

Leadership Institute

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Financial Statements

December 31, 2008 and 2007

Leadership Institute

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Independent Auditors' Report

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, 2008 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 2007 financial statements, and in our report dated February 29, 2008, 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, 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.

Berry Group, CPAs

Alexandria, Virginia
February 23, 2009

Leadership Institute

Statements of Financial Position

<i>Year Ended December 31</i>	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 888,992	\$ 1,368,643
Contributions receivable	10,893	-
Beneficial interest in charitable lead trust - current	18,017	49,630
Prepaid expenses and other	223	7,379
Total current assets	918,125	1,425,652
Other assets		
Investments	9,107,195	17,779,633
Beneficial interest in charitable lead trust, long-term	-	39,235
Property and equipment, net	5,655,784	5,865,935
Total other assets	14,762,979	23,684,803
Total assets	\$ 15,681,104	\$ 25,110,455
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 196,694	\$ 217,777
Pension plan contribution payable	-	297,837
Gift annuity liability - current	519,823	508,256
Total current liabilities	716,517	1,023,870
Long-term liabilities		
Gift annuity liability, long-term	3,368,532	3,096,955
Total long-term liabilities	3,368,532	3,096,955
Total liabilities	4,085,049	4,120,825
Net assets		
Unrestricted	8,369,214	16,097,148
Temporarily restricted	3,176,841	4,842,482
Permanently restricted	50,000	50,000
Total net assets	11,596,055	20,989,630
Total liabilities and net assets	\$ 15,681,104	\$ 25,110,455

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>	2008	2007
Unrestricted net assets		
Support and revenue		
Contributions and pledges	\$ 4,709,093	\$ 7,338,095
Investment income	(4,797,395)	1,848,380
Foundation contributions	1,011,372	1,532,293
School income	227,798	186,128
Media center income	115,002	105,780
Rental income	230,063	172,500
Event income	16,885	14,049
Other income	13,227	8,088
Net assets released from restrictions	1,905,346	396,512
Total support and revenue	3,431,391	11,601,825
Expenses		
Program Services	8,368,631	8,592,764
Total program services	8,368,631	8,592,764
Supporting services		
General and administrative	1,169,159	1,833,881
Fundraising	1,621,535	970,771
Total supporting services	2,790,694	2,804,652
Total expenses	11,159,325	11,397,416
Change in unrestricted net assets	(7,727,934)	204,409
Temporarily restricted net assets		
Contributions and pledges	239,705	675,777
Change in value of charitable lead trust	-	12,944
Net assets released from restrictions	(1,905,346)	(396,512)
Change in temporarily restricted net assets	(1,665,641)	292,209
Change in net assets	(9,393,575)	496,618
Net assets, beginning of year	20,989,630	20,493,012
Net assets, end of year	\$ 11,596,055	\$ 20,989,630

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, 2008 (With comparative totals for year ended December 31, 2007)</i>	Program Services		Supporting Services			Total 2008	Total 2007
	Program Expenses	General and Administrative	Fundraising	Total Supporting Services			
Expenses							
Salaries	\$ 3,184,261	\$ 654,442	\$ 551,881	\$ 1,206,323	\$ 4,390,584	\$ 4,467,635	
Employee benefits and payroll taxes	569,651	116,769	98,761	215,530	785,181	853,860	
Printing and publications	753,223	53,802	269,008	322,810	1,076,033	1,131,831	
Professional services	801,520	71,156	60,000	131,156	932,676	981,466	
Postage	596,934	42,638	213,191	255,829	852,763	963,857	
Travel	729,558	-	182,389	182,389	911,947	721,103	
Occupancy	317,570	68,051	68,051	136,102	453,672	479,692	
Depreciation	254,163	54,464	54,463	108,927	363,090	355,907	
Office expense	193,813	41,532	41,532	83,064	276,877	178,969	
Pension expense	-	-	-	-	-	297,837	
Contributions	477,199	-	-	-	477,199	315,175	
Other	100,020	21,433	21,433	42,866	142,886	191,826	
Taxes and insurance	29,898	6,406	6,407	12,813	42,711	40,099	
Conferences and conventions	143,581	-	15,953	15,953	159,534	116,667	
Information technology	127,691	27,362	27,362	54,724	182,415	224,460	
Scholarships	37,732	-	-	-	37,732	39,521	
Bank fees	37,230	7,978	7,978	15,956	53,186	37,511	
Interest	14,587	3,126	3,126	6,252	20,839	-	
Total expenses	\$ 8,368,631	\$ 1,169,159	\$ 1,621,535	\$ 2,790,694	\$ 11,159,325	\$ 11,397,416	

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>	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (9,393,575)	\$ 496,618
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	363,090	355,907
Contributions of stocks	(97,752)	(213,846)
Realized losses (gains) on investments	438,786	(59,990)
Unrealized losses (gains) on investments	4,828,322	(1,211,345)
(Increase) decrease in:		
Prepaid expenses and other	7,156	5,409
Contributions receivable	(10,893)	-
Beneficial interest in charitable lead trust	70,848	35,397
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(21,083)	(89,613)
Pension plan contribution payable	(297,837)	(19,595)
Gift annuity liability	283,144	1,244,706
Net cash (used in) provided by operating activities	(3,829,794)	543,648
Cash flows from investing activities		
Purchase of property and equipment	(152,939)	(133,602)
Sales (purchases) of investments, net	3,503,082	(2,059,998)
Net cash provided by (used in) investing activities	3,350,143	(2,193,600)
Net (decrease) in cash and cash equivalents	(479,651)	(1,649,952)
Cash and cash equivalents, beginning of year	1,368,643	3,018,595
Cash and cash equivalents, end of year	\$ 888,992	\$ 1,368,643

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 344 training schools conducted in 2008, 149 were held in the DC metropolitan area and 195 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 Foundation 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 purpose 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 6 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 and 5 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, 2007, from which the summarized information was derived.

Reclassifications: Certain 2007 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. Investments** Investments consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Equities and stock mutual funds	\$ 5,972,370	\$15,238,531
Money market funds	1,452,508	1,243,777
Donated real estate	204,120	180,239
Life insurance	<u>1,478,197</u>	<u>1,117,086</u>
Total Investments	<u>\$ 9,107,195</u>	<u>\$17,779,633</u>

Investment income consisted of the following::

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 469,713	\$ 577,045
Unrealized (losses) / gains	(4,828,322)	1,211,345
Realized (losses) / gains	<u>(438,786)</u>	<u>59,990</u>
Investment income	<u>\$ (4,797,395)</u>	<u>\$ 1,848,380</u>

Leadership Institute

Notes to Financial Statements

4. Property and equipment Property and equipment at December 31 was as follows:

	<u>12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/08</u>
Buildings	\$ 6,875,135	\$ -	\$ -	\$ 6,875,135
Software and equipment	1,049,418	39,695	-	1,089,113
Leasehold improvements	307,840	-	-	307,840
Furniture and fixtures	<u>1,355,806</u>	<u>113,244</u>	-	<u>1,469,050</u>
	9,588,199	152,939	-	9,741,138
Accumulated depreciation	<u>(4,347,613)</u>	<u>(363,090)</u>	-	<u>(4,710,703)</u>
Net depreciated assets	5,240,586	(210,151)	-	5,030,435
Land	<u>625,349</u>	-	-	<u>625,349</u>
Total	<u>\$ 5,865,935</u>	<u>\$ (210,151)</u>	<u>\$ -</u>	<u>\$ 5,655,784</u>

5. Restrictions on net assets Temporarily restricted net assets consisted of the following:

	<u>12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/08</u>
Beneficial interest in charitable lead trust (Follansbee)	\$ 88,865	\$ 18,017	\$ 88,865	\$ 18,017
Donor advised funds	4,753,617	11,119	1,771,181	2,993,555
Cherne Foundation CLP Fund	-	<u>210,569</u>	<u>45,300</u>	<u>165,269</u>
Total	<u>\$ 4,842,482</u>	<u>\$ 239,705</u>	<u>\$ 1,905,346</u>	<u>\$ 3,176,841</u>

Permanently restricted net assets consisted of the following:

	<u>12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/08</u>
Media Fellowship	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>

6. 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.

Leadership Institute

Notes to Financial Statements

- 6. Gift Annuity Program (continued)** 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 \$395,000 and \$2,119,351 in gift annuities during 2008 and 2007, respectively. The estimated present value of all future fixed payments to donors using a 7 percent discount rate was \$3,888,355 and \$3,605,211 as of December 31, 2008 and 2007, 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.
- 7. 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 will terminate and cease its payout to the Institute. The contributions from the trust are unrestricted and unconditional. The value of the remaining payment for 2009 is \$18,017. The present value of the future fixed payments from the donor using a 7 percent discount rate was \$124,263 at December 31, 2007.
- 8. 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. Pension plan expense for 2007 was \$297,837.
- 9. 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 2008 and 2007.
- 10. 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 labor rate. A late fee of five percent (5%) applies on any installment that is past due for ten or more days.

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

Leadership Institute

Notes to Financial Statements

11. 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 for 99 years. In addition to the transfer of the density rights, the Institute will also pay to the developer \$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, 2008 and 2007, there were no transactions in connection with this agreement that needed to be recorded in the financial statements.