

**LEADERSHIP INSTITUTE**  
**AUDITED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## Independent Auditor's Report

To the Board of Directors  
**Leadership Institute**  
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We have audited the accompanying financial statements of **Leadership Institute** (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2018 and 2017, and the related Statements of Activities and Changes in Net Assets, Cash Flows and Functional Expenses 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.

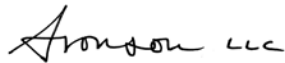
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2018 and 2017, 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.



Rockville, Maryland  
March 27, 2019

# Leadership Institute

## Statements of Financial Position

<i>December 31,</i>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,937,980	\$ 5,605,428
Contributions receivable	934,260	2,174,292
Accounts receivable	51,461	40,945
Prepaid expenses	927,035	1,080,956
<b>Total current assets</b>	<b>6,850,736</b>	<b>8,901,621</b>
Cash equivalents held for long-term purposes	2,816,905	2,352,130
Investments	3,586,155	4,568,817
Contributions receivable, net of current portion	28,000	100,000
Certificates of deposit	50,000	1,550,000
Other assets	39,239	34,905
Rent receivable	43,507	-
Beneficial interest in perpetual trust	905,232	994,216
Property and equipment, net	9,374,700	9,883,519
<b>Total assets</b>	<b>\$ 23,694,474</b>	<b>\$ 28,385,208</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 1,184,636	\$ 1,396,129
Charitable gift annuity liability	382,597	397,307
Obligation under capital lease	13,283	12,270
<b>Total current liabilities</b>	<b>1,580,516</b>	<b>1,805,706</b>
Charitable gift annuity liability, net of current portion	2,437,262	2,619,727
Obligation under capital lease, net of current portion	39,615	52,898
Security deposits	-	2,917
<b>Total liabilities</b>	<b>4,057,393</b>	<b>4,481,248</b>
<b>Net assets</b>		
Without donor restrictions	17,913,178	20,592,983
With donor restrictions	1,723,903	3,310,977
<b>Total net assets</b>	<b>19,637,081</b>	<b>23,903,960</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,694,474</b>	<b>\$ 28,385,208</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>For the Years Ended December 31,</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2018 Total</b>	Without Donor Restrictions	With Donor Restrictions	2017 Total
<b>Support and revenue</b>						
Contributions	\$ 10,956,253	\$ 97,000	\$ 11,053,253	\$ 10,225,982	\$ 70,958	\$ 10,296,940
Bequests	842,316	48,136	890,452	1,250,608	636,028	1,886,636
Foundation contributions	1,703,051	36,800	1,739,851	1,491,327	331,953	1,823,280
Non-cash contributions	1,185,710	-	1,185,710	525,047	-	525,047
Tuition revenue	126,087	-	126,087	168,231	-	168,231
Rental income	190,007	-	190,007	255,782	-	255,782
Investment (loss) income	(72,139)	(88,984)	(161,123)	883,902	97,957	981,859
Other income	119,200	-	119,200	111,048	-	111,048
Change in value of charitable gift annuities	(112,191)	-	(112,191)	(146,884)	-	(146,884)
Net assets released from restrictions	1,680,026	(1,680,026)	-	2,894,823	(2,894,823)	-
<b>Total support and revenue</b>	<b>16,618,320</b>	<b>(1,587,074)</b>	<b>15,031,246</b>	17,659,866	(1,757,927)	15,901,939
<b>Expenses</b>						
Program services:						
Political Technology	7,038,081	-	7,038,081	6,783,639	-	6,783,639
Campus Leadership Program	5,296,324	-	5,296,324	4,129,145	-	4,129,145
CampusReform.org	1,447,880	-	1,447,880	1,054,005	-	1,054,005
<b>Total program services</b>	<b>13,782,285</b>	<b>-</b>	<b>13,782,285</b>	11,966,789	-	11,966,789
Supporting services:						
Management and general	1,240,480	-	1,240,480	1,289,659	-	1,289,659
Fundraising	4,275,360	-	4,275,360	3,802,509	-	3,802,509
<b>Total supporting services</b>	<b>5,515,840</b>	<b>-</b>	<b>5,515,840</b>	5,092,168	-	5,092,168
<b>Total expenses</b>	<b>19,298,125</b>	<b>-</b>	<b>19,298,125</b>	17,058,957	-	17,058,957
<b>Change in net assets</b>	<b>(2,679,805)</b>	<b>(1,587,074)</b>	<b>(4,266,879)</b>	600,909	(1,757,927)	(1,157,018)
<b>Net assets, beginning of year</b>	<b>20,592,983</b>	<b>3,310,977</b>	<b>23,903,960</b>	19,992,074	5,068,904	25,060,978
<b>Net assets, end of year</b>	<b>\$ 17,913,178</b>	<b>\$ 1,723,903</b>	<b>\$ 19,637,081</b>	\$ 20,592,983	\$ 3,310,977	\$ 23,903,960

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

## Leadership Institute

### Statements of Cash Flows

<i>For the Years Ended December 31,</i>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (4,266,879)	\$ (1,157,018)
<b>Adjustments to reconcile change in net assets to net cash (used) provided by operating activities</b>		
Depreciation and amortization	515,819	516,380
Contributions recognized from charitable gift annuities	(37,546)	(13,500)
Realized/unrealized loss (gain) on investments	338,105	(698,479)
Change in value of charitable gift annuities	112,191	146,884
Change in value of beneficial interest in trust	88,984	(97,957)
<b>(Increase) decrease in:</b>		
Contributions receivable	1,312,032	1,721,702
Accounts receivable	(10,516)	(1,031)
Prepaid expenses	153,921	246,208
Other assets	(4,334)	9,373
Rent receivable	(43,507)	-
<b>Increase (decrease) in:</b>		
Accounts payable and accrued expenses	(211,493)	(89,347)
Security deposits	(2,917)	(7,083)
<b>Net cash (used) provided by operating activities</b>	<b>(2,056,140)</b>	<b>576,132</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(7,000)	(85,503)
Purchase of certificate of deposit	-	50,000
Maturity of certificate of deposit	1,500,000	(50,000)
Purchase of investments	(123,170)	(107,359)
Sales of investments	767,727	18,039
<b>Net cash provided (used) in investing activities</b>	<b>2,137,557</b>	<b>(174,823)</b>
<b>Cash flows from financing activities</b>		
Proceeds from annuities issued	125,152	45,000
Payments of annuities	(396,972)	(405,413)
Payments on equipment lease	(12,270)	(4,832)
<b>Net cash used in financing activities</b>	<b>(284,090)</b>	<b>(365,245)</b>
<b>Net change in cash, cash equivalents, and restricted cash</b>	<b>(202,673)</b>	<b>36,064</b>
<b>Cash, cash equivalents, and restricted cash, beginning of year</b>	<b>7,957,558</b>	<b>7,921,494</b>
<b>Cash, cash equivalents, and restricted cash, end of year</b>	<b>\$ 7,754,885</b>	<b>\$ 7,957,558</b>
<b>Supplemental disclosures</b>		
Interest paid	\$ 4,804	\$ 440
<b>Non-cash transactions</b>		
Equipment obtained under capital lease	\$ -	\$ 70,000

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

## Leadership Institute

### Statement of Functional Expenses

	Program Services				Supporting Services			Total
	Political Technology	Campus Leadership Program	Campus Reform .org	Total Program Expenses	Management and general	Fundraising	Total Supporting Services	
<i>For the Year Ended December 31, 2018</i>								
Salaries	\$ 2,241,970	\$ 1,404,970	\$ 567,143	\$ 4,214,083	\$ 739,819	\$ 1,017,844	\$ 1,757,663	\$ 5,971,746
Employee benefits and payroll taxes	556,635	375,891	91,745	1,024,271	181,359	249,337	430,696	1,454,967
Printing and publications	1,291,655	1,035,405	273,603	2,600,663	-	652,400	652,400	3,253,063
Postage	1,129,115	905,111	239,173	2,273,399	868	1,862,315	1,863,183	4,136,582
Travel	399,827	636,766	23,747	1,060,340	4,154	144,470	148,624	1,208,964
Depreciation and amortization	180,352	144,572	38,203	363,127	77,373	75,319	152,692	515,819
Professional services	98,936	434,060	131,635	664,631	65,715	42,712	108,427	773,058
Public relations	4,446	-	30,245	34,691	6,143	8,445	14,588	49,279
Occupancy	466,533	28,187	-	494,720	87,596	120,430	208,026	702,746
Contributions	43,325	135,389	4,601	183,315	-	-	-	183,315
Conferences and conventions	399,806	49,828	292	449,926	4,593	4,591	9,184	459,110
Information technology	153,721	49,100	17,294	220,115	38,974	53,582	92,556	312,671
Office expense	27,274	57,143	3,924	88,341	15,644	21,505	37,149	125,490
Taxes and insurance	21,426	17,175	4,538	43,139	8,738	9,401	18,139	61,278
Bank fees	16,481	16,482	16,482	49,445	8,755	12,036	20,791	70,236
Interest	1,680	1,346	356	3,382	599	823	1,422	4,804
Other expenses	4,899	4,899	4,899	14,697	150	150	300	14,997
<b>Total expenses</b>	<b>\$ 7,038,081</b>	<b>\$ 5,296,324</b>	<b>\$ 1,447,880</b>	<b>\$ 13,782,285</b>	<b>\$ 1,240,480</b>	<b>\$ 4,275,360</b>	<b>\$ 5,515,840</b>	<b>\$ 19,298,125</b>

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



## Leadership Institute

### Statement of Functional Expenses

	Program Services				Supporting Services			Total
	Political Technology	Campus Leadership Program	Campus Reform .org	Total Program Expenses	Management and general	Fundraising	Total Supporting Services	
<i>For the Year Ended December 31, 2017</i>								
Salaries	\$ 2,203,099	\$ 1,219,188	\$ 394,609	\$ 3,816,896	\$ 692,512	\$ 971,030	\$ 1,663,542	\$ 5,480,438
Employee benefits and payroll taxes	680,642	435,634	106,426	1,222,702	223,263	312,638	535,901	1,758,603
Printing and publications	1,152,258	737,611	198,642	2,088,511	-	694,575	694,575	2,783,086
Postage	752,669	481,817	129,755	1,364,241	-	1,394,581	1,394,581	2,758,822
Travel	398,442	502,563	9,047	910,052	3,598	154,643	158,241	1,068,293
Depreciation and amortization	198,077	126,798	34,147	359,022	77,458	79,900	157,358	516,380
Professional services	216,790	330,237	121,293	668,320	157,728	7,380	165,108	833,428
Public relations	496	-	38,652	39,148	7,148	10,010	17,158	56,306
Occupancy	479,526	21,109	-	500,635	91,415	128,009	219,424	720,059
Contributions	1,819	118,133	43	119,995	-	-	-	119,995
Conferences and conventions	396,632	39,495	277	436,404	4,453	4,453	8,906	445,310
Information technology	181,276	72,605	10,580	264,461	-	-	-	264,461
Office expense	59,613	30,041	7,457	97,111	17,732	24,831	42,563	139,674
Taxes and insurance	15,978	10,228	2,755	28,961	6,248	9,765	16,013	44,974
Bank fees	41,238	191	38	41,467	7,572	10,603	18,175	59,642
Interest	-	-	-	-	439	1	440	440
Other expenses	5,084	3,495	284	8,863	93	90	183	9,046
<b>Total expenses</b>	<b>\$ 6,783,639</b>	<b>\$ 4,129,145</b>	<b>\$ 1,054,005</b>	<b>\$ 11,966,789</b>	<b>\$ 1,289,659</b>	<b>\$ 3,802,509</b>	<b>\$ 5,092,168</b>	<b>\$ 17,058,957</b>

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 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 2018, the Institute operated 489 training schools. Of these, 258 were held at the Institute’s Steven P.J. Wood building in Arlington, Virginia and 231 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:

**Net-assets-without-donor-restrictions** – 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 net-assets-without-donor-restrictions on the Statements of Financial Position. The donor advised fund balance was \$3,913,393 and \$4,036,513 as of December 31, 2018 and 2017, respectively.

**Net-assets-with-donor-restrictions** – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Institute or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net-assets-with-donor-restrictions. When a restriction expires, net assets are reclassified from net-assets-with-donor-restrictions to net-assets-without-donor-restrictions in the Statements of Activities and Changes in Net Assets.

# Leadership Institute

## Notes to Financial Statements

**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 and cash equivalents held for long-term use:** Represent cash held in money market savings accounts internally designated for long-term purposes.

The following is a reconciliation to total cash, cash equivalents, and restricted cash reported within the Statements of Financial Position that sum to the total of the same such amounts shown on the Statements of Cash Flows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ <b>4,937,980</b>	\$ 5,605,428
Cash and cash equivalents held for long-term use	<b>2,816,905</b>	2,352,130
<hr/>		
Total cash, cash equivalents, and restricted cash shown in the Statements of Cash Flows	<b>\$ 7,754,885</b>	\$ 7,957,558

**Contributions receivable:** Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as net-assets-with-donor-restrictions unless explicit donor stipulations or circumstances surrounding the promise 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, 2018 and 2017. The balance of long-term contributions receivable totaled \$28,000 and \$100,000 as of December 31, 2018 and 2017, respectively, and are expected to be received in one to five years.

# Leadership Institute

## Notes to Financial Statements

### 1. Organization and significant accounting policies (continued)

**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, 2018 and 2017; 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 accounts. Investments also include mutual funds, exchange traded funds (ETF), and common stocks are stated at fair value based on published market prices.

**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, 2018 and 2017.

**Certificates of deposit:** As of December 31, 2018 and 2017, the Institute held a certificate of deposit totaling \$50,000, which bears an interest rate of 1.10%. The certificate of deposit totaling \$50,000 was renewed on March 21, 2017 and has a new maturity of March 21, 2022, with penalties for early withdrawal. As of December 31, 2017, the Institute also held a certificate of deposit totaling \$1,500,000 and bore an interest rate of 1.09%, which was withdrawn in 2018. Certificates of deposit are valued at cost.

**1. Organization and significant accounting policies (continued)**

**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, 2018 and 2017.

**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 long-term cash equivalents and 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 without-donor-restriction 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 a without-donor-restriction 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 without-donor-restrictions 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 net-assets-with-donor-restrictions 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 with or without-donor-restrictions investment income, depending on the existence or absence of donor-imposed restrictions.

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1. **Organization and significant accounting policies (continued)** 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.

**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 with-donor-restricted support and revenues if they are subject to time or donor-imposed restrictions. Net-assets-with-donor-restrictions are reclassified to net-assets-without-donor-restrictions 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, donor-restricted contributions are reported as net-assets-without-donor-restrictions, 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. Differences between amounts recorded as revenue and amounts actually received are reported as an asset for deferred rent on the Statements of Financial Position.

**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. Such allocations are determined by management on an equitable basis.

# Leadership Institute

## Notes to Financial Statements

1. **Organization and significant accounting policies (continued)** The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Employee benefits and payroll taxes	Time and effort
Printing and publications	Joint costs
Postage	Joint costs
Depreciation and amortization	Time and effort
Public relations	Time and effort
Occupancy	Time and effort
Information technology	Time and effort
Office expense	Time and effort
Taxes and insurance	Time and effort
Bank fees	Time and effort
Interest	Time and effort

**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.

**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. The Institute is subject to taxes on unrelated business activities. Under provisions contained in the 2017 Tax Cuts and Jobs Act that became effective on January 1, 2018, a business deduction for certain qualified transportation fringes (QTF) is no longer available to tax-exempt organizations. The IRC provides that a tax-exempt organization's unrelated business taxable income (UBTI) is increased by the amount of the QTF expense that is nondeductible under the IRC. This requires the Institute to add the nondeductible amount associated with providing its employees with certain transportation fringe benefits to its UBTI. Income tax expenses totaled \$16,800 and \$0 for the years ended December 31, 2018 and 2017, respectively.

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- 1. Organization and significant accounting policies (continued)** **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, 2018 and 2017, 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 2015 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 restrictions 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 27, 2019, which was the date the financial statements were available to be issued.

**Recently adopted accounting standards:** In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Organization has adopted ASU 2016-14 and have adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. As a result of this update, amounts previously reported on the Statements of Activities and Changes in Net Assets as temporarily and permanently restricted support and revenue have been combined into one category, net-assets-with-donor-restriction. ASU 2016-14 contains limited retroactive restatement requirements. The Organization has exercised the option to omit the prior year liquidity and availability of resources footnote.



# Leadership Institute

## Notes to Financial Statements

**2. Liquidity and the availability resources**      The following represents the Institute’s financial assets at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ <b>4,937,980</b>
Contributions receivable	<b>962,260</b>
Accounts receivable	<b>51,461</b>
Cash equivalents held for long-term purposes	<b>2,816,905</b>
Investments	<b>3,586,155</b>
Certificate of deposit	<b>50,000</b>
<hr/>	
Total financial assets	<b>12,404,761</b>
<hr/>	
Less amounts not available to be used within one year:	
Donor restrictions:	
Temporary purpose restrictions	<b>(204,548)</b>
Temporary time restrictions (long-term)	<b>(28,000)</b>
Permanent restrictions	<b>(50,000)</b>
Charitable gift annuity reserve	<b>(2,489,841)</b>
Donor advised fund reserve	<b>(3,913,393)</b>
<hr/>	
Total	<b>(6,685,782)</b>
<hr/>	
Financial assets available to meet general expenditures over the next twelve months	\$ <b>5,718,979</b>

The Institute’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$4 million). As part of its liquidity plan, excess cash may be invested in financial securities, including common stocks and exchange traded funds, money market funds and certificates of deposit. The Institute has a \$2,500,000 line of credit available to meet unforeseen cash flow needs.

**3. Investments**      Investments consisted of the following as of December 31:

	2018	2017
Money market accounts	\$ <b>84,829</b>	\$    286,931
Common stocks	<b>2,514,806</b>	3,189,257
Mutual funds and ETFs		
Bond funds	<b>95,766</b>	92,682
Large-cap funds	<b>448,975</b>	466,622
Small-cap funds	<b>128,979</b>	163,292
International funds	<b>308,106</b>	365,217
Real estate and other	<b>4,694</b>	4,816
<hr/>		
<b>Total investments</b>	<b>\$    3,586,155</b>	<b>\$    4,568,817</b>

# Leadership Institute

## Notes to Financial Statements

### 4. Fair value Investments

Certain assets were recorded at fair value on a recurring basis as of December 31, 2018 and 2017 based on the following level of hierarchy:

<b>December 31, 2018</b>	<b>Total</b>	<b>Fair Value Measurements</b>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments:</b>				
Common stocks	\$ 2,514,806	\$ 2,514,806	\$ -	\$ -
Mutual funds and ETFs:				
Bond funds	95,766	95,766	-	-
Large-cap funds	448,975	448,975	-	-
Small-cap funds	128,979	128,979	-	-
International funds	308,106	308,106	-	-
Real estate and other	4,694	4,694	-	-
<b>Total investments</b>	<b>\$ 3,501,326</b>	<b>\$ 3,501,326</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Beneficial interest in perpetual trust</b>	<b>\$ 905,232</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 905,232</b>

# Leadership Institute

## Notes to Financial Statements

### 4. Fair value (continued)

December 31, 2017	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments:</b>				
Common stocks	\$ 3,189,257	\$ 3,189,257	\$ -	\$ -
Mutual funds and ETFs:				
Bond funds	92,682	92,682	-	-
Large-cap funds	466,622	466,622	-	-
Small-cap funds	163,292	163,292	-	-
International funds	365,217	365,217	-	-
Real estate and other	4,816	4,816	-	-
<b>Total investments</b>	<b>\$ 4,281,886</b>	<b>\$ 4,281,886</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Beneficial interest in perpetual trust</b>	<b>\$ 994,216</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 994,216</b>

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

	2018	2017
Fair value investments	\$ 3,501,326	\$ 4,281,886
Money market accounts	84,829	286,931
<b>Total investments</b>	<b>\$ 3,586,155</b>	<b>\$ 4,568,817</b>

### 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:

	2018	2017
Beginning balance	\$ 994,216	\$ 896,259
Change in value	(88,984)	97,957
<b>Total</b>	<b>\$ 905,232</b>	<b>\$ 994,216</b>

# Leadership Institute

## Notes to Financial Statements

- 4. Fair value (continued)** 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.

### Level 3 Summary

The following table summarizes the valuation techniques and significant unobservable inputs used for the Institute's assets categorized within Level 3 of fair value hierarchy at December 31, 2018 and 2017.

	Fair value at 12/31/18	Fair value at 12/31/17	Valuation techniques	Unobservable input	Range of significant input values
<b>Beneficial interest in perpetual trust</b>	<b>\$ 905,232</b>	\$ 994,216	Income approach / Present value of future cash flows	Fair value of assets contributed to the trust	N/A

- 5. Property and equipment** Property and equipment is as follows at December 31:

	2018	2017
Land	\$ 600,300	\$ 600,300
Buildings and improvements	14,663,871	14,663,871
Furniture and equipment	672,187	665,187
Software and computer equipment	499,598	499,598
Total property, building and equipment	16,435,956	16,428,956
Less: Accumulated depreciation	(7,061,256)	(6,545,437)
<b>Property and equipment, net</b>	<b>\$ 9,374,700</b>	<b>\$ 9,883,519</b>

Depreciation and amortization expense totaled \$515,819 and \$516,380 for the years ended December 31, 2018 and 2017, respectively.

- 6. 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 2018 and 2017 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, 2018 and 2017, the liability totaled \$2,819,859 with \$382,597 as current and \$3,017,034 with \$397,307 as current, respectively.

# Leadership Institute

## Notes to Financial Statements

**6. Charitable gift annuities liability (continued)** During the years ended December 31, 2018 and 2017, the Institute received \$125,152 and \$45,000, respectively, of new charitable gift annuities and made contractual annuity payments of \$396,972 and \$405,413, respectively. As of December 31, 2018 and 2017, the Institute has set aside assets held for charitable gift annuities totaling \$2,489,841 and \$2,884,433, 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.

**7. Allocation of joint costs** During the years ended December 31, 2018 and 2017, the Institute incurred joint costs of \$5,433,960 and \$3,697,369, 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:

	2018		2017
Program services	\$ 3,888,364	\$	2,581,814
Fundraising	1,545,596		1,115,555
<b>Total</b>	<b>\$ 5,433,960</b>	\$	<b>3,697,369</b>

**8. Pension plan** In 2018, 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 three of the immediately preceding five years. Previously, the arrangement covered all employees who were at least 18 years old, had earned at least \$450 during the year, and had worked in at least two 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 10% and 15% of employee base compensation in 2018 and 2017 totaling \$467,075 and \$750,618, respectively.

**9. Line of credit** The Institute renewed its \$2,500,000 line of credit with a bank on June 21, 2018 that matures on July 02, 2019. 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%, which equaled 4.25% and 3.32% as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, there was no balance owed on the line of credit.

# Leadership Institute

## Notes to Financial Statements

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**10. 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 5. 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 5.

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, 2018 and 2017, accumulated amortization for the leasehold interest totaled \$1,322,000 and \$1,156,750, respectively. As of December 31, 2018 and 2017, accumulated amortization of leasehold improvements totaled \$241,589 and \$204,904, respectively. For each of the years ended December 31, 2018 and 2017, amortization expense for the leasehold interest was \$165,250 and amortization expense for the leasehold improvements was \$36,684.

**11. Leases** **Operating lease:** The Institute leases, as lessor, first-floor retail space in the Institute’s building located in Arlington, Virginia. The Institute entered into a new lease with a new tenant on October 3, 2018. The lease is for a term of 10 years and will begin on the rent commencement date which is expected to be June 1, 2019.

# Leadership Institute

## Notes to Financial Statements

**11. Leases**  
**(continued)**

The following is a schedule by years of future minimum rental receipts required under the operating leases that have an initial or remaining non cancelable lease term in excess of one year as of December 31, 2018:

Year Ending December 31	Total
2019	\$ 140,588
2020	245,226
2021	252,573
2022	260,151
2023	267,950
Thereafter	1,596,218
<b>Total</b>	<b>\$ 2,762,218</b>

**Capital lease:** The Institute leases, as lessee, equipment under a capital lease, which expires in 2022. The asset and liability under the capital lease is recorded at the present value of the minimum lease payments. Amortization expense related to the equipment held under capital lease totaled \$14,000 and \$5,063 for the years ended December 31, 2018 and 2017, respectively.

The following is a summary of property held under capital lease as of December 31, 2018:

Equipment	\$ 70,000
Less: Accumulated amortization	(19,063)
<b>Equipment, net</b>	<b>\$ 50,937</b>

Minimum future payments under the capital lease as of December 31, 2018, in the aggregate are as follows:

Year ending December 31,	Amount
2019	\$ 17,016
2020	17,016
2021	17,016
2022	9,925
Amount representing interest	(8,075)
<b>Total</b>	<b>\$ 52,898</b>

# Leadership Institute

## Notes to Financial Statements

**11. Leases**  
**(continued)**

Capital lease obligation at December 31, 2018:

Current portion	\$	13,283
Long-term portion		39,615
<b>Total capital lease obligation</b>		<b>\$ 52,898</b>

**12. 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 ended December 31:

	<u>2018</u>		<u>2017</u>
Campus Leadership Program	\$ 255,750	\$	85,852
CampusReform.org	108,000		25,000
Youth Leadership school	-		82,000
Five-year action plan	-		24,871
Field Program	45,710		33,290
Normandy	579,717		532,795
International training	12,000		127,000
Other various programs	89,829		61,140
Time restrictions	1,395,363		2,649,952
<b>Total release of restrictions</b>	<b>2,486,369</b>		<b>3,601,900</b>
Less: Amounts received and released in the same calendar year	(806,343)		(727,077)
<b>Total releases presented on the Statements of Activities and Changes in Net Assets</b>	<b>\$ 1,680,026</b>	<b>\$</b>	<b>2,894,823</b>

Net assets-with-donor-restrictions at December 31, 2018 and 2017, are as follows:

	<u>2018</u>		<u>2017</u>
Temporary purpose restrictions:			
Campus Leadership Program	\$ 47,748	\$	77,998
International training	14,800		3,000
Normandy	100,000		253,203
Other various programs	42,000		120,710
Temporary time restrictions	564,123		1,811,850
Permanent restrictions:			
Beneficial interest in perpetual trust	905,232		994,216
Donor restricted endowment	50,000		50,000
<b>Total</b>	<b>\$ 1,723,903</b>	<b>\$</b>	<b>3,310,977</b>



# Leadership Institute

## Notes to Financial Statements

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- 13. Related party transactions** The Conservative Leadership Foundation is another not-for-profit organization with which the President of the Institute is associated. This organization is not currently active.
- Leadership Action, Inc. was established by the Leadership Institute in 2013. Leadership Action, Inc. is not currently active and holds no material 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.
- 14. Concentrations** As of December 31, 2018, two unconditional promises to give comprised 42% of total contributions receivable. As of December 31, 2017, two unconditional promises to give comprised 59% of total contributions receivable.
- 15. 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.