

**The Center For Leadership Innovation, Inc.  
(Formerly, Development Training Institute, Inc.)**

Financial Report  
May 31, 2009

**McGladrey & Pullen**  
Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
The Center for Leadership Innovation, Inc.  
Ellicott City, Maryland

We have audited the accompanying balance sheets of The Center for Leadership Innovation, Inc. (the Corporation) as of May 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Corporation. 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 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 audits provide 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 The Center for Leadership Innovation, Inc. as of May 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Gaithersburg, Maryland  
January 20, 2010

The Center For Leadership Innovation, Inc.

Balance Sheets  
May 31, 2009 And 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash And Cash Equivalents (Note 1)	\$ 2,706,138	\$ 2,494,084
Grants And Contracts Receivable (Note 1)	1,734	50,434
Prepaid Expenses And Other Assets	9,859	9,014
Property And Equipment, net (Notes 1 And 2)	61,143	13,283
<b>Total assets</b>	<b>\$ 2,778,874</b>	<b>\$ 2,566,815</b>
<b>Liabilities And Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 315,019	\$ 345,508
Accrued expenses and other payables	73,048	81,831
Capital lease obligations (Note 3)	48,702	-
Deferred grant and contract balances (Note 1)	1,340,456	1,215,188
<b>Total liabilities</b>	<b>1,777,225</b>	<b>1,642,527</b>
Commitments (Notes 3, 4 And 5)		
Net Assets, unrestricted (Note 1)	1,001,649	924,288
<b>Total liabilities and net assets</b>	<b>\$ 2,778,874</b>	<b>\$ 2,566,815</b>

See Notes To Financial Statements.

The Center For Leadership Innovation, Inc.

Statements Of Activities  
Years Ended May 31, 2009 And 2008

	2009	2008
Revenue and support:		
Grants and contracts (Note 1)	\$ 2,515,443	\$ 2,369,929
Interest income	25,334	55,403
Other income	1,478	428
<b>Total revenue and support</b>	<b>2,542,255</b>	<b>2,425,760</b>
Expenses (Notes 2, 3, 4 and 5):		
Program expenses	1,973,142	1,796,888
Supporting services:		
Management and general	357,481	358,584
Fundraising	134,271	80,709
<b>Total supporting services</b>	<b>491,752</b>	<b>439,293</b>
<b>Total expenses</b>	<b>2,464,894</b>	<b>2,236,181</b>
<b>Change in net assets</b>	<b>77,361</b>	<b>189,579</b>
Net assets:		
Beginning	924,288	734,709
Ending	\$ 1,001,649	\$ 924,288

See Notes To Financial Statements.

The Center For Leadership Innovation, Inc.

Statements Of Cash Flows  
Years Ended May 31, 2009 And 2008

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	\$ 77,361	\$ 189,579
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,948	5,932
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and contracts receivable	48,700	(48,838)
Prepaid expenses and other assets	(845)	(3,250)
Increase (decrease) in:		
Accounts payable	(30,489)	110,277
Accrued expenses and other payables	(8,783)	10,422
Deferred grant and contract balances	125,268	305,514
<b>Net cash provided by operating activities</b>	<b>228,160</b>	<b>569,636</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(8,741)	(9,030)
<b>Net cash used in investing activities</b>	<b>(8,741)</b>	<b>(9,030)</b>
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(7,365)	-
<b>Net cash used in financing activities</b>	<b>(7,365)</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>212,054</b>	<b>560,606</b>
Cash And Cash Equivalents		
Beginning	2,494,084	1,933,478
Ending	\$ 2,706,138	\$ 2,494,084
Supplemental Disclosure Of Cash Flow Information		
Cash paid during the year for interest	\$ 1,852	\$ -
Supplemental Schedule Of Noncash Investing And Financing Activities		
Capital lease incurred for purchase of property and equipment	\$ 56,067	\$ -

See Notes To Financial Statements.

## The Center For Leadership Innovation, Inc.

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The Development Training Institute, Inc. (the Corporation) has been recognized by the Internal Revenue Service (IRS) as a tax-exempt, publicly supported organization as defined by §501(c)(3) of the Internal Revenue Code (IRC) and therefore, is not a private foundation. The Corporation was incorporated under the laws of Maryland on February 15, 1985. On December 11, 2008, the Corporation changed its name to The Center for Leadership Innovation, Inc.

The Corporation's mission is to train and educate staff from organizations serving low- to moderate-income communities and the general public on issues and in skills and techniques regarding the physical and economic development of low- to moderate-income communities, both urban and rural. This training serves the purpose of helping to improve the quality of life, promote community self-improvement, alleviate poverty, eliminate blight, and lessen the burdens of government; of conducting research and disseminating information regarding community and economic development; and of providing advice, consultation, and technical assistance to individuals and organizations serving urban and rural low- to moderate-income communities.

A summary of the Corporation's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The 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 Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Corporation had no temporarily or permanently restricted net assets at May 31, 2009 and 2008.

Cash and cash equivalents: For the purposes of reporting cash flows, money market accounts and all highly liquid investments purchased with an initial maturity of three months or less are considered to be cash equivalents. The Corporation invests its excess funds in overnight sweep accounts.

Financial risk: The Corporation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant financial risk on cash.

Grants and contracts receivable: Grants and contracts receivables arise from services rendered through contracts and grant awards with corporations, not-for-profit organizations, and government units. The Corporation utilizes the reserve method of accounting for bad debts. Management establishes the allowance for doubtful accounts based on industry experience and receivable collections history. At May 31, 2009 and 2008, management believes no allowance for doubtful accounts was required.

Property and equipment: Property and equipment are recorded at cost, except for equipment purchased under grant agreements, which is charged directly to expense. Depreciation is provided using the straight-line method over an estimated useful life of three to five years. Leasehold improvements are amortized over the shorter of the asset life or the remaining life of the lease. The Corporation currently capitalizes all property and equipment greater than \$1,000 with a useful life of at least one year.

## Notes To Financial Statements

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### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Corporation accounts for the valuation of long-lived assets under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Unrestricted net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Revenue recognition: The Corporation is funded by various sources such as government units, not-for-profit organizations, corporations, etc. The Corporation's policy is to recognize conditional grants and contracts as revenue in proportion to the expenses incurred. All other sources of revenue, such as unconditional gifts and interest, are recognized when earned. Any conditional grants and contracts received in advance which are not recognized as revenue are classified as deferred grant and contract balances in the balance sheets.

Contributions: Contributions are recognized when the donor makes an unconditional written promise to give to the Corporation. All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Contributions that are restricted by the donor are reported as unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Revenue concentration: The Corporation received approximately 91% and 89% of its total revenue and support for the years ended May 31, 2009 and 2008, respectively, from one grantor.

Salary expense: Salary expense is recognized in the period the service is rendered, which coincides with the academic year. Salaries unpaid at May 31 are recognized as expense and accrued.

Tax-exempt status: The Corporation is generally exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, the Corporation is subject to income taxes on unrelated business income as defined by the Internal Revenue Service. During the years ended May 31, 2009 and 2008, the Corporation had no taxable unrelated business income and accordingly, no provision for income taxes was required in the accompanying financial statements.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

## The Center For Leadership Innovation, Inc.

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Tax-exempt status (continued): Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of activities.

The Corporation files income tax returns in the U.S. federal jurisdiction. As of May 31, 2009 and 2008, and for the years then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. With few exceptions, the Corporation is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2006.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of the Corporation.

Fair value of financial instruments: The carrying amounts, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates on this instrument fluctuate with market interest rates offered to the Corporation for debt with similar terms and maturities.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements: Effective June 1, 2008, the Corporation adopted SFAS No. 157, *Fair Value Measurements*, issued by FASB. SFAS No. 157 defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS No. 157 as assumptions market participants would use in pricing as asset or liability. For the year ended May 31, 2009, SFAS No. 157 had no effect on the financial statements.

On August 6, 2008, FASB issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. FAS 117-1). FSP No. FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP No. FAS 117-1 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board designated endowment funds), whether or not the organization is subject to UPMIFA. For the year ended May 31, 2009, FSP No. FAS 117-1 had no effect on the financial statements.

Subsequent events: The Corporation evaluated subsequent events for potential required disclosure through January 20, 2010, which is the date the financial statements were available to be issued.

The Center For Leadership Innovation, Inc.

Notes To Financial Statements

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**Note 2. Property And Equipment**

Property and equipment and accumulated depreciation at May 31, 2009 and 2008, are as follows:

	2009	2008
Furniture and equipment	\$ 158,348	\$ 93,540
Accumulated depreciation	(97,205)	(80,257)
	<u>\$ 61,143</u>	<u>\$ 13,283</u>

Depreciation expense was \$16,948 and \$5,932 for the years ended May 31, 2009 and 2008, respectively.

**Note 3. Capital Lease Obligations**

The Corporation entered into three capital leases for office equipment, for which the minimum lease rentals have been capitalized using the rates implicit in the leases. The leases require total monthly payments of approximately \$1,785, consisting of principle, interest and monthly maintenance fees. The leases expire in November 2012.

The Corporation is indebted under three equipment leases, which have been capitalized at the present value of future lease payments. The leases require total monthly payments of approximately \$1,785, consisting of principal, interest and monthly maintenance fees. The leases expire in November 2012. The cost of the equipment was \$56,067 at May 31, 2009, and depreciation expense of the leased assets amounted to \$8,176 for the year ended May 31, 2009. As of May 31, 2009, accumulated depreciation of the leased assets amounted to \$8,176.

Interest expense on the capital lease obligation amounted to \$1,852 for the year ended May 31, 2009.

Future minimum lease payments under the capital leases as of May 31, 2009, are as follows:

Years Ending May 31,	
2010	\$ 15,800
2011	15,800
2012	15,800
2013	6,584
	<u>53,984</u>
Less amounts representing interest	5,282
	<u>\$ 48,702</u>

The Center For Leadership Innovation, Inc.

Notes To Financial Statements

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**Note 4. Commitments**

Lease commitment: The Corporation leases office space under a lease agreement which expires on June 30, 2010. Future minimum rental payments required under the terms of this lease are as follows:

<u>Years Ending May 31,</u>	
2010	\$ 54,450
2011	4,537
	<u>\$ 58,987</u>

Rent expense for the years ended May 31, 2009 and 2008, amounted to \$57,660 and \$53,614, respectively.

**Note 5. Pension Plan**

The Corporation has established an annuity program for its employees under IRC §403(b). Under the terms of the plan, employees may contribute pretax dollars toward the purchase of the annuity. In turn, the Corporation will make contributions based on 9% of each eligible employee's compensation, plus an additional 3% for employee compensation in excess of the taxable wage base for Social Security. In addition, the Corporation may make an additional discretionary contribution of up to 4%. The total pension expense for the years ended May 31, 2009 and 2008, was \$65,464 and \$57,348, respectively.