LEADERSHIP INSTITUTE

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

Leadership Institute

Table of Contents

aronson LLC
ASSURANCE | TAX | CONSULTING

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

301.231.6200
301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report

To the Board of Directors
Leadership Institute
Arlington, Virginia

We have audited the accompanying financial statements of **Leadership Institute** (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2016 and 2015, and the related Statements of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
March 10, 2017

Certified Public Accountants & Management Consultants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

805 King Farm Boulevard | Suite 300 | Rockville, Maryland 20850 | 301.231.6200 | 301.231.7630 | www.aronsonllc.com | info@aronsonllc.com

December 31,		**2016**		2015
Assets				
Current assets				
Cash and cash equivalents	**$**	**5,174,715**	$	7,273,219
Contributions receivable		**3,995,994**		2,418,457
Accounts receivable		**39,914**		74,745
Prepaid expenses		**1,327,164**		851,929
Total current assets		**10,537,787**		10,618,350
Cash equivalents held for long term purposes		**2,746,779**		3,253,243
Investments		**3,781,018**		3,363,283
Certificates of deposit		**1,550,000**		1,550,000
Other assets		**44,278**		79,253
Beneficial interest in perpetual trust		**896,259**		817,862
Property and equipment, net		**10,244,396**		10,666,553
Total assets	**$**	**29,800,517**	$	30,348,544
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**1,485,476**	$	848,404
Deferred revenue		**-**		2,828
Charitable gift annuity liability		**416,374**		428,676
Total current liabilities		**1,901,850**		1,279,908
Charitable gift annuity liability, net of current portion		**2,827,689**		3,076,629
Security deposits		**10,000**		10,000
Total liabilities		**4,739,539**		4,366,537
Net assets				
Unrestricted		**19,992,074**		22,930,964
Temporarily restricted		**4,122,645**		2,183,181
Permanently restricted		**946,259**		867,862
Total net assets		**25,060,978**		25,982,007
Total liabilities and net assets	**$**	**29,800,517**	$	30,348,544

Leadership Institute

Statements of Activities and Changes in Net Assets

For the Years Ended December 31,	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**2016 Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Support and revenue								
Contributions	**$ 8,285,148**	**$ 3,000**	**$ -**	**$ 8,288,148**	$ 7,484,187	$ 101,553	$ -	$ 7,585,740
Bequests	**517,234**	**3,105,004**	**-**	**3,622,238**	11,867,751	1,961,885	-	13,829,636
Foundation contributions	**1,697,769**	**182,250**	**-**	**1,880,019**	1,912,068	52,743	-	1,964,811
Non-cash contributions	**173,912**	**-**	**-**	**173,912**	231,812	-	-	231,812
Tuition revenue	**132,244**	**-**	**-**	**132,244**	174,200	-	-	174,200
Rental income	**280,462**	**-**	**-**	**280,462**	280,181	-	-	280,181
Investment income (loss)	**529,543**	**-**	**78,397**	**607,940**	64,773	-	(73,501)	(8,728)
Other income	**92,591**	**-**	**-**	**92,591**	110,261	-	-	110,261
Loss on sale of property	**(43,164)**	**-**	**-**	**(43,164)**	-	-	-	-
Change in value of charitable gift annuities	**(145,084)**	**-**	**-**	**(145,084)**	(317,150)	-	-	(317,150)
Net assets released from restrictions	**1,350,790**	**(1,350,790)**	**-**	**-**	355,925	(355,925)	-	-
Total support and revenue	**12,871,445**	**1,939,464**	**78,397**	**14,889,306**	22,164,008	1,760,256	(73,501)	23,850,763
Expenses								
Program services:								
Political Technology	**5,933,942**	**-**	**-**	**5,933,942**	5,068,163	-	-	5,068,163
Campus Leadership Program	**4,425,360**	**-**	**-**	**4,425,360**	3,705,857	-	-	3,705,857
CampusReform.org	**913,096**	**-**	**-**	**913,096**	813,143	-	-	813,143
Total program services	**11,272,398**	**-**	**-**	**11,272,398**	9,587,163	-	-	9,587,163
Supporting services:								
Management and general	**1,071,252**	**-**	**-**	**1,071,252**	1,104,349	-	-	1,104,349
Fundraising	**3,466,685**	**-**	**-**	**3,466,685**	3,216,919	-	-	3,216,919
Total supporting services	**4,537,937**	**-**	**-**	**4,537,937**	4,321,268	-	-	4,321,268
Total expenses	**15,810,335**	**-**	**-**	**15,810,335**	13,908,431	-	-	13,908,431
Change in net assets	**(2,938,890)**	**1,939,464**	**78,397**	**(921,029)**	8,255,577	1,760,256	(73,501)	9,942,332
Net assets, beginning of year	**22,930,964**	**2,183,181**	**867,862**	**25,982,007**	14,675,387	422,925	941,363	16,039,675
Net assets, end of year	**$ 19,992,074**	**$ 4,122,645**	**$ 946,259**	**$ 25,060,978**	$ 22,930,964	$ 2,183,181	$ 867,862	$ 25,982,007

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

Leadership Institute

Statements of Cash Flows

For the Years Ended December 31,	**2016**	2015
Cash flows from operating activities		
Change in net assets	**$ (921,029)**	$ 9,942,332
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	**533,714**	537,483
Loss on the sale of property	**43,164**	-
Contributions recognized from charitable gift annuities	**(6,213)**	(6,000)
Realized/unrealized (gain) loss on investments	**(327,847)**	108,239
Change in value of charitable gift annuities	**145,084**	317,150
Change in value of beneficial interest in trust	**(78,397)**	73,501
(Increase) decrease in:		
Contributions receivable	**(1,577,537)**	(1,427,376)
Accounts receivable	**34,831**	(69,245)
Prepaid expenses	**(475,235)**	(194,616)
Other assets	**34,975**	26,484
Cash equivalents held for long term purposes	**506,464**	(513,934)
Increase (decrease) in:		
Accounts payable and accrued expenses	**637,072**	(327,232)
Deferred revenue	**(2,828)**	(2,537)
Net cash (used) provided by operating activities	**(1,453,782)**	8,464,249
Cash flows from investing activities		
Purchases of property and equipment	**(232,480)**	(329,150)
Proceeds from sale of property	**77,759**	-
Purchase of certificate of deposit	**-**	(1,500,000)
Purchase of investments	**(112,991)**	(879,330)
Sales of investments	**23,103**	900,305
Net cash used in investing activities	**(244,609)**	(1,808,175)
Cash flows from financing activities		
Proceeds from annuities issued	**20,710**	20,000
Payments of annuities	**(420,823)**	(451,824)
Payments on equipment lease	**-**	(8,509)
Net cash used in financing activities	**(400,113)**	(440,333)
Net change in cash and cash equivalents	**(2,098,504)**	6,215,741
Cash and cash equivalents, beginning of year	**7,273,219**	1,057,478
Cash and cash equivalents, end of year	**$ 5,174,715**	$ 7,273,219
Supplemental disclosures		
Interest paid	**$ 851**	$ 287

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

	Program Services				Supporting Services			
For the Year Ended December 31, 2016	Political Technology	Campus Leadership Program	Campus Reform .org	Total Program Expenses	Management and general	Fundraising	Total Supporting Services	**Total**
Salaries	$ 2,077,647	$ 1,489,183	$ 389,038	$ 3,955,868	$ 642,211	$ 962,314	$ 1,604,525	**$ 5,560,393**
Employee benefits and payroll taxes	610,146	422,302	127,064	1,159,512	190,572	284,438	475,010	**1,634,522**
Printing and publications	700,988	556,389	120,921	1,378,298	-	530,300	530,300	**1,908,598**
Postage	608,194	482,736	104,914	1,195,844	468	1,309,845	1,310,313	**2,506,157**
Travel	316,994	467,190	22,076	806,260	4,427	129,188	133,615	**939,875**
Depreciation and amortization	192,558	152,837	33,216	378,611	80,057	75,046	155,103	**533,714**
Professional services	296,793	425,984	67,897	790,674	33,992	-	33,992	**824,666**
Public relations	1,381	2,858	38,941	43,180	7,097	10,592	17,689	**60,869**
Occupancy	450,218	12,736	-	462,954	76,089	113,566	189,655	**652,609**
Contributions	2,005	190,200	99	192,304	-	-	-	**192,304**
Conferences and conventions	353,226	47,276	1,056	401,558	4,098	4,098	8,196	**409,754**
Information technology	174,588	120,580	3,156	298,324	-	-	-	**298,324**
Office expense	71,068	41,910	1,267	114,245	18,777	28,025	46,802	**161,047**
Taxes and insurance	15,493	12,297	2,673	30,463	6,441	8,061	14,502	**44,965**
Bank fees	39,620	882	778	41,280	6,784	10,126	16,910	**58,190**
Interest	-	-	-	-	-	851	851	**851**
Other expenses	23,023	-	-	23,023	239	235	474	**23,497**
Total expenses	**$ 5,933,942**	**$ 4,425,360**	**$ 913,096**	**$ 11,272,398**	**$ 1,071,252**	**$ 3,466,685**	**$ 4,537,937**	**$ 15,810,335**

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

Leadership Institute

Statement of Functional Expenses

For the Year Ended December 31, 2015	Program Services: Political Technology	Program Services: Campus Leadership Program	Program Services: Campus Reform .org	Program Services: Total Program Expenses	Supporting Services: Management and general	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries	$ 1,874,810	$ 1,349,697	$ 328,426	$ 3,552,933	$ 624,027	$ 901,507	$ 1,525,534	$ 5,078,467
Employee benefits and payroll taxes	517,791	336,164	81,072	935,027	164,883	237,919	402,802	1,337,829
Printing and publications	491,596	389,424	83,847	964,867	-	525,245	525,245	1,490,112
Postage	557,490	441,623	95,086	1,094,199	1,438	1,002,895	1,004,333	2,098,532
Travel	267,453	511,516	12,317	791,286	1,069	111,524	112,593	903,879
Depreciation and amortization	191,394	151,615	32,644	375,653	53,749	108,081	161,830	537,483
Professional services	97,626	303,011	70,833	471,470	111,892	99,841	211,733	683,203
Public relations	7,078	-	45,347	52,425	-	-	-	52,425
Occupancy	442,314	12,811	27,578	482,703	85,120	122,825	207,945	690,648
Contributions	1,500	83,550	5,129	90,179	-	-	-	90,179
Conferences and conventions	383,056	41,425	5,336	429,817	-	-	-	429,817
Information technology	99,362	46,805	14,754	160,921	28,377	40,946	69,323	230,244
Office expense	68,058	38,216	10,774	117,048	20,640	29,783	50,423	167,471
Telemarketing	-	-	-	-	-	17,190	17,190	17,190
Taxes and insurance	27,557	-	-	27,557	5,914	8,711	14,625	42,182
Bank fees	37,197	-	-	37,197	6,559	9,465	16,024	53,221
Interest	201	-	-	201	35	51	86	287
Other expenses	3,680	-	-	3,680	646	936	1,582	5,262
Total expenses	$ 5,068,163	$ 3,705,857	$ 813,143	$ 9,587,163	$ 1,104,349	$ 3,216,919	$ 4,321,268	$ 13,908,431

The accompanying Notes to Financial Statements are an integral part of these 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 schools 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 arena. The Institute is headquartered in Arlington, Virginia and conducts activities throughout the United States and abroad.

Operational data (unaudited): In 2016, the Institute operated 371 training schools. Of these, 188 were held at the Institute's Steven P.J. Wood building in Arlington, Virginia and 183 were held elsewhere.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned, and expenses are recognized as incurred.

Basis of presentation: Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

> **Unrestricted net assets** – net assets that are not subject to donor-imposed stipulations.
>
> The Institute solicits a variety of contributions, including donor advised funds. Donor advised funds allow for the donor to recommend distributions to various programs or other charitable organizations approved by the Institute. Although the donor's recommendations are generally fulfilled, they are subject to approval by the President of the Institute and are, therefore, classified as and included in unrestricted net assets on the Statements of Financial Position. The unrestricted net asset donor advised fund balance was $3,643,096 and $3,487,874 as of December 31, 2016 and 2015, respectively.
>
> **Temporarily restricted net assets** – net assets subject to donor-imposed stipulations that will be met by actions of the Institute and/or the passage of time. When a donor restriction expires, that is, when the time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
>
> **Permanently restricted net assets** – net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute.

1. Organization and significant accounting policies (continued)

Cash and cash equivalents: For financial statement purposes, the Institute considers all highly liquid debt instruments purchased with original maturities of ninety days or less to be cash equivalents. At times, the Institute's cash may exceed federally insured limits. The Institute does not believe that this results in any significant credit risk. Cash equivalents held for long term purposes consist of cash held in money market savings accounts, internally designated for long term purposes.

Contributions receivable: Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as either temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period. Contributions receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the accompanying Statements of Activities and Changes in Net Assets.

Contributions receivable are reviewed for collectability and a provision for uncollectible promises to give is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Management does not believe that any allowance for uncollectible promises to give is necessary as of December 31, 2016 and 2015, and all contributions receivable are expected to be collected within one year.

Accounts receivable: The face amount of accounts receivable is reduced by an allowance for doubtful accounts, if needed. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. Management believes all accounts receivable are collectible as of December 31, 2016 and 2015; therefore, there is no provision for doubtful accounts in the accompanying financial statements.

Investments: Investments are reflected on the Statements of Financial Position at fair value. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the Statements of Activities and Changes in Net Assets. Interest income is recorded on the accrual basis. Investments include money market funds stated at cost, which approximates market value. Mutual funds, exchange traded funds, and common stocks are stated at fair value based on published market prices.

1. Organization and significant accounting policies (continued)

Fair value measurement: The Institute values certain assets and liabilities at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at December 31, 2016 and 2015.

Certificates of deposit: As of December 31, 2016 and 2015, the Institute held a certificate of deposit totaling $1,500,000, which bears an interest rate of 1.09% and has a maturity of May 11, 2020. As of December 31, 2016 and 2015, the Institute also held a certificate of deposit totaling $50,000, which bears an interest rate of 1.72% and has a maturity of March 20, 2017, with penalties for early withdrawal. Certificates of deposit are valued at cost.

Property and equipment: Property and equipment are stated at cost and depreciated using the straight-line method over an estimated useful life of three to five years for furniture and equipment and computers and software, and twenty to forty years for property. Property and equipment additions and improvements acquired at a cost greater than $5,000 are capitalized. Contributed property and equipment is recorded at fair value at the date of the donation.

Property and equipment assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The balance is considered impaired if its carrying amount exceeds the future net undiscounted cash flows that the asset is expected to generate. If these balances are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset, if any, exceeds its fair value determined using a discounted cash flow model. The Institute has determined that no impairment of its long lived assets existed at December 31, 2016 and 2015.

1. Organization and significant accounting policies (continued)

Charitable gift annuities: Under charitable gift annuity contracts, the Institute receives irrevocable title to contributed assets and agrees to make fixed period payments over various periods, generally over the remaining life of the donor. Contributed assets are recorded at fair value at the date of receipt and a liability is established for the present value of future annuity payments. The assets to fund these liabilities are maintained in separate accounts and are included in investments on the Statements of Financial Position.

At the date the annuity is entered into, the excess of contributed assets over the annuity liability is recorded as unrestricted contribution revenue. Any subsequent gain or loss resulting from the computation of the liability for the present value of future annuity payments performed on an annual basis is recorded as an unrestricted change in the value of charitable gift annuities. Upon termination of the annuity contract, any remaining liability is recognized as change in value of charitable gift annuities on the Statements of Activities and Changes in Net Assets.

Beneficial interest in perpetual trust: The Institute is named as the beneficiary in a perpetual trust held by a third party. Perpetual trusts are initially recorded as permanently restricted public support (bequest or contribution revenue, depending on the initial source of the gift) at fair value, based on the Institute's interest in the fair value of the underlying trust assets at the time of the gift. Subsequent changes to the trust's fair value are reported as permanently restricted net unrealized gains or losses on perpetual trusts and are included in investment income (loss) on the Statements of Activities and Changes in Net Assets. Income received from the trust is reported as temporarily restricted or unrestricted investment income, depending on the existence or absence of donor-imposed restrictions.

Under the terms of the trust, the Institute has an irrevocable right to receive a portion of the income earned on the trust assets in perpetuity. Distributions from the trust are based on the terms of the underlying trust agreement that generally require that investment income be distributed on at least an annual basis. The trust is invested in cash equivalents, municipal bonds, preferred securities, common stock, mutual funds, real estate trusts and funds and real property.

1. Organization and significant accounting policies (continued)

Revenue recognition:

Contributions and bequests – Contributions are recognized as support and revenues when they are received or unconditionally promised. The Institute reports such gifts as restricted support and revenues if they are subject to time or donor-imposed restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both. However, temporarily restricted contributions are reported as unrestricted support and revenues if the restriction is met in the same calendar year that the gift is received.

Non-cash contributions – Non-cash contributions are recorded at estimated fair value when received. Non-cash contributions generally consist of contributed equity securities valued at the time received using quoted market prices in active markets.

Tuition revenue – Tuition revenue is recorded when earned over the course of the workshops and classes. Tuition fees received in advance are recorded as deferred revenue until earned over the course of the workshops and classes.

Rental income – Rental income is recognized on a straight-line basis over the life of the lease.

Other income – Other income includes fees received for the use of the Institute’s multimedia center and classroom, attendance fees for events, and sales of apparel, which are recognized as earned.

Functional allocation of expenses: The Institute’s expenses have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the areas benefited.

Costs of joint activities: The Institute accounts for costs of joint activities which are part fundraising and have elements of one or more other functions, such as program or management and general, according to certain criteria of purpose, audience and content.

1. Organization and significant accounting policies (continued)

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

Tax status: The Internal Revenue Service has recognized the Institute as a Section 501(c)(3) not-for-profit corporation exempt from federal income taxes as provided in the Internal Revenue Code. The Institute is classified as a public charity.

Uncertainty in income taxes: The Institute evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2016 and 2015, there are no accruals for uncertain tax positions. If applicable, the Institute records interest and penalties as a component of income tax expense. Tax years from 2013 through the current year remain open for examination by tax authorities.

Cash flow classification of donated financial assets: Cash receipts from the sale of donated securities that upon receipt were converted nearly immediately into cash and with no donor-imposed restrictions are included in the operating section of the Statement of Cash Flows, while cash receipts from the sale of donated securities with donor-imposed long-term restriction are classified as financing activities. Otherwise, receipts from the sale of donated financial assets are classified as cash flows from investing activities.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through March 10, 2017, which was the date the financial statements were available to be issued.

2. Investments

Investments consisted of the following as of December 31:

		2016		2015
Money market accounts	**$**	**233,070**	$	53,983
Money market mutual funds		**-**		86,348
Common stocks		**2,664,758**		2,375,611
Mutual funds and ETFs				
Bond funds		**113,096**		103,544
Large-cap funds		**409,641**		391,441
Small-cap funds		**139,123**		135,493
International funds		**218,607**		208,284
Real estate and other		**2,723**		8,579
Total investments	**$**	**3,781,018**	$	3,363,283

Investment income (loss) consisted of the following for the years ended December 31:

		2016		2015
Interest and dividends	**$**	**201,696**	$	173,012
Realized and unrealized gain (loss)		**327,847**		(108,239)
Change in value of beneficial interest in trust		**78,397**		(73,501)
Total investment income (loss)	**$**	**607,940**	$	(8,728)

3. Fair value

Investments

Assets and liabilities were recorded at fair value on a recurring basis as of December 31, 2016 and 2015 based on the following level of hierarchy:

		Fair Value Measurements		
December 31, 2016	**Total**	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Common stocks	**$ 2,664,758**	**$ 2,664,758**	**$ -**	**$ -**
Mutual funds and ETFs:				
Bond funds	**113,096**	**113,096**	**-**	**-**
Large-cap funds	**409,641**	**409,641**	**-**	**-**
Small-cap funds	**139,123**	**139,123**	**-**	**-**
International funds	**218,607**	**218,607**	**-**	**-**
Real estate and other	**2,723**	**2,723**	**-**	**-**
Total investments	**$ 3,547,948**	**$ 3,547,948**	**$ -**	**$ -**
Beneficial interest in perpetual trust	**$ 896,259**	**$ -**	**$ -**	**$ 896,259**
Charitable gift annuity liability	**$ (3,244,063)**	**$ -**	**$ -**	**$ (3,244,063)**

3. Fair value (continued)

		Fair Value Measurements		
December 31, 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market funds	$ 86,348	$ 86,348	$ -	$ -
Common stocks	2,375,611	2,375,611	-	-
Mutual funds and ETFs:				
Bond funds	103,544	103,544	-	-
Large-cap funds	391,441	391,441	-	-
Small-cap funds	135,493	135,493	-	-
International funds	208,284	208,284	-	-
Real estate and other	8,579	8,579	-	-
Total investments	$ 3,309,300	$ 3,309,300	$ -	$ -
Beneficial interest in perpetual trust	$ 817,862	$ -	$ -	$ 817,862
Charitable gift annuity liability	$ (3,505,305)	$ -	$ -	$ (3,505,305)

A reconciliation of the fair value investments to total investments on the Statements of Financial Position is detailed below:

	2016	2015
Fair value investments	**$ 3,547,948**	$ 3,309,300
Money market accounts	**233,070**	53,983
Total investments	**$ 3,781,018**	$ 3,363,283

3. Fair value (continued)

Gift Annuity Liability

The following is a reconciliation of the beginning to ending balance of the charitable gift annuity liability measured at fair value using significant unobservable inputs (Level 3) during the years ended December 31:

	2016	2015
Beginning balance	**$ 3,505,305**	$ 3,625,979
Additions	**14,497**	14,000
Payments	**(420,823)**	(451,824)
Actuarial change in value	**145,084**	317,150
Total	**$ 3,244,063**	$ 3,505,305

The Level 3 charitable gift annuity liability is valued using the income approach, in the form of present value using an interest rate of 5%, and the 2012 Individual Annuity Reserving (2012 IAR) table as of December 31, 2016 and 2015. The discount rate is determined using risk-adjusted commercial lending rates available from published sources. The discount associated with the liability is adjusted for changes in life expectancies.

Perpetual Trust

The following is a reconciliation of the beginning to ending balance of the beneficial interest in perpetual trust measured at fair value using significant unobservable inputs (Level 3) during the years ended December 31:

	2016	2015
Beginning balance	**$ 817,862**	$ 891,363
Change in value	**78,397**	(73,501)
Total	**$ 896,259**	$ 817,862

The valuation of the beneficial interest in the perpetual trusts falls under level 3, as there are no significant observable inputs. The trust valuation is based on the Institute's interest in the fair value of the underlying trust assets.

3. Fair value (continued)

Level 3 Summary

The following table summarizes the valuation techniques and significant unobservable inputs used for the Institute's assets and liabilities categorized within Level 3 of fair value hierarchy at December 31, 2016 and 2015.

	Fair value at 12/31/16	Fair value at 12/31/15	**Valuation techniques**	**Unobservable input**	**Range of significant input values**
Beneficial interest in perpetual trust	**$ 896,259**	$ 817,862	Income approach / Present value of future cash flows	Fair value of assets contributed to the trust	N/A
Charitable gift annuity liability	**$ (3,244,063)**	$ (3,505,305)	Income approach / Present value of future cash flows	Discount rates Life expectancy	5% 2012 IAR table

4. Property and equipment

Property and equipment is as follows at December 31:

	2016	2015
Land	**$ 600,300**	$ 725,299
Buildings and improvements	**14,601,371**	14,384,940
Furniture and equipment	**760,128**	832,664
Software and computer equipment	**512,145**	492,020
Total property, building and equipment	**16,473,944**	16,434,923
Less: Accumulated depreciation	**(6,229,548)**	(5,768,370)
Property and equipment, net	**$ 10,244,396**	$ 10,666,553

Depreciation and amortization expense totaled $533,714 and $537,483 for the years ended December 31, 2016 and 2015, respectively.

5. Charitable gift annuities liability

Charitable gift annuity liability represents the actuarial present value of amounts due under annuity agreements paid over various periods, generally the life of the donor. Present value is calculated for 2016 and 2015 using the 2012 IAR table, with no adjustments, assuming an interest rate of 5 percent compounded annually, and no provision for a surplus or contingency reserve. The interest rate is determined by the year of contribution and the guaranteed duration period. As of December 31, 2016 and 2015, the liability totaled $3,244,063 with $416,374 as current and $3,505,305 with $428,676 as current, respectively.

5. Charitable gift annuities liability (continued)

During the years ended December 31, 2016 and 2015, the Institute received $20,710 and $20,000, respectively of new charitable gift annuities and made contractual annuity payments of $420,823 and $451,824, respectively. As of December 31, 2016 and 2015, the Institute has set aside assets held for charitable gift annuities totaling $2,884,700 and $3,128,652, respectively, which are included in cash equivalents held for long term purposes and investments on the Statements of Financial Position. The securities held in investments include common stocks, mutual funds and exchange traded funds.

6. Allocation of joint costs

During the years ended December 31, 2016 and 2015, the Institute incurred joint costs of $2,795,500 and $2,053,258, respectively for informational materials primarily related to direct mail and newsletters that included fundraising appeals. Pursuant to joint cost rules (see Note 1), these costs were allocated to the functional areas as follows for the years ended December 31:

		2016		**2015**
Program services	**$**	**1,798,289**	$	1,386,407
Fundraising		**997,211**		666,851
Total	**$**	**2,795,500**	$	2,053,258

7. Pension plan

In 2016, the Institute changed its defined contribution employee pension arrangement to cover all employees who are at least 18 years old, have earned at least $450 during the year, and have worked in at least two of the immediately preceding five years. Previously, the arrangement covered all employees who were at least 21 years old, had earned at least $450 during the year, and had 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 base compensation in 2016 and 2015 totaling $683,740 and $492,926, respectively.

8. Line of credit

The Institute renewed its $2,500,000 line of credit with a bank on May 2, 2016 for one year. The Institute issued a promissory note, which can be extended in one year increments at the bank’s sole discretion. Interest rate is LIBOR plus 1.75%, with fixed minimums of 3.25% and 3.25% as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, there was no balance owed on the line of credit.

9. 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 shall 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.

On December 31, 2010, the construction of the adjacent, new building was essentially complete and the Institute took possession of the leased space. This transaction was accounted for 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, the Institute recognized a gain of $4,869,896 on the original transaction. The Institute capitalized the value of the leasehold interest, represented by the gain recognized, totaling approximately $6,610,000 which is included in building and improvements in Note 4. Separate from the sale transaction, an additional $520,265 payment for improvements to the space was capitalized and is also included in building and improvements in Note 4.

Starting in 2011, the Institute began to amortize the leasehold interest over 40 years and the leasehold improvements over 15 years. As of December 31, 2016 and 2015, accumulated amortization for the leasehold interest totaled $991,500 and $826,250, respectively. As of December 31, 2016 and 2015, accumulated amortization of leasehold improvements totaled $168,220 and $131,536, respectively. For each of the years ended December 31, 2016 and 2015, amortization expense for leasehold interest was $165,250 and amortization expense for leasehold improvements was $36,684.

10. Operating lease

The Institute leases first-floor retail space in the Institute's building located in Arlington, Virginia. The current lease is for a term of 10 years, expiring in 2017. A new lease agreement was entered into in July 2016 extending the term to March 2022. Per the new agreement, future rental escalations are equal to the change in the Consumer Price Index for All Urban Consumers (CPI-U) in effect as of the end of January year over year. Due to the inability of estimating future changes in CPI-U, rental income is recognized on an annual basis when received.

10. Operating lease (continued)

Future minimum rentals under the lease are as follows:

Year		Amount
2017	$	272,143
2018		265,000
2019		265,000
2020		265,000
2021		265,000
Thereafter		66,250
Total	$	1,398,393

11. Net assets

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows for the years ending December 31:

		2016		2015
Campus Leadership Program	**$**	**107,150**	$	445,450
CampusReform.org		**130,000**		187,500
Youth Leadership school		**75,000**		76,000
Five-year action plan		**210,372**		172,257
Field Program		**-**		20,000
International training		**2,000**		-
Other various programs		**35,903**		105,847
Time restrictions		**1,301,115**		105,925
Total release of restrictions		**1,861,540**		1,112,979
Less: Amounts received and released in the same calendar year		**(510,750)**		(757,054)
Total releases presented on the Statement of Activities and Changes in Net Assets	**$**	**1,350,790**	$	355,925

Temporarily restricted net assets at December 31, 2016 and 2015, are as follows:

		2016		2015
Campus Leadership Program	**$**	**123,750**	$	19,500
Five-year action plan		**24,871**		35,243
International training		**63,000**		65,000
Other various programs		**85,250**		41,553
Time restricted		**3,825,774**		2,021,885
Total	**$**	**4,122,645**	$	2,183,181

12. Related party transactions

The Legislative Studies Institute and the Conservative Leadership Foundation are other not-for-profit organizations with which the President of the Institute is associated. These organizations are not currently active.

Leadership Action, Inc. was established by the Leadership Institute in 2013. Leadership Action, Inc. is not currently active and holds no assets or liabilities. Control exists through a majority voting interest in the board. Leadership Action, Inc. received 501(c)(4) status from the Internal Revenue Service on March 20, 2014. These financial statements are not presented on a consolidated basis as Leadership Action, Inc. has not yet begun operations.

13. Concentrations

For the year ended December 31, 2016, there were no revenue concentrations. For the year ended December 31, 2015, two bequests comprised 49% of total contribution revenue. As of December 31, 2016, two bequests comprised 74% of total contributions receivable. As of December 31, 2015, three bequests comprised 65% of total contributions receivable.

16. Risk and uncertainties

The Institute invests in various investment securities that are exposed to different risks such as interest rate, credit and market volatility risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Institute's account balances and amounts reported in the Statements of Financial Position.