92,927	92,927	464,636	911,947	
Depreciation and amortization	316,258	39,532	39,532	79,064	395,322	363,090	
Professional services	306,766	22,005	63,000	85,005	391,771	932,676	
Occupancy	257,691	39,521	55,474	94,995	352,686	453,672	
Contributions	308,911	-	-	-	308,911	477,199	
Conferences and conventions	221,104	-	24,567	24,567	245,671	159,534	
Information technology	177,010	27,147	38,106	65,253	242,263	182,415	
Other	166,713	34,225	27,231	61,456	228,169	142,886	
Office expense	88,497	13,572	19,051	32,623	121,120	276,877	
Taxes and insurance	30,238	5,986	4,141	10,127	40,365	42,711	
Bank fees	29,105	4,464	6,265	10,729	39,834	53,186	
Scholarships	8,752	-	-	-	8,752	37,732	
Interest	1,384	212	298	510	1,894	20,839	
Total expenses	\$ 6,746,470	\$ 744,072	\$ 1,406,545	\$ 2,150,617	\$ 8,897,087	\$ 11,159,325	

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Leadership Institute

Statements of Cash Flows

<i>Year Ended December 31</i>	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (1,544,814)	\$ (9,393,575)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	395,322	363,090
Contributions of stocks	(131,899)	(97,752)
Realized losses (gains) on investments	1,463,788	438,786
Unrealized losses (gains) on investments	-	4,828,322
(Increase) decrease in:		
Prepaid expenses and other	(4,774)	7,156
Contributions receivable	(574,026)	(10,893)
Beneficial interest in charitable lead trust	18,017	70,848
Increase (decrease) in:		
Accounts payable and accrued expenses	(42,012)	(21,083)
Pension plan contribution payable	-	(297,837)
Gift annuity liability	(133,523)	283,144
Net cash (used in) operating activities	(553,921)	(3,829,794)
Cash flows from investing activities		
Purchase of property and equipment	(1,673,611)	(152,939)
Sales (purchases) of investments, net	2,099,268	3,503,082
Net cash provided by investing activities	425,657	3,350,143
Net (decrease) in cash and cash equivalents	(128,264)	(479,651)
Cash and cash equivalents, beginning of year	888,992	1,368,643
Cash and cash equivalents, end of year	\$ 760,728	\$ 888,992

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Leadership Institute

Notes to Financial Statements

1. Organization and significant accounting policies

Organization: The Leadership Institute (the Institute) is organized for the purpose of educating students in government and public policy. The Institute conducts schooling on the public policy process and training of leaders, primarily youth leaders. The Institute also assists in placing its graduates and others as employees in the public policy area. The Institute is headquartered in Arlington Virginia and conducts activities throughout the United States. Of 247 training schools conducted in 2009, 133 were held in the DC metropolitan area and 114 were held elsewhere.

Basis of presentation: The financial statements of the Institute are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Nonprofit Organizations*. Under SFAS No. 117, the Institute is required to present net assets and revenues, expenses, gains, and losses classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that are to be maintained permanently by the Institute.

The Institute recognizes all unconditional contributed support in the period in which the commitment is made. When a donor restriction expires (i.e. when a stipulated time restriction ends or the purpose of the restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Donor contributions that are temporarily restricted are reported as unrestricted support if the restrictions are met in the same accounting period in which the contribution was originally pledged.

Cash and cash equivalents: For purposes of the statement of cash flows, the Institute considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Leadership Institute

Notes to Financial Statements

1. Organization and significant accounting policies (continued)

Pledges receivable: Unconditional promises to give that are expected to be collected within one year are recorded at net realized value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Accretion of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The pledges receivable consists of the present value of the amounts due from the charitable lead unitrust discussed in Note 7 to the financial statements.

Investments: Investments in money market funds are stated at cost, which approximates market value. Investments in mutual funds and marketable securities are stated at their market values. Donated real estate holdings are recorded at appraisal value at date of the gifts. Investment in life insurance is recorded at the year-end realized value (cash surrender value) of the contract. Net investment income is recorded in unrestricted net assets. Unrealized appreciation or depreciation of investments is included in the statement of activities.

Property and equipment: Property and equipment is recorded at cost if purchased and at fair value if donated. Depreciation is computed using the straight-line method over the useful lives of 40, 20, 5, and 3 years for the training center building and building improvements, the intern house building, and furniture and equipment, respectively.

Functional expenses allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes: The Institute has obtained exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. Certain other revenues may be subject to taxation as unrelated business income. Management is not aware of any course of action that has occurred that may adversely affect this exemption.

Management estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect 1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and 2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Leadership Institute

Notes to Financial Statements

- 1. Organization and significant accounting policies (continued)** **Prior year summarized information:** The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Reclassifications: Certain 2008 amounts have been reclassified for comparative purposes.

- 2. Concentration of credit risk** 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 and management believes it is not exposed to any significant credit risk related to cash.

- 3. Contributions receivable** Contributions receivable at December 31, 2009 and 2008 consisted of the following:

Description	2009	2008
Bequest	\$ 400,000	\$ -
Pledges	184,919	10,893
Total contributions receivable	\$ 584,919	\$ 10,893

- 4. Investments** Investments consisted of the following at December 31, 2009 and 2008:

Description	2009	2008
Equities and stock mutual funds	\$ -	\$ 5,972,370
Certificates of deposit	2,550,000	-
Money market funds	2,304,169	1,452,508
Donated real estate	201,808	204,120
Life insurance	620,061	1,478,197
Total investments	\$ 5,676,038	\$ 9,107,195

Investment income consisted of the following::

Description	2009	2008
Interest and dividends	\$ 121,953	\$ 469,713
Unrealized (losses) / gains	-	(4,828,322)
Realized (losses) / gains	(1,463,788)	(438,786)
Investment income, net	\$ (1,341,835)	\$ (4,797,395)

Leadership Institute

Notes to Financial Statements

5. Property and equipment

Property and equipment at December 31 was as follows:

	12/31/08	Additions	Deletions	12/31/09
Buildings	\$ 6,875,135	\$ -	\$ -	\$6,875,135
Software and equipment	1,089,113	536,611	-	1,625,724
Construction in progress	-	1,137,000	-	1,137,000
Leasehold improvements	307,840	-	-	307,840
Furniture and fixtures	1,469,050	-	-	1,469,050
Total cost	9,741,138	1,673,611	-	11,414,749
Accumulated depreciation	(4,710,703)	(395,322)	-	(5,106,025)
Net depreciated assets	5,030,435	1,278,289	-	6,308,724
Land	625,349	-	-	625,349
Total	\$ 5,655,784	\$ 1,278,289	\$ -	\$ 6,934,073

6. Restrictions on net assets

Temporarily restricted net assets consisted of the following:

	12/31/08	Contributions	Releases	12/31/09
Beneficial interest in charitable lead trust (Follansbee)	\$ 18,017	\$ -	\$ 18,017	\$ -
Donor advised funds	2,993,555	26,731	604,118	2,416,168
Cherne Foundation CLP Fund	165,269	-	43,250	122,019
Total	\$ 3,176,841	\$ 26,731	\$ 665,385	\$ 2,538,187

Permanently restricted net assets consisted of the following:

	12/31/08	Additions	Deletions	12/31/09
Media Fellowship	\$ 50,000	\$ -	\$ -	\$ 50,000

Leadership Institute

Notes to Financial Statements

- 7. Gift Annuity Program** The Institute offers a program to donors whereby individuals may make contributions and receive fixed quarterly payments for the remainder of their lives. The fixed payments are computed utilizing the donor's life expectancy and a rate structure recommended by the Council of Philanthropies, which is approved by the Internal Revenue Service.
- Gift annuity contributions are unrestricted and unconditional and are recorded net of the present value of the liability for the future annuity payments. The Institute received \$120,000 and \$395,000 in gift annuities during 2009 and 2008, respectively. The estimated present value of all future fixed payments to donors using a 7 percent discount rate was \$3,754,832 and \$3,888,355 as of December 31, 2009 and 2008, respectively. These amounts have been recorded as gift annuity liabilities in the statement of financial position.
- When gift annuity contributions are received, the Institute transfers 70 percent of the amount into its investment account to accumulate income to pay the fixed payments and to reserve for additional future payments of these obligations. The remaining 30 percent is recognized as unrestricted contributions and placed in the Institute's operating account for use in the normal course of business.
- 8. Charitable lead unitrust** On July 1, 1994, the Nancy Avery Follansbee Charitable Lead Unitrust was established and funded with \$700,000 in cash. The trust is for a 15-year term, during which annual payouts of 7 percent of the net fair market value of the trust will be made to the Institute. On June 30, 2009, the Nancy Avery Follansbee Charitable Lead Unitrust ended and ceased its payout to the Institute. The contributions from the trust are unrestricted and unconditional. At December 31, 2009, there was no remaining payment due.
- 9. Pension plan** The Institute has a defined contribution employee pension arrangement covering all employees who are at least 21 years old, have earned at least \$450 during the year and have worked in at least three of the immediately preceding five years. The Institute may contribute up to 25 percent of the employee's annual earnings into employee-designated investment accounts. The Institute elected to contribute 15% of employee compensation in 2007. In 2008, the Institute suspended the employer contribution to the pension plan. There was no pension plan expense for 2009 and 2008.
- 10. Related party transactions** The Legislative Studies Institute (LSI) is another not-for-profit organization with which the President of the Institute, is associated. There were no related party transactions in 2009 and 2008.

Leadership Institute

Notes to Financial Statements

11. Line of credit On March 20, 2008, the Institute obtained a line of credit with a bank for an amount not to exceed \$2,500,000. The Institute issued a promissory note, which can be extended in one year increments at the bank's sole discretion. Interest rate is variable at the adjusted libor rate. A late fee of five percent (5%) applies on any installment that is past due for ten or more days.

In July 2009, the line of credit agreement was modified requiring the Institute to maintain a minimum tangible net worth of not less than \$10,000,000.

As of December 31, 2009 and 2008, there was no outstanding balance in the line of credit.

12. Development agreement On June 7, 2006, the Institute entered into an agreement with a real estate developer (the developer). In consideration for the transfer of the Institute's density rights of its existing building to the developer, the developer will lease the entire tenantable space on the second floor of the new office building to the Institute for \$1 per year for 99 years. In addition to the transfer of the density rights, the Institute agreed to pay to the developer, upon reaching a construction milestone, \$1,137,000 toward the construction of the second floor of the new office building.

In the event that the developer has not delivered the office space intended for the Institute by July 1, 2012, the following options are available to the Institute:

- At the Institute's option, the developer shall pay the Institute \$5,853,000, the leasehold obligations shall automatically terminate, and the developer will retain all transferred density rights; or
- The developer may extend the delivery date of the leasehold space up to July 1, 2014 by agreeing to pay the Institute's cost of leasing an equivalent space up to a specified amount per year, and increasing the agreed sum in option one by \$250,000 per year (prorated monthly) to the extension date selected by the developer.

At December 31, 2009, the Institute had paid the \$1,137,000 due to the developer and is recorded in the financial statements as construction-in-progress. At December 31, 2008, there were no transactions in connection with this agreement that needed to be recorded in the financial statements.