

The Center For Leadership Innovation, Inc.

Financial Report
May 31, 2010

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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, 2010 and 2009, 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, 2010 and 2009, 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, 2011

The Center For Leadership Innovation, Inc.

Balance Sheets
May 31, 2010 And 2009

Assets	2010	2009
Cash And Cash Equivalents (Note 1)	\$ 2,361,081	\$ 2,706,138
Grants And Contracts Receivable (Note 1)	25,505	1,734
Prepaid Expenses And Other Assets	13,512	9,859
Property And Equipment, net (Notes 1 and 2)	73,485	61,143
Total assets	\$ 2,473,583	\$ 2,778,874
Liabilities And Net Assets		
Liabilities		
Accounts payable	\$ 296,066	\$ 315,019
Accrued expenses and other payables	90,943	73,048
Capital lease obligations (Note 3)	35,464	48,702
Deferred grant and contract balances (Note 1)	1,041,928	1,340,456
Total liabilities	1,464,401	1,777,225
Commitments (Notes 3, 4 And 5)		
Net Assets, unrestricted (Note 1)	1,009,182	1,001,649
Total liabilities and net assets	\$ 2,473,583	\$ 2,778,874

See Notes To Financial Statements.

The Center For Leadership Innovation, Inc.

Statements Of Activities
Years Ended May 31, 2010 And 2009

	2010	2009
Revenue and support:		
Grants and contracts (Note 1)	\$ 2,979,098	\$ 2,515,443
Interest income	2,062	25,334
Other income	6,621	1,478
Total revenue and support	2,987,781	2,542,255
Expenses (Notes 2, 3, 4 and 5):		
Program expenses	2,445,998	1,973,142
Supporting services:		
Management and general	386,309	357,481
Fundraising	147,941	134,271
Total supporting services	534,250	491,752
Total expenses	2,980,248	2,464,894
Change in net assets	7,533	77,361
Net assets:		
Beginning	1,001,649	924,288
Ending	\$ 1,009,182	\$ 1,001,649

See Notes To Financial Statements.

The Center For Leadership Innovation, Inc.

**Statements Of Cash Flows
Years Ended May 31, 2010 And 2009**

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ 7,533	\$ 77,361
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	22,798	16,948
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and contracts receivable	(23,771)	48,700
Prepaid expenses and other assets	(3,653)	(845)
Increase (decrease) in:		
Accounts payable	(18,953)	(30,489)
Accrued expenses and other payables	17,895	(8,783)
Deferred grant and contract balances	(298,528)	125,268
Net cash (used in) provided by operating activities	(296,679)	228,160
Cash Flows From Investing Activities		
Purchases of property and equipment	(35,140)	(8,741)
Net cash used in investing activities	(35,140)	(8,741)
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(13,238)	(7,365)
Net cash used in financing activities	(13,238)	(7,365)
Net (decrease) increase in cash and cash equivalents	(345,057)	212,054
Cash And Cash Equivalents:		
Beginning	2,706,138	2,494,084
Ending	\$ 2,361,081	\$ 2,706,138
Supplemental Disclosure Of Cash Flow Information		
Cash paid during the year for interest	\$ 2,563	\$ 1,852
Supplemental Schedule Of Non-Cash 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

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The Center for Leadership and Innovation, 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.

The Corporation's mission is to develop diverse leaders who envision, initiate and share breakthrough approaches to addressing society's most challenging social issues.

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. Revenue received which relates to future periods is recorded as deferred revenue. Expenses paid which relate to future periods are recorded as prepaid expenses.

Accounting standards codification: In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (ASC). Effective July 1, 2009, the ASC is the single source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The ASC is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain-English explanations of the Corporation's accounting policies. The adoption of the ASC did not have a material impact on the Corporation's financial position.

Basis of presentation: The financial statement presentation follows the recommendation of the FASB ASC. As required by the Not-For-Profit Entities Topic of the FASB ASC (formerly FASB Statement of Financial Accounting Standards (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, 2010 and 2009.

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, 2010 and 2009, 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.

The Center For Leadership Innovation, Inc.

Notes To Financial Statements

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 FASB ASC Topic 360 (formerly SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. The FASB ASC 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. These funds are recognized as a component of contribution revenue on the Corporation's annual filing of its Return of Organization Exempt from Income Tax.

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 78 percent and 91 percent of its total revenue and support for the years ended May 31, 2010 and 2009, respectively, from one grantor.

Salary expense: Salary expense is recognized in the period the service is rendered, which coincides with the fiscal 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, 2010 and 2009, the Corporation had no taxable unrelated business income, and accordingly, no provision for income taxes was required in the accompanying financial statements.

The Corporation adopted the accounting standard on accounting for uncertainty in income taxes (FASB ASC Topic 740-10), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Corporation's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Corporation files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Corporation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

The Center For Leadership Innovation, Inc.

Notes To Financial Statements

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

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.

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.

Subsequent events: The Corporation evaluated subsequent events through January 20, 2011, which is the date the financial statements were available to be issued.

Note 2. Property And Equipment

Property and equipment and accumulated depreciation at May 31, 2010 and 2009, are as follows:

	2010	2009
Furniture and equipment	\$ 185,315	\$ 158,348
Accumulated depreciation	(111,830)	(97,205)
	<u>\$ 73,485</u>	<u>\$ 61,143</u>

Depreciation expense was \$22,798 and \$16,948 for the years ended May 31, 2010 and 2009, respectively.

Note 3. Capital Lease Obligations

The Corporation entered into three capital leases for office 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 and depreciation expense of the leased assets amounted to \$14,017 and \$8,176 for the years ended May 31, 2010 and 2009, respectively. Accumulated depreciation of the leased assets amounted to \$22,193 and \$8,176 for the years ended May 31, 2010 and 2009, respectively.

Interest expense on the capital lease obligation amounted to \$2,563 and \$1,852 for the years ended May 31, 2010 and 2009, respectively.

Future minimum lease payments under the capital leases as of May 31, 2010, are as follows:

Years Ending May 31,	
2011	\$ 15,800
2012	15,800
2013	6,584
	<u>38,184</u>
Less amounts representing interest	2,720
	<u>\$ 35,464</u>

The Center For Leadership Innovation, Inc.

Notes To Financial Statements

Note 4. Commitments

Lease commitment: On May 13, 2010, the Corporation entered into the Third Addendum to the Lease Agreement related to its office space, whereby, all the terms remain the same from the previous agreement. Under the new addendum, the lease agreement expires on June 30, 2011. Future minimum rental payments required under the terms of this lease are as follows:

Years Ending May 31,

2011	\$	54,450
2012		4,537
	\$	<u>58,987</u>

Rent expense for the years ended May 31, 2010 and 2009, amounted to \$57,093 and \$57,660, 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 nine percent of each eligible employee's compensation, plus an additional three percent for employee compensation in excess of the taxable wage base for Social Security. The total pension expense for the years ended May 31, 2010 and 2009, was \$67,043 and \$65,464, respectively.