

LEADERSHIP FOUNDATIONS

Audited Financial Statements,
Supplementary Information and
Reports on Compliance and Internal Control

December 31, 2019 and 2018

LEADERSHIP FOUNDATIONS

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Supplementary Information and
Reports on Compliance and Internal Control

December 31, 2019 and 2018

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1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

Board of Directors
Leadership Foundations
Tacoma, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Leadership Foundations (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Organization'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 Organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leadership Foundations as of December 31, 2019 and 2018, 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.

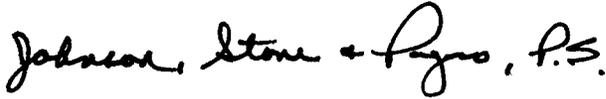
Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2019, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020, on our consideration of Leadership Foundations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leadership Foundations' internal control over financial reporting and compliance.


JOHNSON, STONE & PAGANO, P.S.

September 23, 2020

AUDITED FINANCIAL STATEMENTS

LEADERSHIP FOUNDATIONS
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 139,552	\$ 63,456
Grants and contributions receivable	<u>325,359</u>	<u>856,088</u>
Total Current Assets	464,911	919,544
EQUIPMENT, net	<u>15,376</u>	<u>19,302</u>
TOTAL ASSETS	<u>\$ 480,287</u>	<u>\$ 938,846</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 112,272	\$ 177,922
Accrued payroll		23,855
Accrued expenses		<u>1,473</u>
Total Current Liabilities	112,272	203,250
NET ASSETS		
Without donor restrictions (deficit)	157,458	(117,069)
With donor restrictions	<u>210,557</u>	<u>852,665</u>
Total Net Assets	<u>368,015</u>	<u>735,596</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 480,287</u>	<u>\$ 938,846</u>

The accompanying notes are an integral part of these financial statements.

LEADERSHIP FOUNDATIONS

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES		
Contributions	\$ 1,194,222	\$ 1,105,219
Grants	895,051	1,477,826
Dues	75,800	59,850
Interest	1	7
Gain on sale of securities		4,232
Net assets released from restrictions	<u>652,665</u>	<u>554,442</u>
Total Revenues	2,817,739	3,201,576
EXPENSES		
Program services	2,078,006	2,693,051
Management and general services	230,661	115,448
Fundraising and development	<u>234,545</u>	<u>342,968</u>
Total Expenses	<u>2,543,212</u>	<u>3,151,467</u>
Increase in Net Assets without Donor Restrictions	274,527	50,109
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	10,557	852,665
Net assets released from restrictions	<u>(652,665)</u>	<u>(554,442)</u>
Increase (Decrease) in Net Assets with Donor Restrictions	<u>(642,108)</u>	<u>298,223</u>
INCREASE (DECREASE) IN NET ASSETS	(367,581)	348,332
Net Assets at Beginning of Year	<u>735,596</u>	<u>387,264</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 368,015</u></u>	<u><u>\$ 735,596</u></u>

The accompanying notes are an integral part of these financial statements.

LEADERSHIP FOUNDATIONS

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	<u>Program Services</u>	<u>Management and General Services</u>	<u>Fundraising and Development</u>	<u>Total</u>
COMPENSATION AND RELATED EXPENSES				
Salaries and wages	\$ 387,442	\$ 134,811	\$ 87,287	\$ 609,540
Payroll taxes	52,223	13,041	3,432	68,696
Fringe benefits	<u>49,476</u>	<u>4,722</u>	<u>24,998</u>	<u>79,196</u>
Total Compensation and Related Expenses	489,141	152,574	115,717	757,432
Advertising and outreach			7,728	7,728
Bank service fees		9,782		9,782
Computers and technology	2,750	29	303	3,082
Professional fees	288,761	5,125	69,505	363,391
Insurance	609	1,827		2,436
Occupancy and utilities	5,336	16,007		21,343
Other expenses	1,558	2,007	28,756	32,321
Supplies	1,690	6,117		7,807
Support to others	1,137,377			1,137,377
Travel and transportation	<u>150,784</u>	<u>33,267</u>	<u>12,536</u>	<u>196,587</u>
Total Expenses Before Depreciation	2,078,006	226,735	234,545	2,539,286
Depreciation	<u></u>	<u>3,926</u>	<u></u>	<u>3,926</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,078,006</u>	<u>\$ 230,661</u>	<u>\$ 234,545</u>	<u>\$ 2,543,212</u>

The accompanying notes are an integral part of these financial statements.

LEADERSHIP FOUNDATIONS

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended December 31, 2018

	Program Services	Management and General Services	Fundraising and Development	Total
COMPENSATION AND RELATED EXPENSES				
Salaries and wages	\$ 475,653	\$ 18,487	\$ 137,972	\$ 632,112
Payroll taxes	35,831	5,348	5,416	46,595
Fringe benefits	<u>105,738</u>	<u>14,165</u>	<u>30,842</u>	<u>150,745</u>
Total Compensation and Related Expenses	617,222	38,000	174,230	829,452
Advertising and outreach			12,673	12,673
Bank service fees		6,412		6,412
Computers and technology		1,326	92	1,418
Professional fees	345,606		94,379	439,985
Insurance	376	1,129		1,505
Occupancy and utilities	5,716	17,147		22,863
Other expenses		5,716	37,626	43,342
Supplies	1,082	3,248		4,330
Support to others	1,556,167			1,556,167
Travel and transportation	<u>166,882</u>	<u>41,955</u>	<u>23,968</u>	<u>232,805</u>
Total Expenses Before Depreciation	2,693,051	114,933	342,968	3,150,952
Depreciation	<u> </u>	<u>515</u>	<u> </u>	<u>515</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,693,051</u>	<u>\$ 115,448</u>	<u>\$ 342,968</u>	<u>\$ 3,151,467</u>

The accompanying notes are an integral part of these financial statements.

LEADERSHIP FOUNDATIONS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (367,581)	\$ 348,332
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Donated securities		(74,882)
Gain on sale of securities		(4,232)
Depreciation expense	3,926	515
Changes in assets and liabilities		
(Increase) decrease in grants and accounts receivable	530,729	(319,187)
Increase (decrease) in accounts payable	(65,650)	45,582
Decrease in accrued payroll	(23,855)	(107,705)
Increase (decrease) in accrued expenses	(1,473)	1,082
	<u>76,096</u>	<u>(110,495)</u>
Net Cash Provided (Used) by Operating Activities		
	76,096	(110,495)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities		79,114
Purchase of equipment		(19,630)
		<u>59,484</u>
Net Cash Provided by Investing Activities		
		59,484
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,096	(51,011)
Cash and Cash Equivalents at Beginning of Year	<u>63,456</u>	<u>114,467</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 139,552</u>	<u>\$ 63,456</u>

The accompanying notes are an integral part of these financial statements.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leadership Foundations (the "Organization") is a national network of local faith-based organizations that mobilize leaders, congregations and other resources to tackle our cities' biggest problems. All members of the network of Leadership Foundations throughout the United States are not-for-profit entities exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is dependent on public support and government contracts to fund its operations.

Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this accounting method, revenues are recognized in the year earned, support is recognized in the year in which it is unconditionally promised and expenses are recorded in the year incurred.

Information regarding financial position and activities are reported as two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

The Organization considers all cash in checking and savings accounts and highly liquid instruments purchased with a maturity of less than three months to be cash equivalents.

Grants Receivable

The Organization has entered into a grant relationship with a government agency, which is accounted for as exchange transactions whereby the agency provides funding in exchange for goods and services provided by the Organization. Grant revenue and related receivables are recorded when the Organization incurs expenses eligible for reimbursement under the terms of the corresponding contract or grant. Amounts are reviewed for collectability by management and an allowance for doubtful accounts is recorded as needed based on collection history and member and agency attributes. The Organization considers all receivables to be fully collectible and, therefore, no allowance for uncollectible amounts has been recorded. If amounts become uncollectible, they will be charged to operations when that determination is made.

Contributions Receivable

Contributions, including unconditional promises to give, are recorded in the period made. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in a subsequent year are reported at the present value of their net realizable value, using risk-free interest rates applicable to the year in which the promises are to be received. All unconditional contributions received are considered to be without donor restrictions unless specifically restricted by the donor. Conditional promises to give are recognized when conditions on which they depend are substantially met.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable (Continued)

Contributions of assets other than cash are recorded at their estimated fair value when contributed. Contributions, including noncash contributions, subject to donor-imposed stipulations that are met in the same reporting period are reported as increases in net assets without donor restrictions. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed in service. If a contribution becomes uncollectible, it will be charged to operations when that determination is made. There were no noncash contributions received during the year ended December 31, 2019. The Organization received a noncash stock donation in the amount of \$74,822 during the year ended December 31, 2018.

Equipment

Equipment is recorded at cost when purchased or at fair value when donated; the recorded cost is capitalized with depreciation provided using the straight-line method over the estimated useful lives (3 to 7 years) of the respective assets when the cost or fair value exceeds \$500 and has a useful life of over one year.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of 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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Subsequent Events

The management of the Organization evaluated subsequent events through September 23, 2020, the date the statements were available to be issued.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at a financial institution in western Washington insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000. There was no uninsured balance at December 31, 2019.

The Organization receives a significant portion of its revenue from one government contract and is subject to certain risks of the legislative process in securing continued funding for the Organization's program. A significant reduction in the level of funding from this contract could adversely affect the Organization's ability to provide its program and services.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position, were comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 139,552	\$ 63,456
Grants and contributions receivable	<u>325,359</u>	<u>856,088</u>
Total Financial Assets	464,911	919,544
Less financial assets not available for general expenditure		
Net assets with donor restrictions	<u>(210,557)</u>	<u>(852,665)</u>
	<u>\$ 254,354</u>	<u>\$ 66,879</u>

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs and money market funds.

NOTE 4 - EQUIPMENT

Equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 19,630	\$ 19,630
Less accumulated depreciation	<u>4,254</u>	<u>328</u>
	<u>\$ 15,376</u>	<u>\$ 19,302</u>

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 5 - NET ASSETS

Net assets with donor restrictions at December 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Grants receivable	\$ 10,557	\$ 202,665
Pledges receivable	<u>200,000</u>	<u>650,000</u>
	<u>\$ 210,557</u>	<u>\$ 852,665</u>

Net assets as of December 31, that were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Grants receivable	\$ 202,665	\$ 146,442
Pledges receivable	<u>450,000</u>	<u>408,000</u>
	<u>\$ 652,665</u>	<u>\$ 554,442</u>

NOTE 6 - COMPENSATED ABSENCES

The Organization does not accrue a liability for employees' compensation for future absences, as compensation for accrued annual leave may be suspended at the discretion of the executive director under special circumstances, such as budget reductions and/or limitations and early termination of a current operating contract. Unused vacation time will be lost if not used within the allotted time period.

The Organization also allows employees to receive paid sick leave, jury duty, bereavement and study leave. The Organization sees these days as a privilege, not a benefit or a right. Therefore, any unused time remaining at the end of the year is not paid in cash.

NOTE 7 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, salaries and wages, fringe benefits, payroll taxes, professional fees, travel and transportation, computer and technology, insurance and other, which are allocated on the basis of estimates of time and effort.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 8 - RETIREMENT PLAN

Leadership Foundations provides a simple Individual Retirement Account retirement plan. The retirement plan provides coverage for all employees with no minimum age or service requirements and immediate vesting of employer contributions. Leadership Foundations contributes 3% of employees' gross wages. Detailed plan provisions are available in the plan trust agreement. Retirement plan contributions for the year ended December 31, 2019 and 2018 were \$10,668 and \$10,121, respectively.

NOTE 9 - LEASE AGREEMENTS

The Organization has an operating lease for office space that is carried on a month-to-month basis. During the year ended December 31, 2019, monthly rent increased from \$1,455 to \$1,502.

Total rental expense for the years ending December 31, 2019 and 2018 was \$17,742 and \$17,184, respectively.

NOTE 10 - SUBSEQUENT EVENTS

The Organization has been negatively affected by the effects of the world-wide COVID-19 pandemic. The Organization is closely monitoring its operations, liquidity, capital and financial resources, and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of these financial statements, the full impact to the Organization's financial position or operations is not known.

In April, 2020, Leadership Foundations received loan proceeds in the amount of \$145,344 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), and later modified by the PPP Flexibility Act, provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities during the twenty-four weeks commencing from the date the Organization received loan proceeds or through December 31, 2020, whichever period is shorter (the "covered period"). The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgivable period.

The Organization has ten months from the end of the covered period to apply for loan forgiveness. The unforgiven portion of the PPP loan, if any, is payable over five years at an interest rate of 1%, beginning at the end of the ten months. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the total amount of loan forgiveness is not known as of the date of these financial statements.

SUPPLEMENTARY INFORMATION

LEADERSHIP FOUNDATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2019

<u>Agency</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
United States Department of Justice	Juvenile Mentoring Program	16.726		\$ <u>443,107</u>	\$ <u>864,232</u>
Total Federal Awards				\$ <u><u>443,107</u></u>	\$ <u><u>864,232</u></u>

LEADERSHIP FOUNDATIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Leadership Foundations under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Leadership Foundations, it is not intended to, and does not, present the financial position, statement of activities or cash flows of Leadership Foundations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Leadership Foundations has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

LEADERSHIP FOUNDATIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended December 31, 2019

NOTE 3 - SUBAWARDS

Leadership Foundations passed through federal awards under CFDA #16.726 to the following subrecipients:

Central California LF	\$ 22,867
Charleston LF	23,209
Dallas LF	28,625
Friendship House	27,452
Indian Ministries of North America	16,338
Knoxville LF	27,544
Lane Leadership Foundation	16,931
Lexington LF	34,883
Memphis LF	36,285
Metro Atlanta LF	26,414
Miami Valley LF	17,185
New Vision	9,775
Philadelphia LF	22,466
Pittsburgh LF	8,857
Portland LF	11,652
Root Cellar	28,544
Stockton LF	24,035
Urban Ventures	32,097
Wilmington LF	<u>27,948</u>
Total Subawards	\$ <u>443,107</u>

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Directors
Leadership Foundations
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Leadership Foundations (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

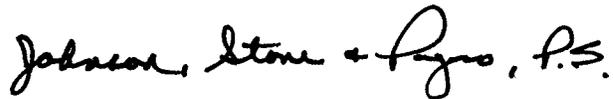
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



JOHNSON, STONE & PAGANO, P.S.

September 23, 2020



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control over
Compliance Required by the Uniform Guidance

Board of Directors
Leadership Foundations
Tacoma, Washington

Report on Compliance for Each Major Federal Program

We have audited Leadership Foundations' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. Leadership Foundations' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and prior year audit findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

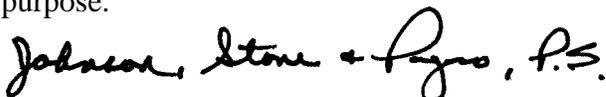
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, which we consider to be a significant deficiency.

Leadership Foundations' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Leadership Foundations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



JOHNSON, STONE & PAGANO, P.S.

September 23, 2020

LEADERSHIP FOUNDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings reported in this Schedule that are required to be reported in accordance with 2 CFR Section 200.516(a)?	Yes

Identification of major programs

<u>CFDA Number(s)</u>	<u>Federal Program or Cluster</u>
16.726	Juvenile Mentoring Program
Dollar threshold used to distinguish between type A and type B programs	\$ 750,000
Auditee qualified as a low-risk auditee?	Yes

LEADERSHIP FOUNDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND PRIOR YEAR AUDIT FINDINGS (Continued)

Year Ended December 31, 2019

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

2019-001 Schedule of Federal Awards

Funding Agency: Department of Justice

CFDA Number: 16.726

Criteria

The schedule of federal awards ("SEFA") is required to be prepared in accordance with the Uniform Guidance to reflect expenditures of federal awards.

Condition

The SEFA, as originally prepared, was materially understated.

Context

The SEFA did not accurately reflect the proper amount of federal expenditures and it was understated.

Effect

The SEFA did not properly reflect the amount of federal awards as required by the Uniform Guidance.

Cause

The SEFA was completed using spreadsheets maintained by Leadership Foundations to track reimbursements rather than actual expenditures that were expensed in the general ledger.

Auditor's Recommendation

We recommend staff training in preparation of the SEFA and the implementation of procedures to provide oversight that ensures the completion of an accurate SEFA.

LEADERSHIP FOUNDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND PRIOR YEAR AUDIT FINDINGS (Continued)

Year Ended December 31, 2019

Section IV - Prior Year Audit Findings

2018-001 Schedule of Federal Awards

The SEFA, as originally prepared, was materially misstated. This finding was repeated during 2019.

2018-002 Cut off of Grants and Contributions Receivable

Grants and contributions were recorded in the wrong period. This finding was corrected during 2019.

LEADERSHIP FOUNDATIONS

CORRECTIVE ACTION PLAN

Year Ended December 31, 2019

September 23, 2020



CORRECTIVE ACTION PLAN

Corrective action plan in response to:
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section III – Federal Award Findings and Questioned Costs

2019-001 Schedule of Federal Awards

Finding

The SEFA, as originally prepared, was materially understated. The SEFA did not accurately reflect the proper amount of federal expenditures and it was understated. The SEFA did not properly reflect the amount of federal awards as required by the Uniform Guidance. The SEFA was completed using spreadsheets maintained by Leadership Foundations to track reimbursements rather than actual expenditures that were expensed in the general ledger.

Auditor's Recommendations

We recommend staff training in preparation of the SEFA and the implementation of procedures to provide oversight that ensures the completion of an accurate SEFA.

Actions Taken

Leadership Foundations immediately remedied the finding upon receiving the finding. Leadership Foundations immediately added documentation into the Accounting Policies and Procedures manual to reflect correct preparation and completion of an accurate SEFA.

Staff Member Responsible for Correction Action Plan: Jacki Michaels, CFO

Corrective Action Plan actions implemented and effective on August 31, 2020

Leadership Foundations
902 Market Street
Tacoma, WA 98402
leadershipfoundations.org

Whole Leaders, Whole Cities, Better World