

LEE Initiative, Inc.

Financial Statements

Years Ended December 31, 2022 and 2021

LEE Initiative, Inc.
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Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

To the Board of Directors
LEE Initiative, Inc.

Opinion

We have audited the accompanying financial statements of LEE Initiative, Inc ("Organization") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 Lee Initiative 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 Lee Initiative 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 accounting principles generally accepted in the United States of America, 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 Lee Initiative's ability to continue as a going concern for one year after the date that the financial statements are issued.

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Independent Auditor's Report (Continued)

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 GAAS 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 GAAS, 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 Lee Initiative'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lee Initiative'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.



Louisville, Kentucky
October 27, 2023

LEE Initiative, Inc.
Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 1,453,628	\$ 1,607,086
Accounts receivable	1,077	-
Total current assets	1,454,705	1,607,086
Property and equipment, net	61,409	75,280
Operating lease right-of-use asset	15,451	-
Total assets	<u>\$ 1,531,565</u>	<u>\$ 1,682,366</u>
Liabilities and net assets		
Accounts payable	\$ 382	\$ 4,524
Accrued expenses	6,269	127,329
Current portion of operating lease liability	5,232	-
Total current liabilities	11,883	131,853
Long-term operating lease liability	9,944	-
Total liabilities	21,827	131,853
Net assets		
Without donor restrictions	429,003	747,344
With donor restrictions	1,080,735	803,169
Total net assets	<u>1,509,738</u>	<u>1,550,513</u>
Total liabilities and net assets	<u>\$ 1,531,565</u>	<u>\$ 1,682,366</u>

See accompanying notes.

LEE Initiative, Inc.
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022			2021		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support						
Contributions and grants	\$ 687,701	\$ 2,123,952	\$ 2,811,653	\$ 1,423,188	\$ 2,664,029	\$ 4,087,217
Net assets released from restrictions	<u>1,846,386</u>	<u>(1,846,386)</u>	<u>-</u>	<u>1,861,000</u>	<u>(1,861,000)</u>	<u>-</u>
Total support	2,534,087	277,566	2,811,653	3,284,188	803,029	4,087,217
Expenses and losses						
Program services	2,232,497	-	2,232,497	2,566,780	-	2,566,780
Management and general	252,421	-	252,421	317,586	-	317,586
Fundraising	<u>367,510</u>	<u>-</u>	<u>367,510</u>	<u>364,685</u>	<u>-</u>	<u>364,685</u>
Total expenses	<u>2,852,428</u>	<u>-</u>	<u>2,852,428</u>	<u>3,249,051</u>	<u>-</u>	<u>3,249,051</u>
Changes in net assets	(318,341)	277,566	(40,775)	35,137	803,029	838,166
Net assets at beginning of year	<u>747,344</u>	<u>803,169</u>	<u>1,550,513</u>	<u>712,207</u>	<u>140</u>	<u>712,347</u>
Net assets at end of year	<u>\$ 429,003</u>	<u>\$ 1,080,735</u>	<u>\$ 1,509,738</u>	<u>\$ 747,344</u>	<u>\$ 803,169</u>	<u>\$ 1,550,513</u>

See accompanying notes.

LEE Initiative, Inc.
Statements of Functional Expenses
Year Ended December 31, 2022

	2022			
	<u>Program</u>	<u>General & administrative</u>	<u>Fundraising</u>	<u>Total</u>
Restaurant relief	\$ 2,079,674	\$ -	\$ -	\$ 2,079,674
Salaries and wages	130,249	132,523	169,854	432,626
Professional fees	-	38,643	-	38,643
Insurance	-	12,636	-	12,636
Office expenses	-	19,817	-	19,817
Miscellaneous	-	35,815	-	35,815
Travel	-	-	94,689	94,689
Contract labor	16,419	-	-	16,419
Postage and delivery	835	849	1,088	2,772
Taxes and licenses	-	1,279	-	1,279
Finance and service fees	-	5,446	-	5,446
Depreciation	5,320	5,413	6,938	17,671
Advertising and marketing	-	-	67,180	67,180
Fundraising events	-	-	27,761	27,761
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 2,232,497</u>	<u>\$ 252,421</u>	<u>\$ 367,510</u>	<u>\$ 2,852,428</u>

See accompanying notes.

LEE Initiative, Inc.
Statements of Functional Expenses
Year Ended December 31, 2021

2021

	<u>Program</u>	<u>General & administrative</u>	<u>Fundraising</u>	<u>Total</u>
Restaurant relief	\$ 2,413,207	\$ -	\$ -	\$ 2,413,207
Salaries and wages	109,162	176,828	156,406	442,396
Professional fees	-	38,923	-	38,923
Insurance	-	19,598	-	19,598
Office expenses	-	23,809	-	23,809
Miscellaneous	-	29,067	-	29,067
Travel	-	-	61,372	61,372
Contract labor	38,411	-	-	38,411
Postage and delivery	2,515	4,074	3,603	10,192
Taxes and licenses	-	2,172	-	2,172
Finance and service fees	-	17,471	-	17,471
Depreciation	3,485	5,644	4,992	14,121
Advertising and marketing	-	-	93,753	93,753
Fundraising events	-	-	44,559	44,559
	<u>-</u>	<u>-</u>	<u>44,559</u>	<u>44,559</u>
Total	<u>\$ 2,566,780</u>	<u>\$ 317,586</u>	<u>\$ 364,685</u>	<u>\$ 3,249,051</u>

See accompanying notes.

LEE Initiative, Inc.
Statements of Cash Flows
Year Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ (40,775)	\$ 838,166
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	17,670	14,121
Changes in		
Accounts receivable	(1,077)	-
Accounts payable	(4,142)	4,524
Accrued expenses	(121,060)	(738,851)
Operating lease right-of-use asset and lease liability	<u>(275)</u>	<u>-</u>
Net cash (used in) provided by operating activities	(149,659)	117,960
Cash Flows from investing activities		
Purchases of property and equipment	<u>(3,799)</u>	<u>(89,401)</u>
Net cash used in investing activities	(3,799)	(89,401)
(Decrease) increase in cash and cash equivalents	(153,458)	28,559
Cash and cash equivalents at beginning of year	<u>1,607,086</u>	<u>1,578,527</u>
Cash and cash equivalents at end of year	<u>\$ 1,453,628</u>	<u>\$ 1,607,086</u>

See accompanying notes.

LEE Initiative, Inc.
Notes to Financial Statements
Year Ended December 31, 2022 and 2021

Note A - Nature of Organization and Operations

LEE Initiative, Inc. (the "Organization") is a non-profit organization incorporated in 2018. The Organization finds creative and forward-thinking solutions wherever they identify a need for more diversity and more equality in the restaurant industry.

Note B - Summary of Significant Accounting Policies

1. **Basis of Presentation:** The financial statements for the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative accounting technical literature. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.
2. **Financial Statements:** Information regarding financial position and activities are reported into two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. These classes of net assets are based on the existence or absence of externally (donor) imposed restrictions on contributions defined as follows:
 - *Net Assets Without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
 - *Net Assets with Donor Restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization has no net assets that are maintained in perpetuity.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Organization reports gifts as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

3. **Accounting Estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
4. **Cash and Cash Equivalents:** The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Organization typically maintains balances in its bank accounts in excess of federally-insured limits.

LEE Initiative, Inc.
Notes to Financial Statements (Continued)
Year Ended December 31, 2022 and 2021

Note B - Summary of Significant Accounting Policies (Continued)

5. Leases: Effective January 1, 2022, the Organization adopted the cumulative accounting standard updates initially issued by the FASB in February 2016 that amend the accounting leases and are codified as ASC 842, *Leases* ("ASC 842"). ASC 842 requires the rights and obligations arising from lease contracts to be recognized as right-of-use assets and lease liabilities on the balance sheet. The Organization adopted ASC 842 using a modified retrospective approach, and, as such, prior year comparative financial statements have not been restated to reflect the adoption of ASC 842. The Organization elected the transition package of practical expedients available in ASC 842 whereby upon adoption, an entity need not reassess expired or existing contracts for whether the contracts are or contain leases, lease classification, or initial direct costs.

The Organization recorded an approximate \$20,900 right-of-use asset and lease liability on the balance sheet due to the adoption of ASC 842 for leases in effect at January 1, 2022. The adoption of ASC 842 did not have a material impact on the statements of operations or cash flows for leases in effect at January 1, 2022.

The Organization leases property under an operating lease. The Organization determines if an arrangement is a lease at inception. Right-of-use assets and lease liabilities are recognized for leases with terms greater than 12 months based on the net present value of the future minimum lease payments over the lease term at commencement date. When readily determinable, the Organization uses the interest rate implicit in the lease to determine the present value of future minimum lease payments. However, the Organization's leases does not have a readily determinable implicit interest rate. For these leases, the Organization's estimated incremental borrowing rate was used. The right-of-use asset and lease liability include a value for options to extend a lease if it is reasonably certain that the option will be exercised.

Operating lease liabilities and related right-of-use assets are included in current portion and non-current portion of operating lease liability and operating lease right-of-use assets on the balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term and is included in other services and supplies in the statement of operations.

6. Revenue Recognition: Contributions and grants are an important funding source for the Organization and are critical to the Organization's success in fulfilling its mission. The Organization recognizes income from unconditional contributions and pledges in the year made. The Organization recognizes income from grants in the year awarded.
7. In-Kind Contributions: The Organization receives donated goods and professional services from others. During the year ended December 31, 2022, the Organization received donated bottles of bourbon to sell and ground beef to donate to local restaurants. The donated goods are recorded at the fair value as of the date of the donation. In-kind contributions total \$68,564 for the year ended December 31, 2022.

During the year ended December 31, 2021, the Organization received two months of donated rent, pies for Christmas relief, and gift cards. The donated goods are recorded at the fair value as of the date of the donation. In-kind contributions totaled \$7,896 for the year ended December 31, 2021.

8. Income Taxes: The Organization has received a determination letter from the Internal Revenue Service indicating that it is exempt from income taxes under Section 501(c)(3) of Internal Revenue Code and is classified as an organization that is not a private foundation. Accordingly, no provision for income taxes is included in the financial statements. The Organization recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

LEE Initiative, Inc.
Notes to Financial Statements (Continued)
Year Ended December 31, 2022 and 2021

Note B - Summary of Significant Accounting Policies (Continued)

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

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 salaries and wages and postage and delivery, which are allocated on the basis of time and effort.

10. Recent Accounting Pronouncements: In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires contributed nonfinancial assets be shown separate from contributions of cash and other financial assets and provides for qualitative disclosure regarding valuation techniques, categories of contributed nonfinancial assets, and their use. The Organization adopted the standard in 2022 with no impact to the financial statements.
11. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued (Note F).

Note C - Liquidity and Availability

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Financial assets and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets	
Cash and cash equivalents	<u>\$ 1,453,628</u>
Financial assets, at year end	1,453,628
Less those unavailable for general expenditures within one year, due to donor-imposed restrictions	
Purpose donor restrictions	<u>1,080,735</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 372,893</u></u>

LEE Initiative, Inc.
Notes to Financial Statements (Continued)
Year Ended December 31, 2022 and 2021

Note D - Operating Lease

The Organization has an operating lease for office space. Operating lease expense totaled \$5,434 for the year ended December 31, 2022 and is included in miscellaneous expenses on the statement of functional expenses.

Other information related to the operating lease for the year ended December 31, 2022 is as follows:

Weighted-average remaining lease terms (in years):	
Operating leases	2.75
Weighted-average discount rate:	
Operating leases	6.00%

Commitments relating to the operating lease as of December 31, 2022, are as follows:

2023	\$	6,000
2024		6,000
2025		<u>4,500</u>
Total minimum future lease payments		16,500
Less: Present value discount		<u>(1,324)</u>
Long-term lease liabilities	\$	<u>15,176</u>

As of December 31, 2021, the Organization leased office space under an operating lease. Rent expense totaled \$6,000 for the year ended December 31, 2021 which was accounted for under ASC 840.

Note E - Concentrations

During the year ended December 31, 2022, contributions from two donors made up 57% of total contributions. During the year ended December 31, 2021, contributions from two donors made up 39% of total contributions.

Note F - Subsequent Event

In March 2023, M. Frances, Inc. was incorporated in the State of Kentucky to be organized and operated as a supporting organization for the benefit of, to perform the functions of, or to carry out the purposes of LEE Initiative, Inc. M. Frances, Inc. is controlled by the LEE Initiative, Inc. and will be consolidated into the LEE Initiative, Inc.'s financial statements during the year ended December 31, 2023.