LEADERSHIP FOUNDATIONS

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

December 31, 2018 and 2017
LEADERSHIP FOUNDATIONS

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

December 31, 2018 and 2017

INDEPENDENT AUDITOR'S REPORT ......................................................... 1-2

AUDITED FINANCIAL STATEMENTS

Statements of Financial Position ......................................................... 3
Statements of Activities ................................................................. 4
Statements of Functional Expenses ................................................. 5-6
Statements of Cash Flows ............................................................... 7
Notes to Financial Statements ......................................................... 8-12

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards ...................................... 13
Notes to Schedule of Expenditures of Federal Awards ......................... 14-15

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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 ....................... 16-17

Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control over
Compliance Required by the Uniform Guidance ............................... 18-19

Schedule of Findings and Questioned Costs and Prior Year
Audit Findings ........................................................................... 20-22

Corrective Action Plan .................................................................. 23-24
Independent Auditor's Report

Board of Directors
Leadership Foundations
Tacoma, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Leadership Foundations (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leadership Foundations as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, Not-for-profit Entities - Presentation of Financial Statements for Not-for-profit Entities, as of and for the years ended December 31, 2018 and 2017. Our opinion is not modified with respect to this matter.

Other Information
Our audit was 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, 2018, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2019, on our consideration of Leadership Foundations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Leadership Foundations' internal control over financial reporting and compliance.

JOHNSON, STONE & PAGANO, P.S.

September 30, 2019
AUDITED FINANCIAL STATEMENTS
LEADERSHIP FOUNDATIONS

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CURRENT ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$63,456</td>
<td>$114,467</td>
</tr>
<tr>
<td>Grants and contributions receivable</td>
<td>$856,088</td>
<td>$536,901</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$919,544</td>
<td>$651,368</td>
</tr>
<tr>
<td>EQUIPMENT, net</td>
<td>$19,302</td>
<td>$187</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$938,846</td>
<td>$651,555</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND NET ASSETS** |          |          |
| CURRENT LIABILITIES        |          |          |
| Accounts payable            | $177,922 | $132,340 |
| Accrued payroll             | 23,855   | 131,560  |
| Accrued expenses            | 1,473    | 391      |
| Total Current Liabilities   | 203,250  | 264,291  |
| **NET ASSETS**              |          |          |
| Without donor restrictions (deficit) | (117,069) | (167,178) |
| With donor restrictions     | 852,665  | 554,442  |
| Total Net Assets            | 735,596  | 387,264  |
| **TOTAL LIABILITIES AND NET ASSETS** | $938,846 | $651,555 |

The accompanying notes are an integral part of these financial statements.
LEADERSHIP FOUNDATIONS
STATEMENTS OF ACTIVITIES

Years Ended December 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$1,105,219</td>
<td>$765,340</td>
</tr>
<tr>
<td>Grants</td>
<td>1,477,826</td>
<td>956,604</td>
</tr>
<tr>
<td>Dues</td>
<td>59,850</td>
<td>61,225</td>
</tr>
<tr>
<td>Interest</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Gain on sale of securities</td>
<td>4,232</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>554,442</td>
<td>17,180</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>3,201,576</td>
<td>1,800,351</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program expenses</td>
<td>2,693,051</td>
<td>1,787,379</td>
</tr>
<tr>
<td>Management and general expenses</td>
<td>115,448</td>
<td>208,841</td>
</tr>
<tr>
<td>Fundraising and development expenses</td>
<td>342,968</td>
<td>332,144</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>3,151,467</td>
<td>2,328,364</td>
</tr>
<tr>
<td><strong>Increase (Decrease) in Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without Donor Restrictions</td>
<td>50,109</td>
<td>(528,013)</td>
</tr>
<tr>
<td><strong>NET ASSETS WITH DONOR RESTRICTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>852,665</td>
<td>558,231</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(554,442)</td>
<td>(17,180)</td>
</tr>
<tr>
<td><strong>Increase in Net Assets with Donor Restrictions</strong></td>
<td>298,223</td>
<td>541,051</td>
</tr>
<tr>
<td><strong>INCREASE IN NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Assets at Beginning of Year</td>
<td>348,332</td>
<td>13,038</td>
</tr>
<tr>
<td><strong>NET ASSETS AT END OF YEAR</strong></td>
<td>$735,596</td>
<td>$387,264</td>
</tr>
</tbody>
</table>

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

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

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

**TOTAL OPERATING EXPENSES**

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General Services</th>
<th>Fundraising Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 2,693,051</td>
<td>$ 115,448</td>
<td>$ 342,968</td>
<td>$ 3,151,467</td>
<td></td>
</tr>
</tbody>
</table>
LEADERSHIP FOUNDATIONS

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended December 31, 2017

<table>
<thead>
<tr>
<th>Compensation and Related Expenses</th>
<th>Program Services</th>
<th>Management and General Services</th>
<th>Fundraising Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$387,906</td>
<td>$68,800</td>
<td>$167,364</td>
<td>$624,070</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>21,684</td>
<td>10,677</td>
<td>16,740</td>
<td>49,101</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>55,272</td>
<td>27,695</td>
<td>22,967</td>
<td>105,934</td>
</tr>
<tr>
<td><strong>Total Compensation and Related Expenses</strong></td>
<td>464,862</td>
<td>107,172</td>
<td>207,071</td>
<td>779,105</td>
</tr>
<tr>
<td>Advertising and outreach</td>
<td></td>
<td>6,836</td>
<td></td>
<td>6,836</td>
</tr>
<tr>
<td>Bank service fees</td>
<td></td>
<td>6,206</td>
<td></td>
<td>6,206</td>
</tr>
<tr>
<td>Computers and technology</td>
<td>1,921</td>
<td></td>
<td></td>
<td>1,921</td>
</tr>
<tr>
<td>Professional fees</td>
<td>244,767</td>
<td>21,300</td>
<td>95,751</td>
<td>361,818</td>
</tr>
<tr>
<td>Insurance</td>
<td>808</td>
<td>2,424</td>
<td></td>
<td>3,232</td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td>97</td>
<td></td>
<td>97</td>
</tr>
<tr>
<td>Occupancy and utilities</td>
<td>5,891</td>
<td>17,673</td>
<td></td>
<td>23,564</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td>11,570</td>
<td>7,876</td>
<td>19,446</td>
</tr>
<tr>
<td>Supplies</td>
<td>3,535</td>
<td>10,603</td>
<td></td>
<td>14,138</td>
</tr>
<tr>
<td>Support to others</td>
<td>944,865</td>
<td></td>
<td></td>
<td>944,865</td>
</tr>
<tr>
<td>Travel and transportation</td>
<td>120,730</td>
<td>31,232</td>
<td>14,610</td>
<td>166,572</td>
</tr>
<tr>
<td><strong>Total Expenses Before Depreciation</strong></td>
<td>1,787,379</td>
<td>208,841</td>
<td>332,144</td>
<td>2,327,800</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>564</td>
<td></td>
<td>564</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>$1,787,379</td>
<td>$208,841</td>
<td>$332,144</td>
<td>$2,328,364</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
LEADERSHIP FOUNDATIONS
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in net assets</td>
<td>$ 348,332</td>
<td>$ 13,038</td>
</tr>
<tr>
<td>Adjustments to reconcile increase in net assets to net cash used by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donated securities</td>
<td>(74,882)</td>
<td></td>
</tr>
<tr>
<td>Gain on sale of securities</td>
<td>(4,232)</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>515</td>
<td>564</td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in grants and accounts receivable</td>
<td>(319,187)</td>
<td>(170,316)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>45,582</td>
<td>(15,762)</td>
</tr>
<tr>
<td>Increase (decrease) in accrued payroll</td>
<td>(107,705)</td>
<td>131,560</td>
</tr>
<tr>
<td>Increase (decrease) in accrued expenses</td>
<td>1,082</td>
<td>(3,777)</td>
</tr>
<tr>
<td><strong>Net Cash Used by Operating Activities</strong></td>
<td><strong>(110,495)</strong></td>
<td><strong>(44,693)</strong></td>
</tr>
</tbody>
</table>

CASH FLOWS FROM INVESTING ACTIVITIES

| Proceeds from sale of securities | 79,114     |            |
| Purchase of equipment            | (19,630)   |            |
| **Net Cash Provided by Investing Activities** | **59,484** |            |

NET DECREASE IN CASH AND CASH EQUIVALENTS

| Cash and Cash Equivalents at Beginning of Year | 114,467 | 159,160 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR       | $ 63,456 | $ 114,467 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Cash paid for interest | $ 97 |

The accompanying notes are an integral part of these financial statements.
NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leadership Foundations (the "Organization") is a national network of local faith-based organizations called Leadership Foundations 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.
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. The Organization received a noncash stock donation in the amount of $74,882 during the year ended December 31, 2018. There were no noncash contributions received during the year ended December 31, 2017.

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

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Reclassifications
 Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.
NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle
In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources and consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Subsequent Events
The management of the Organization evaluated subsequent events through September 30, 2019, 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 no uninsured balance at December 31, 2018.

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. The Organization also received a significant donation from a member of the leadership council during the year ended December 31, 2018. A significant reduction in the level of funding from either source 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:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$63,456</td>
<td>$114,467</td>
</tr>
<tr>
<td>Grants and contributions receivable</td>
<td>856,088</td>
<td>536,901</td>
</tr>
<tr>
<td>Total Financial Assets</td>
<td>919,544</td>
<td>651,368</td>
</tr>
<tr>
<td>Less financial assets not available for general expenditure</td>
<td>(852,665)</td>
<td>(554,442)</td>
</tr>
<tr>
<td>Net assets with donor restrictions</td>
<td>$66,879</td>
<td>$96,926</td>
</tr>
</tbody>
</table>
LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

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

NOTE 4 - EQUIPMENT

Equipment consisted of the following at December 31:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$19,630</td>
<td>$2,818</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>328</td>
<td>2,631</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19,302</strong></td>
<td><strong>187</strong></td>
</tr>
</tbody>
</table>

NOTE 5 - 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 6 - 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.

NOTE 7 - 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, 2018 and 2017, were $10,121 and $9,404, respectively.
LEADERSHIP FOUNDATIONS

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 8 - 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, 2018, monthly rent increased from $1,409 to $1,455.

Total rental expense for the years ending December 31, 2018 and 2017 was $17,184 and $13,500, respectively.

NOTE 9 - RELATED PARTY

Leadership Foundations received promises to give in the amount of $1,000,000 and $693,000 from a member of the leadership council for the years ended December 31, 2018 and 2017, respectively.
SUPPLEMENTARY INFORMATION
LEADERSHIP FOUNDATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

<table>
<thead>
<tr>
<th>Agency</th>
<th>Program Title</th>
<th>Federal CFDA Number</th>
<th>Pass-through Entity Identifying Number</th>
<th>Passed Through to Subrecipients</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Department of Justice</td>
<td>Juvenile Mentoring Program</td>
<td>16.726</td>
<td>$ 963,955</td>
<td>$ 1,388,456</td>
<td></td>
</tr>
<tr>
<td><strong>Total Federal Awards</strong></td>
<td></td>
<td></td>
<td></td>
<td>$ 963,955</td>
<td>$ 1,388,456</td>
</tr>
</tbody>
</table>
LEADERSHIP FOUNDATIONS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

NOTE A - 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, 2018. 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 B - 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, 2018

NOTE C - SUBAWARDS

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

- Central California LF $ 42,084
- Charleston LF 46,522
- Dallas LF 67,055
- Friendship House LF 67,868
- Indian Ministries of North America 29,603
- Knoxville LF 96,816
- Lane Leadership Foundation 8,069
- Lexington LF 96,720
- Louisville LF 5,347
- Memphis LF 82,876
- Metro Atlanta LF 47,661
- Miami Valley LF 28,988
- New Vision 40,258
- One by One LF 20,440
- Philadelphia LF 28,183
- Pittsburgh LF 34,951
- Portland LF 24,675
- Rock Valley LF 14,534
- Root Cellar 38,665
- Stockton LF 70,150
- Urban Ventures 17,057
- Wilmington LF 55,433

Total Subawards $ 963,955
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Leadership Foundations
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Leadership Foundations (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2018, 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 30, 2019.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, which we consider to be significant deficiencies.
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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Leadership Foundations' Response to Findings
The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

JOHNSON, STONE & PAGANO, P.S.

September 30, 2019
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Leadership Foundations
Tacoma, Washington

Report on Compliance for Each Major Federal Program

We have audited Leadership Foundations' (the "Organization") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2018. Leadership Foundations' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

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

Opinion on Each Major Federal Program
In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.
Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-002, that we consider to be a significant deficiency.

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

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

JOHNSON, STONE & PAGANO, P.S.

September 30, 2019
LEADERSHIP FOUNDATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2018

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? 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

<table>
<thead>
<tr>
<th>CFDA Number(s)</th>
<th>Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.726</td>
<td>Juvenile Mentoring Program</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as a low-risk auditee? No
LEADERSHIP FOUNDATIONS

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

Year Ended December 31, 2018

Section II - Financial Statement Findings

2018-001  Cut-off of Grants and Contributions Receivable

Criteria
Ensure grants and contributions receivable are recorded in the correct period.

Condition
Grants and contributions receivable were recorded in the wrong period.

Context
Cash receipts were recorded when received rather than when pledged.

Effect
Grants and contributions receivable were materially misstated. Material adjustments were made during the audit to correct balances of grants and contributions receivable.

Cause
Procedures were not followed to close out year-end account balances.

Auditor's Recommendations
We recommend that procedures be followed to reconcile and close out year-end account balances to ensure transaction are recorded in the correct period.
LEADERSHIP FOUNDATIONS

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

Year Ended December 31, 2018

Section III - Federal Award Findings and Questioned Costs

2018-002 Schedule of Federal Awards

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

Condition
The SEFA, as originally prepared, was materially understated.

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

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

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

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

Section IV - Prior Year Audit Findings

2017-001 Account Reconciliations and Supporting Documents

All accounts should be reconciled monthly to detail supporting ledgers and supporting documents should be retained. This finding was corrected during 2018.
LEADERSHIP FOUNDATIONS
CORRECTIVE ACTION PLAN
Year Ended December 31, 2018

September 30, 2019

CORRECTIVE ACTION PLAN

Corrective action plan in response to:
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Section II – Financial Statement Findings

2018-001  Cut-off of Grants and Contributions Receivable

Finding
Grants and contributions receivable were recorded in the wrong period. Cash receipts were recorded when
received rather than when pledged. Grants and contributions were materially misstated. Material
adjustments were made during the audit to correct balances of grants and contributions receivable.
Procedures were not followed to close out year-end account balances.

Auditor’s Recommendations
We recommend that the procedures be followed to reconcile and close out year-end account balances
to ensure transactions are recorded in the correct period.

Actions Taken
Leadership Foundations immediately remedied the finding upon receiving the finding. Leadership
Foundations immediately changed the method of posting receivables transactions to correctly match
the period of the expense incurred for accurate revenue recognition and matching. The procedure to
reconcile grants and contributions receivable was revised to include a secondary review at year end to
match the SEFA to the accounting records.

Section III – Federal Award Findings and Questioned Costs

2018-002  Schedule of Federal Awards

Finding
The SEFA, as originally prepared, was materially understated. The SEFA did not accurately reflect the
proper amount of federal expenditures and it was understated. The SEFA did not properly reflect the
amount of federal awards as required by the Uniform Guidance. The SEFA was completed using

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

Whole Leaders, Whole Cities, Better World
spreadsheets maintained by Leadership Foundations to track reimbursements rather than actual expenditures that were expensed in the general ledger.

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

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