

# **Leadership Institute**

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Financial Statements

December 31, 2010 and 2009

# Leadership Institute

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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, 2010 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 audit. The prior year summarized comparative information has been derived from the **Institute's** 2009 financial statements, and in our report dated February 16, 2010, 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, 2010 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, CPAs*

Alexandria, Virginia  
April 15, 2011

# Leadership Institute

## Statements of Financial Position

<i>Year Ended December 31</i>	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,601,777	\$ 760,728
Contributions receivable	227,056	584,919
Prepaid expenses and other	151,682	4,997
<b>Total current assets</b>	<b>1,980,515</b>	<b>1,350,644</b>
<b>Other assets</b>		
Investments	5,425,720	5,676,038
Property and equipment, net	12,008,972	6,934,073
<b>Total other assets</b>	<b>17,434,692</b>	<b>12,610,111</b>
<b>Total assets</b>	<b>\$ 19,415,207</b>	<b>\$ 13,960,755</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 301,042	\$ 154,682
Gift annuity liability, current	495,429	522,701
<b>Total current liabilities</b>	<b>796,471</b>	<b>677,383</b>
<b>Long-term liabilities</b>		
Gift annuity liability, long-term	3,583,158	3,232,131
<b>Total long-term liabilities</b>	<b>3,583,158</b>	<b>3,232,131</b>
<b>Total liabilities</b>	<b>4,379,629</b>	<b>3,909,514</b>
<b>Net assets</b>		
Unrestricted	12,282,742	7,463,054
Temporarily restricted	2,702,836	2,538,187
Permanently restricted	50,000	50,000
<b>Total net assets</b>	<b>15,035,578</b>	<b>10,051,241</b>
<b>Total liabilities and net assets</b>	<b>\$ 19,415,207</b>	<b>\$ 13,960,755</b>

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>	<b>2010</b>	<b>2009</b>
<b>Unrestricted net assets</b>		
Support and revenue		
Contributions and pledges	\$ 5,718,446	\$ 7,170,541
Investment income gains (losses)	4,966,955	(1,341,835)
Foundation contributions	1,036,543	878,760
Rental income	259,465	242,163
School income	258,900	286,410
Media center income	47,187	56,132
Event income	29,152	20,954
Other income	13,350	12,417
Net assets released from restrictions	79,600	665,385
<b>Total unrestricted support and revenue</b>	<b>12,409,598</b>	<b>7,990,927</b>
<b>Expenses</b>		
Program Services	5,760,978	6,746,470
<b>Total program services</b>	<b>5,760,978</b>	<b>6,746,470</b>
Supporting services		
General and administrative	831,282	744,072
Fundraising	997,650	1,406,545
<b>Total supporting services</b>	<b>1,828,932</b>	<b>2,150,617</b>
<b>Total expenses</b>	<b>7,589,910</b>	<b>8,897,087</b>
<b>Change in unrestricted net assets</b>	<b>4,819,688</b>	<b>(906,160)</b>
<b>Temporarily restricted net assets</b>		
Investment income gains (losses)	122,856	26,731
Contributions	121,393	-
Net assets released from restrictions	(79,600)	(665,385)
<b>Change in temporarily restricted net assets</b>	<b>164,649</b>	<b>(638,654)</b>
<b>Change in net assets</b>	<b>4,984,337</b>	<b>(1,544,814)</b>
<b>Net assets, beginning of year</b>	<b>10,051,241</b>	<b>11,596,055</b>
<b>Net assets, end of year</b>	<b>\$ 15,035,578</b>	<b>\$ 10,051,241</b>

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, 2010 (With comparative totals for year ended December 31, 2009)</i>	<u>Program Services</u>		<u>Supporting Services</u>			<b>Total 2010</b>	<b>Total 2009</b>
	<b>Program Expenses</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>			
Expenses							
Salaries	\$ 2,449,344	\$ 467,559	\$ 410,709	\$ 878,268	\$ 3,327,612	\$ 3,436,804	
Employee benefits and payroll taxes	586,493	111,945	98,320	210,265	796,758	666,578	
Printing and publications	404,228	26,949	107,794	134,743	538,971	1,313,079	
Postage	290,717	19,381	77,524	96,905	387,622	639,232	
Travel	531,341	-	71,086	71,086	602,427	464,636	
Depreciation and amortization	388,211	48,527	48,526	97,053	485,264	395,322	
Professional services	283,624	32,911	66,000	98,911	382,535	391,771	
Occupancy	286,209	54,629	47,980	102,609	388,818	352,686	
Contributions	34,745	-	-	-	34,745	308,911	
Conferences and conventions	122,855	-	13,651	13,651	136,506	245,671	
Information technology	197,228	37,645	33,063	70,708	267,936	242,263	
Other	42,644	8,689	3,598	12,287	54,931	228,169	
Office expense	76,534	14,608	12,830	27,438	103,972	121,120	
Taxes and insurance	20,936	4,178	2,827	7,005	27,941	40,365	
Bank fees	22,321	4,261	3,742	8,003	30,324	39,834	
Scholarships	23,548	-	-	-	23,548	8,752	
Interest	-	-	-	-	-	1,894	
<b>Total expenses</b>	<b>\$ 5,760,978</b>	<b>\$ 831,282</b>	<b>\$ 997,650</b>	<b>\$ 1,828,932</b>	<b>\$ 7,589,910</b>	<b>\$ 8,897,087</b>	

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>	2010	2009
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 4,984,337	\$ (1,544,814)
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities</b>		
Depreciation and amortization	485,264	395,322
Contributions of stocks	(240,894)	(131,899)
Realized (gains) losses on investments	(4,850,916)	1,463,788
Unrealized (gains) losses on investments	(146,222)	-
(Increase) decrease in:		
Prepaid expenses and other	(146,685)	(4,774)
Contributions receivable	357,863	(574,026)
Beneficial interest in charitable lead trust	-	18,017
Increase (decrease) in:		
Accounts payable and accrued expenses	146,360	(42,012)
Gift annuity liability	323,755	(133,523)
<b>Net cash provided by (used in) operating activities</b>	<b>912,862</b>	<b>(553,921)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(5,560,163)	(1,673,611)
Sales (purchases) of investments, net	5,488,350	2,099,268
<b>Net cash (used in) provided by investing activities</b>	<b>(71,813)</b>	<b>425,657</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>841,049</b>	<b>(128,264)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>760,728</b>	<b>888,992</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,601,777</b>	<b>\$ 760,728</b>

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

# Leadership Institute

## Notes to Financial Statements

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### 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 273 training schools conducted in 2010, 135 were held in the DC metropolitan area and 138 were held elsewhere. In 2009, 247 training schools were conducted with 133 held in the DC metropolitan area and 114 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

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### 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 8 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, 2009, from which the summarized information was derived.

**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, 2010 and 2009 consisted of the following:

Description	2010	2009
Bequest	\$ -	\$ 400,000
Pledges	227,056	184,919
<b>Total contributions receivable</b>	<b>\$ 227,056</b>	<b>\$ 584,919</b>

**4. Investments** Investments consisted of the following at December 31, 2010 and 2009:

Description	2010	2009
Certificates of deposit	\$ 50,000	\$ 2,550,000
Money market funds	2,568,776	2,304,169
Equities	2,605,136	-
Real estate and other property	201,808	201,808
Life insurance	-	620,061
<b>Total investments</b>	<b>\$ 5,425,720</b>	<b>\$ 5,676,038</b>

Investment income consisted of the following:

Description	2010	2009
Interest and dividends	\$ 92,425	\$ 121,953
Unrealized gains / (losses)	146,168	-
Realized gains / (losses)	4,851,218	(1,463,788)
<b>Investment income / (loss), net</b>	<b>\$ 5,089,811</b>	<b>\$ (1,341,835)</b>

For years 2010 and 2009, investment income/(loss) included in the Statements of Activities was as follows: unrestricted \$4,966,955 and (\$1,341,835) and temporarily restricted \$122,856 and \$26,731, respectively.

## Leadership Institute

### Notes to Financial Statements

#### 5. Property and equipment

Property and equipment at December 31 was as follows:

	12/31/09	Additions	Deletions	12/31/10
Buildings	\$6,875,135	\$ 41,700	\$ -	\$ 6,916,835
Buildings – capital lease	-	6,610,000	-	6,610,000
Software and equipment	1,625,724	70,512	-	1,696,236
Construction in progress	1,137,000	-	(1,137,000)	-
Leasehold improvements	307,840	-	-	307,840
Furniture & fixtures	1,469,050	-	-	1,469,050
<b>Total cost</b>	<b>11,414,749</b>	<b>6,722,212</b>	<b>(1,137,000)</b>	<b>16,999,961</b>
Less: Accumulated depreciation	(5,106,025)	(485,264)	-	(5,591,289)
Net	6,308,724	6,236,948	(1,137,000)	11,408,672
Land	625,349	-	(25,049)	600,300
<b>Total</b>	<b>\$6,934,073</b>	<b>\$ 6,236,948</b>	<b>\$(1,162,049)</b>	<b>\$12,008,972</b>

#### 6. Restrictions on net assets

Temporarily restricted net assets consisted of the following funds:

Funds	12/31/09	Contributions	Releases	12/31/10
Donor advised Cherne Foundation CLP	\$2,416,168	\$ 243,393	\$ 34,300	\$ 2,625,261
	122,019	856	45,300	77,575
<b>Total</b>	<b>\$2,538,187</b>	<b>\$ 244,249</b>	<b>\$ 79,600</b>	<b>\$ 2,702,836</b>

Permanently restricted net assets consisted of the following:

	12/31/09	Additions	Deletions	12/31/10
Media Fellowship	\$ 50,000	\$ -	\$ -	\$ 50,000

# Leadership Institute

## Notes to Financial Statements

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- 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 American Council on Gift Annuities, 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 \$259,810 and \$120,000 in gift annuities during 2010 and 2009, respectively. The estimated present value of all future fixed payments to donors using a 5 percent discount rate was \$4,078,587 as of December 31, 2010 and \$3,754,832 using a 7% discount rate as of December 31, 2009. The discount rate was changed effective in 2010 to 5%. These amounts have been recorded as gift annuity liabilities in the statement of financial position.
- When gift annuity contributions are received, the Institute transfers 100 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. At the time a gift annuity contribution is received, the Institute recognizes 30 percent as unrestricted support and 70 percent is recorded as gift annuity liability.
- 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 5% of employee compensation in 2010 totaling \$127,025. The Institute did not make an employer contribution to the pension plan for 2009.
- 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 2010 and 2009.

# Leadership Institute

## Notes to Financial Statements

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**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, 2010 and 2009, there was no outstanding balance in the line of credit. Additionally, the Institute did not use the line of credit in 2010 and 2009.

**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.

At December 31, 2010, the construction of the building was essentially complete and the Institute took possession of the leased space. This transaction was accounted by the Institute as an exchange of dissimilar assets. That is, an exchange of density rights for office space. When dissimilar assets are exchanged, a gain or loss must be recognized. Accordingly, as the result of said transaction, the Institute recognized a gain of \$4,869,896 and it is included in *Investment income gains (losses)* in the Statements of Activities. Additionally, the Institute recorded *Buildings- Capital lease* asset totaling \$6,610,000 and it is included in the Statements of Financial Position as part of *Property & Equipment, net*. Starting with 2011, the Institute will amortize the Buildings Capital lease over 39.9 years.