

**LEADERSHIP FOUNDATIONS**

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

December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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").

#### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the Organization has adopted the provisions of the Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022 using the modified retrospective approach. Our opinion is not modified with respect to the matter.

#### ***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***

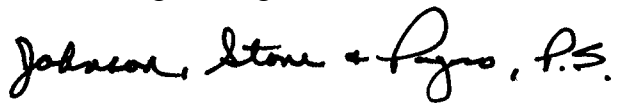
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2022, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and the accompanying schedule of expenditures of state financial assistance for the year ended December 31, 2022, are presented for purposes of additional analysis and are not a required

***Supplementary Information (Continued)***

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 26, 2023 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 26, 2023

AUDITED FINANCIAL STATEMENTS

## LEADERSHIP FOUNDATIONS

### STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 511,098	\$ 647,663
Grants and contributions receivable	81,256	110,841
Prepaid expenses	<u>33,623</u>	<u>6,850</u>
<b>Total Current Assets</b>	625,977	765,354
<b>EQUIPMENT, net</b>	<u>3,599</u>	<u>7,524</u>
<b>OTHER ASSETS</b>		
Operating right-of-use asset, net	<u>76,470</u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 706,046</u>	<u>\$ 772,878</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 51,029	\$ 93,031
Accrued expenses	11,552	6,688
Deferred revenue	20,000	
Current portion of operating lease liability	43,806	
Current portion of long-term debt	<u>6,414</u>	<u>          </u>
<b>Total Current Liabilities</b>	132,801	99,719
<b>OPERATING LEASE LIABILITY, less current portion</b>	34,395	
<b>LONG-TERM DEBT</b>	<u>493,586</u>	<u>149,900</u>
<b>Total Liabilities</b>	660,782	249,619
<b>NET ASSETS (DEFICIT)</b>		
Without donor restrictions	(579,884)	(335,343)
With donor restrictions	<u>625,148</u>	<u>858,602</u>
<b>Total Net Assets</b>	<u>45,264</u>	<u>523,259</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 706,046</u>	<u>\$ 772,878</u>

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

## LEADERSHIP FOUNDATIONS

### STATEMENTS OF ACTIVITIES

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>REVENUES</b>		
Contributions	\$ 539,255	\$ 622,963
Grants	1,433,845	1,396,377
Dues	78,510	76,104
Interest	37	6
Net assets released from restrictions	<u>598,265</u>	
<b>Total Revenues</b>	2,649,912	2,095,450
<b>EXPENSES</b>		
Program services	2,397,977	2,380,571
Management and general services	266,682	403,521
Fundraising and development	<u>229,794</u>	<u>274,140</u>
<b>Total Expenses</b>	<u>2,894,453</u>	<u>3,058,232</u>
<b>Decrease in Net Assets without Donor Restrictions</b>	(244,541)	(962,782)
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	364,811	858,602
Net assets released from restrictions	<u>(598,265)</u>	
<b>Increase (Decrease) in Net Assets with Donor Restrictions</b>	<u>(233,454)</u>	<u>858,602</u>
<b>DECREASE IN NET ASSETS</b>	(477,995)	(104,180)
<b>Net Assets at Beginning of Year</b>	<u>523,259</u>	<u>627,439</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 45,264</u>	<u>\$ 523,259</u>

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



## LEADERSHIP FOUNDATIONS

### STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	<u>Program Services</u>	<u>Management and General Services</u>	<u>Fundraising and Development</u>	<u>Total</u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries and wages	\$ 569,579	\$ 101,273	\$ 177,187	\$ 848,039
Payroll taxes	26,279	5,423	14,027	45,729
Fringe benefits	<u>52,411</u>	<u>14,693</u>	<u>5,946</u>	<u>73,050</u>
<b>Total Compensation and Related Expenses</b>	648,269	121,389	197,160	966,818
Advertising and outreach		3,096	14,982	18,078
Bank service fees		9,770		9,770
Computers and technology	6,067	310	558	6,935
Professional fees	377,465	24,830	4,196	406,491
Insurance	1,411	4,234		5,645
Occupancy and utilities	9,364	28,093		37,457
Other expenses	184	9,384		9,568
Supplies	2,958	10,716		13,674
Support to others	1,299,383			1,299,383
Bad debt		23,377		23,377
Interest expense		9,223		9,223
Travel and transportation	<u>52,876</u>	<u>18,335</u>	<u>12,898</u>	<u>84,109</u>
<b>Total Expenses Before Depreciation</b>	2,397,977	262,757	229,794	2,890,528
Depreciation	<u>          </u>	<u>3,925</u>	<u>          </u>	<u>3,925</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 2,397,977</u>	<u>\$ 266,682</u>	<u>\$ 229,794</u>	<u>\$ 2,894,453</u>

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

## LEADERSHIP FOUNDATIONS

### STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended December 31, 2021

	<u>Program Services</u>	<u>Management and General Services</u>	<u>Fundraising and Development</u>	<u>Total</u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
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>
<b>Total Compensation and Related Expenses</b>	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>
<b>Total Expenses Before Depreciation</b>	2,380,571	399,595	274,140	3,054,306
Depreciation	<u>          </u>	<u>3,926</u>	<u>          </u>	<u>3,926</u>
<b>TOTAL OPERATING EXPENSES</b>	<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 CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (477,995)	\$ (104,180)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Amortization of operating right-of-use asset	42,592	
Depreciation expense	3,925	3,926
Bad debt	23,377	181,859
Changes in assets and liabilities		
(Increase) decrease in grants and accounts receivable	6,208	(32,913)
Increase in prepaid expenses	(26,773)	(5,767)
Decrease in accounts payable	(42,002)	(18,569)
Increase in accrued expenses	4,864	6,688
Increase in deferred revenue	20,000	
Decrease in operating lease liability	<u>(40,861)</u>	
<b>Net Cash Provided (Used) by Operating Activities</b>	(486,665)	31,044
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	<u>350,100</u>	
<b>Net Cash Provided by Financing Activities</b>	<u>350,100</u>	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(136,565)	31,044
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>647,663</u>	<u>616,619</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 511,098</u>	<u>\$ 647,663</u>

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

## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

#### **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 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 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 \$23,377 and \$181,859 were deemed to be uncollectible and written off for the years ended December 31, 2022 and 2021, respectively.

## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

#### **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, 2022 and 2021, respectively.

##### ***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, 2022 and 2021 was \$18,078 and \$11,302, 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.

## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

##### *Adoption of Accounting Standard Codification Topic 842*

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance Accounting Standards Codification ("ASC") 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective January 1, 2022 and recognized and measured leases existing at or entered into after January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost, and finance lease costs are recognized in two components, interest expense and amortization expense; the Organization exclusively has operating leases.

The Organization elected the available practical expedients to account for their existing operating leases as operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The Organization leases office space and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, operating lease liabilities on the statement of financial position. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The ROU assets and liabilities may include the option to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

##### *Adoption of Accounting Standard Codification Topic 842 (Continued)*

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022, the beginning of the adoption period, an operating lease liability of \$119,495 and right of use asset of \$119,062. The adoption of the new standard did not materially impact the Organization's statements of operations or statements of cash flows.

##### *Subsequent Events*

The management of the Organization evaluated subsequent events through September 26, 2023, 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 \$91,611 of an uninsured balance at December 31, 2022.

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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 511,098	\$ 647,663
Grants and contributions receivable	<u>81,256</u>	<u>110,841</u>
Total Financial Assets	592,354	758,504
Less financial assets not available for general expenditure		
Net assets with donor restrictions	<u>625,148</u>	<u>858,602</u>
	\$ <u>(32,794)</u>	\$ <u>(100,098)</u>

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.

## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

#### NOTE 4 - EQUIPMENT

Equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 19,630	\$ 19,630
Less accumulated depreciation	<u>16,031</u>	<u>12,106</u>
	\$ <u>3,599</u>	\$ <u>7,524</u>

#### NOTE 5 - LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</u>
Loan payable to the Small Business Administration, original balance of \$149,900. Modified January 2022 to \$500,000. Now, payable over 30 years ending May 22, 2050. Monthly payments of \$2,179, commencing 30 months from the date of loan funding, incurring interest at 2.75% per annum. Secured by equipment, chattel paper and receivables.	\$ 500,000	\$ 149,900
Less portion due within one year classified as a current liability	<u>6,414</u>	<u>        </u>
	\$ <u>493,486</u>	\$ <u>149,900</u>

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

2023	\$ 6,414
2024	12,425
2025	12,810
2026	13,167
2027	13,534
Thereafter	<u>441,650</u>
Total	\$ <u>500,000</u>



## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

#### NOTE 6 - NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Programs	\$ 545,148	\$ 858,602
Pledges receivable	<u>80,000</u>	<u>          </u>
	<u>\$ 625,148</u>	<u>\$ 858,602</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>2022</u>	<u>2021</u>
Programs	\$ <u>598,265</u>	\$ <u>          </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, 2022 and 2021

#### 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, 2022 and 2021 were \$11,489 and \$12,676, respectively.

#### NOTE 10 - LEASES

The Organization leases office space under a long-term, non-cancelable operating lease agreement. The lease expires in 2024. The Organization included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Organization's applicable borrowing rates and the contractual lease term.

Total lease costs for the year ended December 31, 2022 were as follows:

Operating lease cost	\$ 43,149
----------------------	-----------

Total lease expense under noncancelable leases was \$10,680 for the year December 31, 2021.

The following summarizes the supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating lease	\$ <u>40,861</u>
Right-of-use assets obtained in exchange for lease liabilities	
Operating leases	\$ <u>119,062</u>

Accumulated amortization associated with right-of-use assets totaled \$45,592 at December 31, 2022.

## LEADERSHIP FOUNDATIONS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

#### NOTE 10 - LEASES (Continued)

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

Weighted-average remaining lease term.	
Operating lease	1.75 years
Weighted average discount rate.	
Operating lease	2.75%

The future minimum lease payments under noncancelable operating lease with terms greater than one year are listed below as of December 31:

	2022
	<u>Operating</u>
2023	\$ 44,880
2024	<u>34,659</u>
Total Lease Payments	79,539
Less interest	<u>(1,338)</u>
Present Value of Lease Liabilities	\$ <u>78,201</u>

The Organization leases other office space on a month-to-month basis. This lease does not qualify under ASC Topic 842. Expense under this lease was \$19,578 and \$18,786 for the years ended December 31, 2022 and 2021, respectively.

SUPPLEMENTARY INFORMATION

**LEADERSHIP FOUNDATIONS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2022

<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>927,926</u>	\$ <u>1,362,391</u>
<b>TOTAL FEDERAL AWARDS</b>				\$ <u>927,926</u>	\$ <u>1,362,391</u>

## **LEADERSHIP FOUNDATIONS**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2022

#### **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, 2022. 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, 2022

#### NOTE 3 - SUBAWARDS

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

Billings LF	\$ 32,336
Champions in Service	(7,560)
Charleston LF Be A Mentor	37,834
Communities In Schools of Cape Fear	91,748
Dallas LF	49,386
First Coast LF	649
Fresno LF	41,523
Jackson LF	23,599
Justice Journey Alliance	10,417
Knoxville LF	56,215
Lane LF	20,875
Lexington LF	1,000
Memphis LF	194,061
Metro Atlanta LF	117,891
Miami Valley LF	70,081
Next Chapter Ministries	15,145
New Vision	1,000
Philadelphia LF	22,696
Pittsburgh LF	18,883
SSLF Mole	24,613
The Root Cellar	91,424
Urban Ventures	<u>14,110</u>
<b>TOTAL SUBAWARDS</b>	<b>\$ <u>927,926</u></b>

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, 2022, 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 26, 2023.

***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. However, material weaknesses may exist that have not been identified.

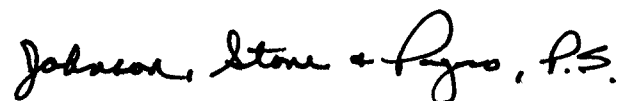
Board of Directors  
Leadership Foundations

***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 26, 2023



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, 2022. 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, 2022.

***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.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* require the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

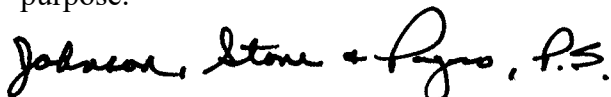
Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant 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, as discussed below, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a significant deficiency.

*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. We considered the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001.

***Report on Internal Control Over Compliance***

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. *Government Auditing Standards* require the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance; 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 26, 2023

## LEADERSHIP FOUNDATIONS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

#### 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>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, 2022

#### Section II - Financial Statement Findings

No matters were reported.

#### Section III - Federal Award Findings and Questioned Costs

##### 2022-001 Award Expenditures and Cutoff

###### *Criteria*

Purchases and commitments to purchase during the grant period should be for expenses for the grant period.

###### *Condition*

Purchases at the end of the grant period were for items not obtained or utilized by the organization until after the grant period.

###### *Context*

Software was ordered September 29<sup>th</sup>, 2022, the last day of the grant period. The software continuation license, support and one year benefit of use for the Organization did not commence until November 1, 2022.

###### *Cause*

The organization interpreted a decision to make a prepaid purchase for an asset to be used after the grant period to be acceptable use of funds.

###### *Effect*

The grant expenditures were overstated by \$36,400. The grant was improperly billed for the purchase and reimbursed. A payable to the grantor was not recorded, and grant revenue was overstated by the improperly billed and reimbursed amount. The prepaid asset was not recognized.

###### *Auditor's Recommendations*

We recommend that the organization utilize grant funding for expenditures in accordance with the requirements of the grant, keeping in mind accrual-based accounting standards for expenses related to the grant period.

#### Section IV - Prior Year Audit Findings

##### 2022-001 Account Reconciliations and Cutoff

Several accounts not related to federal funding were not reconciled at year-end to the 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. This finding was corrected during 2022.

# LEADERSHIP FOUNDATIONS

## CORRECTIVE ACTION PLAN

Year Ended December 31, 2022



### LEADERSHIP FOUNDATIONS

#### CORRECTIVE ACTION PLAN

September 26, 2023

#### **Corrective action plan in response to:**

Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

#### **Section III – Federal Award Findings and Questioned Costs**

##### **2022-001 - Award Expenditures and Cutoff**

#### ***Finding***

Purchases at the end of the grant period were for items not obtained or utilized by the organization until after the grant period. Software was ordered September 29, 2022, the day before the last day of the grant period. The software continuation license, support and one year benefit of use for the Organization did not commence until November 1, 2022.

#### ***Auditor's Recommendations***

We recommend that the organization utilize grant funding for expenditures in accordance with the requirements of the grant, keeping in mind accrual-based accounting standards for expenses related to the grant period.

#### ***Corrective Action Plan***

Upon receiving the finding, Leadership Foundations will adhere to accrual-based accounting standards and the proper timing of expenses according to the grant period. To maintain compliance with the DOJ guidelines, both the obligation of funds for services outside of the grant and the date of funds expended outside of grant period will be taken into consideration. Further follow-up will be taken for clarification to determine whether the services were performed prior to the end of the performance period versus meeting the allowance to expense in the liquidation period.

***Staff Member Responsible for Correction Action Plan:*** Larry Lloyd, President

***Corrective Action Plan actions implemented and effective September 26, 2022***