

LEADERSHIP FOUNDATIONS

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

December 31, 2021 and 2020

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Supplementary Information and
Reports on Compliance and Internal Control

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Independent Auditor's Report

Board of Directors
Leadership Foundations
Tacoma, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Leadership Foundations (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and 2020 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements were issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

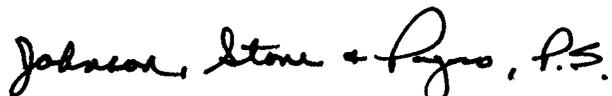
Other Matters

Supplementary 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, 2021, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and the accompanying schedule of expenditures of state financial assistance for the year ended December 31, 2021, are presented for purposes of additional analysis and are 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 U.S. GAAS. In our opinion, 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 21, 2022 on our consideration of the Organization's 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 solely 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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.



JOHNSON, STONE & PAGANO, P.S.

September 21, 2022

AUDITED FINANCIAL STATEMENTS

LEADERSHIP FOUNDATIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 647,663	\$ 616,619
Grants and contributions receivable	110,841	259,787
Prepaid expenses	<u>6,850</u>	<u>1,083</u>
Total Current Assets	765,354	877,489
EQUIPMENT, net	<u>7,524</u>	<u>11,450</u>
TOTAL ASSETS	<u>\$ 772,878</u>	<u>\$ 888,939</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 93,031	\$ 111,600
Accrued expenses	6,688	
Current portion of long-term debt		<u>2,038</u>
Total Current Liabilities	99,719	113,638
LONG-TERM DEBT	<u>149,900</u>	<u>147,862</u>
Total Liabilities	249,619	261,500
NET ASSETS (DEFICIT)		
Without donor restrictions	(335,343)	627,439
With donor restrictions	<u>858,602</u>	
Total Net Assets	<u>523,259</u>	<u>627,439</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 772,878</u>	<u>\$ 888,939</u>

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

LEADERSHIP FOUNDATIONS

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Contributions	\$ 622,963	\$ 2,001,427
Grants	1,396,377	1,435,677
Dues	76,104	82,200
Interest	6	3
Net assets released from restrictions		<u>210,557</u>
Total Revenues	<u>2,095,450</u>	<u>3,729,864</u>
EXPENSES		
Program services	2,380,571	2,471,182
Management and general services	403,521	575,239
Fundraising and development	<u>274,140</u>	<u>213,462</u>
Total Expenses	<u>3,058,232</u>	<u>3,259,883</u>
Increase (Decrease) in Net Assets without Donor Restrictions	(962,782)	469,981
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	858,602	
Net assets released from restrictions		<u>(210,557)</u>
Increase (Decrease) in Net Assets with Donor Restrictions	<u>858,602</u>	<u>(210,557)</u>
INCREASE (DECREASE) IN NET ASSETS	(104,180)	259,424
Net Assets at Beginning of Year	<u>627,439</u>	<u>368,015</u>
NET ASSETS AT END OF YEAR	<u>\$ 523,259</u>	<u>\$ 627,439</u>

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

LEADERSHIP FOUNDATIONS

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	<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	\$ 469,212	\$ 64,115	\$ 149,068	\$ 682,395
Payroll taxes	22,521	4,036	11,735	38,292
Fringe benefits	<u>48,062</u>	<u>27,544</u>	<u>27,074</u>	<u>102,680</u>
Total Compensation and Related Expenses	539,795	95,695	187,877	823,367
Advertising and outreach			11,302	11,302
Bank service fees		12,600		12,600
Computers and technology	1,254	2,196	558	4,008
Professional fees	335,287	29,957	60,000	425,244
Insurance	1,175	3,523		4,698
Occupancy and utilities	5,124	15,371		20,495
Other expenses		361		361
Supplies	2,430	8,672		11,102
Support to others	1,487,872	32,387		1,520,259
Bad debt		181,859		181,859
Interest expense		9,512		9,512
Travel and transportation	<u>7,634</u>	<u>7,462</u>	<u>14,403</u>	<u>29,499</u>
Total Expenses Before Depreciation	2,380,571	399,595	274,140	3,054,306
Depreciation	<u> </u>	<u>3,926</u>	<u> </u>	<u>3,926</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,380,571</u>	<u>\$ 403,521</u>	<u>\$ 274,140</u>	<u>\$ 3,058,232</u>

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

LEADERSHIP FOUNDATIONS

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended December 31, 2020

	<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	\$ 447,411	\$ 125,727	\$ 42,856	\$ 615,994
Payroll taxes	76,321	8,760	3,972	89,053
Fringe benefits	<u>33,565</u>	<u>54,570</u>	<u>26,177</u>	<u>114,312</u>
Total Compensation and Related Expenses	557,297	189,057	73,005	819,359
Advertising and outreach			75,806	75,806
Bank service fees		13,179		13,179
Computers and technology			460	460
Professional fees	288,669	20,850	63,775	373,294
Insurance	1,410	4,229		5,639
Occupancy and utilities	4,910	18,946		23,856
Other expenses		6,583		6,583
Supplies	2,207	4,203		6,410
Support to others	1,538,073	32,960		1,571,033
Bad debt		280,000		280,000
Travel and transportation	<u>78,616</u>	<u>1,306</u>	<u>416</u>	<u>80,338</u>
Total Expenses Before Depreciation	2,471,182	571,313	213,462	3,255,957
Depreciation	<u> </u>	<u>3,926</u>	<u> </u>	<u>3,926</u>
TOTAL OPERATING EXPENSES	<u>\$ 2,471,182</u>	<u>\$ 575,239</u>	<u>\$ 213,462</u>	<u>\$ 3,259,883</u>

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

LEADERSHIP FOUNDATIONS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (104,180)	\$ 259,424
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation expense	3,926	3,926
Forgiveness of debt		(145,344)
Bad debt	181,859	280,000
Changes in assets and liabilities		
Increase in grants and accounts receivable	(32,913)	(214,428)
Increase in prepaid expenses	(5,767)	(1,083)
Decrease in accounts payable	(18,569)	(672)
Increase in accrued expenses	<u>6,688</u>	
Net Cash Provided by Operating Activities	31,044	181,823
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt		<u>295,244</u>
Net Cash Provided by Financing Activities		<u>295,244</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,044	477,067
Cash and Cash Equivalents at Beginning of Year	<u>616,619</u>	<u>139,552</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 647,663</u>	<u>\$ 616,619</u>

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

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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. Promises to give in the amounts of \$181,859 and \$280,000 were deemed to be uncollectible and written off for the years ended December 31, 2021 and 2020, respectively.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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, 2021 or December 31, 2020.

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 \$5,000 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.

Advertising Costs

Costs incurred for advertising are expensed as incurred. Advertising expense for the years ended December 31, 2021 and 2020 was \$11,302 and \$75,806, respectively.

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.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The purpose of the new standard is to increase the transparency and comparability in financial reporting by requiring lessees to report an asset and a corresponding liability on the statement of financial position for most leases. Lessor accounting for leases was substantially unchanged. The ASU's requirements are broadly applicable, will be effective for years beginning after December 15, 2021, and will require a modified retrospective application approach for existing leases whereby the effects of implementing the new standard will be applied to the earliest period presented. Management is currently evaluating how the new requirements will affect the Organization's financial statements.

Subsequent Events

The management of the Organization evaluated subsequent events through September 21, 2022, the date the statements were available to be issued.

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 \$309,293 of an uninsured balance at December 31, 2021.

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 647,663	\$ 616,619
Grants and contributions receivable	<u>110,841</u>	<u>259,787</u>
Total Financial Assets	758,504	876,406
Less financial assets not available for general expenditure		
Net assets with donor restrictions	<u>858,602</u>	<u> </u>
	\$ <u>(100,098)</u>	\$ <u>876,406</u>

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

As part of our liquidity management plan, the Organization invests 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>2021</u>	<u>2020</u>
Equipment	\$ 19,630	\$ 19,630
Less accumulated depreciation	<u>12,106</u>	<u>8,180</u>
	\$ <u>7,524</u>	\$ <u>11,450</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Loan payable to the Small Business Administration, original balance of \$150,000. Payable over 30 years ending May 22, 2050. Monthly payments of \$641, commencing twenty-four months from the date of loan funding, incurring interest at 2.75% per annum. Secured by equipment, chattel paper and receivables.	\$ 149,900	\$ 149,900
Less portion due within one year classified as a current liability	<u> </u>	<u>(2,038)</u>
	\$ <u>149,900</u>	\$ <u>147,862</u>

The aggregate annual maturities on long-term debt are as follows:

2023	\$ 1,133
2024	3,644
2025	3,745
2026	3,850
Thereafter	<u>137,528</u>
Total	\$ <u>149,900</u>

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6 - NET ASSETS

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

	<u>2021</u>	<u>2020</u>
Programs	\$ <u>858,602</u>	\$ <u> </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>2021</u>	<u>2020</u>
Grants receivable		\$ 10,557
Pledges receivable	<u> </u>	<u>200,000</u>
	\$ <u> </u>	\$ <u>210,557</u>

NOTE 7 - 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 8 - 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, 2021 and 2020

NOTE 9 - 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, 2021 and 2020 were \$12,676 and \$13,434, respectively.

NOTE 10 - 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, 2020, monthly rent increased from \$1,502 to \$1,594. The monthly rent will be increased to \$1,664 in July 2022.

In September 2021, the Organization entered into an operating lease agreement for an office space. This is a 3 year lease agreement, with monthly rent payments of \$3,560 and scheduled annual rent increases. The expected minimum payments for the next three years are as follows:

2022	\$ 43,292
2023	45,028
2024	<u>30,808</u>
	\$ <u>119,128</u>

Total rental expense for the years ended December 31, 2021 and 2020 was \$32,992 and \$18,024, respectively. These amounts are included in occupancy and utilities and support to others on the statement of functional expenses.

NOTE 11 - RISKS, UNCERTAINTIES AND COMMITMENTS

As of December 31, 2021, the world was in the midst of the COVID-19 pandemic. Significant uncertainty remains regarding the wide ranging effects of the pandemic subsequent to year-end. 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 issuance of these financial statements, the full impact of the pandemic 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 balance of the loan was forgiven in May, 2021 and is recorded in grant revenues in on the statement of activities for the year ended December 31, 2020.

LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 11 - RISKS, UNCERTAINTIES AND COMMITMENTS (Continued)

In April 2021, the Organization received loan proceeds in the amount of \$154,425, under the Paycheck Protection Program. The loan was forgiven in full in 2021 and is recorded in grant revenue on the statement of activities for the year ended December 31, 2021.

NOTE 12 - SUBSEQUENT EVENTS

In January, 2022, the Organization obtained additional funds from the small business administration, by amending the outstanding loan. The principal outstanding is now \$500,000 with monthly payments of \$2,179 expected to begin on January 18, 2022. This loan carries a stated interest rate of 2.75% and is due in May 2050.

SUPPLEMENTARY INFORMATION

LEADERSHIP FOUNDATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

<u>Agency</u>	<u>Program Title</u>	<u>ALN</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>820,468</u>	\$ <u>1,178,124</u>
TOTAL FEDERAL AWARDS				\$ <u>820,468</u>	\$ <u>1,178,124</u>

LEADERSHIP FOUNDATIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

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, 2021. 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, 2021

NOTE 3 - SUBAWARDS

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

Bethany Christian Services of Michigan Youth Services Department	\$ 27,778
Billings LF	80,210
Champions in Service	17,074
Charleston LF Be A Mentor	36,327
Communities In Schools of Cape Fear	56,092
Dallas LF	51,375
First Coast LF	11,473
Fresno LF	73,011
Indian Ministries of North America, Inc.	19,298
Jackson LF	11,399
Justice Journey Alliance	13,454
Knoxville LF	48,199
Lane LF	23,281
Lexington LF	35,401
Memphis LF	104,292
Metro Atlanta LF	38,233
Miami Valley LF	37,798
New Vision	17,245
Next Chapter Ministries	9,420
Philadelphia LF	32,066
Pittsburgh LF	12,600
Portland LF	(10,153)
SSLF MOLE	17,114
The Root Cellar	34,006
Urban Ventures	23,475
TOTAL SUBAWARDS	\$ <u>820,468</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 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, 2021, 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 21, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs as item 2021-001, which we consider to be a significant deficiency.

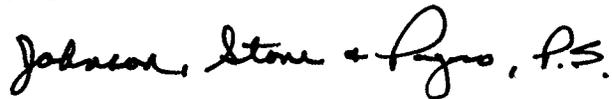
Board of Directors
Leadership Foundations

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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



JOHNSON, STONE & PAGANO, P.S.

September 21, 2022



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 the Major Federal Program

Opinion on the Major Federal Program

We have audited Leadership Foundations' (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"); 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

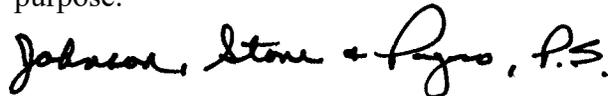
Board of Directors
Leadership Foundations

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 21, 2022

LEADERSHIP FOUNDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2021

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?	Yes
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?	None reported
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)?	No

Identification of major programs

<u>ALN</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 (Continued)

Year Ended December 31, 2021

Section II - Financial Statement Findings

2021-001 Account Reconciliations and Cutoff

Criteria

All accounts should be reconciled monthly to detail supporting ledgers.

Condition

Several accounts not related to federal funding were not reconciled at year-end to detail support and resulted in improper cutoff for transactions. The accounts receivable and bank reconciliation issues together resulted in three versions of the trial balance.

Context

Several accounts were not reconciled by year-end resulting in an adjustment to correct accounts receivable and accounts payable. The initial December bank reconciliation for the operating account was significantly less than the trial balance.

Cause

Year-end closing reconciliations were incomplete.

Effect

Accounts receivable was initially misstated, requiring correction to increase the account and revenue. Accounts payable included expenses that related to the next fiscal year and the amounts were removed. The bank reconciliation for December was updated, and as a result, all the bank reconciliations for 2021 were updated. The last version of the trial balance was received on the last day of the audit.

Auditor's Recommendations

We recommend that procedures are implemented and followed to reconcile all statement of financial position accounts to detail supporting ledgers monthly. We also recommend providing additional resources to assist with the monthly reconciliations.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

LEADERSHIP FOUNDATIONS

CORRECTIVE ACTION PLAN

Year Ended December 31, 2021

LEADERSHIP FOUNDATIONS

CORRECTIVE ACTION PLAN

September 21, 2022

Corrective action plan in response to:
Schedule of Findings and Questioned Costs
Year Ended December 31, 2021



Section II – Financial Statement Findings

2021-001 Account Reconciliations and Cutoff

Finding

Several accounts not related to federal funding were not reconciled at year-end to detail support and resulted in improper cutoff for transactions.

Auditor's Recommendations

Leadership Foundations should implement and follow procedures to reconcile all statement of financial position accounts to detail supporting ledgers monthly. It is also recommended that Leadership Foundations provide additional resources to assist with the monthly reconciliations.

Actions Taken

Upon receiving the finding, Leadership Foundations immediately implemented month-end procedures to reconcile accounts on the statement of financial position to their supporting detail ledgers. These procedures have been documented in their Accounting Policies and Procedures manual.

Staff Member Responsible for Correction Action Plan: Christa Mooi, Finance Director

Corrective Action Plan actions implemented and effective September 21, 2022.

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