



Denise Louie Education Center

Financial Statements and Reports and
Schedules in Accordance with *Government
Auditing Standards* and Required by the
Uniform Guidance
Years Ended October 31, 2019 and 2018

Denise Louie Education Center

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Government Auditing Standards and Required by the Uniform Guidance
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Denise Louie Education Center

Contents

Independent Auditor's Report	3-4
Financial Statements	
Statements of Financial Position	6
Statements of Activities	7
Statement of Functional Expenses - 2019	8
Statement of Functional Expenses - 2018	9
Statements of Cash Flows	10
Notes to Financial Statements	11-19
Supplemental Reports and Schedules in Accordance with <i>Government Auditing Standards</i> and Required by the Uniform Guidance	
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 <i>Government Auditing Standards</i>	21-22
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	23-24
Schedule of Expenditures of Federal Awards	25
Notes to Schedule of Expenditures of Federal Awards	26
Schedule of Findings and Questioned Costs	27



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Independent Auditor's Report

To the Board of Directors
Denise Louie Education Center
Seattle, Washington

We have audited the accompanying financial statements of Denise Louie Education Center (the "Center"), which comprise the statement of financial position as of October 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit 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 of America. 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 entity'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 entity'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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of October 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, as required by Title 2 U.S. Code of Federal Regulations (CFR) 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.

Prior-Period Financial Statements

The financial statements of the Center as of and for the year ended October 31, 2018, were audited by Peterson Sullivan LLP ("PS"), whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. PS expressed an unmodified opinion on those statements in their report dated May 29, 2019.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2020, on our consideration of the Center'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 Center'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 Center's internal control over financial reporting and compliance.

BDO USA, LLP
July 1, 2020

Financial Statements

Denise Louie Education Center

Statements of Financial Position

October 31,	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 472,528	\$ 793,763
Investments	86,016	105,465
Grants and contributions receivable	898,509	436,852
Tuition and other receivables	31,253	26,693
Prepaid expenses	109,949	75,476
Prepaid lease	102,564	-
Lease contribution receivable	358,974	-
Total Current Assets	2,059,793	1,438,249
Cash restricted for Building 9	-	154,938
Investments restricted for Building 9	-	250,334
Grants and contributions receivable, net of discount and current portion	503,436	163,033
Prepaid lease, net of current portion	1,888,889	-
Lease contribution receivable, net of current portion	6,611,111	-
Property and equipment, net	599,115	432,619
Other assets, net	-	3,140
Total Assets	\$ 11,662,344	\$ 2,442,313
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 167,906	\$ 164,203
Accrued wages, taxes, and vacation	379,862	260,788
Total Current Liabilities	547,768	424,991
Deferred rent	24,160	44,661
Total Liabilities	571,928	469,652
Net Assets		
Without donor restrictions	1,060,182	893,441
With donor restrictions	10,030,234	1,079,220
Total Net Assets	11,090,416	1,972,661
Total Liabilities and Net Assets	\$ 11,662,344	\$ 2,442,313

See accompanying notes to financial statements.

Denise Louie Education Center
Statements of Activities

<i>Years Ended October 31,</i>	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support						
Head Start funding	\$ 3,275,460	\$ -	\$ 3,275,460	\$ 3,099,387	\$ -	\$ 3,099,387
Other government grants	1,204,891	2,000,000	3,204,891	909,866	-	909,866
Contributions and grants	189,191	828,436	1,017,627	230,594	16,632	247,226
Fundraising events	174,719	-	174,719	188,292	-	188,292
Building 9 contributions	-	10,207	10,207	-	10,000	10,000
United Way contributions	204,484	-	204,484	199,401	15,000	214,401
In-kind contributions	151,729	7,000,000	7,151,729	125,518	-	125,518
Net assets released from restrictions	887,629	(887,629)	-	191,098	(191,098)	-
Total Support	6,088,103	8,951,014	15,039,117	4,944,156	(149,466)	4,794,690
Revenue						
Tuition and fees	205,037	-	205,037	181,828	-	181,828
Investment income	3,532	-	3,532	5,689	-	5,689
Other income	281	-	281	481	-	481
Total Revenue	208,850	-	208,850	187,998	-	187,998
Total Support and Revenue	6,296,953	8,951,014	15,247,967	5,132,154	(149,466)	4,982,688
Expenses						
Educational program services	5,300,431	-	5,300,431	4,482,474	-	4,482,474
Management and general	483,730	-	483,730	440,684	-	440,684
Fundraising	223,672	-	223,672	181,631	-	181,631
Total Expenses	6,007,833	-	6,007,833	5,104,789	-	5,104,789
Change in Net Assets Before						
Depreciation and Amortization	289,120	8,951,014	9,240,134	27,365	(149,466)	(122,101)
Depreciation and amortization	(122,379)	-	(122,379)	(120,177)	-	(120,177)
Change in Net Assets	166,741	8,951,014	9,117,755	(92,812)	(149,466)	(242,278)
Net Assets, beginning of year	893,441	1,079,220	1,972,661	986,253	1,228,686	2,214,939
Net Assets, end of year	\$ 1,060,182	\$ 10,030,234	\$ 11,090,416	\$ 893,441	\$ 1,079,220	\$ 1,972,661

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

<i>Year Ended October 31, 2019</i>	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	\$ 2,914,534	\$ 273,496	\$ 115,561	\$ 3,303,591
Employee benefits	543,274	47,863	12,911	604,048
Payroll taxes	304,816	26,830	11,581	343,227
Total Employee Expenses	3,762,624	348,189	140,053	4,250,866
Occupancy	418,737	28,064	1,666	448,467
Classroom supplies	201,925	-	-	201,925
Purchased food expense	163,067	1,875	828	165,770
Office supplies	131,913	14,219	2,670	148,802
Professional fees	93,762	32,390	16,419	142,571
Utilities	65,060	11,448	766	77,274
Travel	64,677	4,876	1,293	70,846
Internet and telephone	55,148	15,144	493	70,785
Professional development	63,628	3,721	171	67,520
In-kind goods and services	136,195	-	-	136,195
Fundraising	-	-	53,359	53,359
Repairs and maintenance	42,607	5,590	191	48,388
Dues and memberships	28,774	3,463	1,574	33,811
Insurance	21,956	7,056	308	29,320
Equipment rentals	25,185	2,718	334	28,237
Parent activities	19,312	253	1,824	21,389
Miscellaneous	5,861	4,724	1,723	12,308
Depreciation and amortization	75,951	46,428	-	122,379
Total Expenses	5,376,382	530,158	223,672	6,130,212
Less: Depreciation and amortization	(75,951)	(46,428)	-	(122,379)
Total Expenses Included in the Expense Section on the Statement of Activities	\$ 5,300,431	\$ 483,730	\$ 223,672	\$ 6,007,833

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

<i>Year Ended October 31, 2018</i>	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	\$ 2,471,174	\$ 262,696	\$ 93,566	\$ 2,827,436
Employee benefits	447,649	50,126	14,677	512,452
Payroll taxes	260,009	27,597	9,758	297,364
Total Employee Expenses	3,178,832	340,419	118,001	3,637,252
Occupancy	336,330	22,934	1,148	360,412
Classroom supplies	81,663	-	-	81,663
Purchased food expense	141,664	1,736	785	144,185
Office supplies	88,466	7,664	635	96,765
Professional fees	92,017	31,833	10,043	133,893
Utilities	63,937	12,692	415	77,044
Travel	64,138	1,620	774	66,532
Internet and telephone	52,086	99	497	52,682
Professional development	122,484	4,990	671	128,145
In-kind goods and services	124,933	585	-	125,518
Fundraising	-	-	46,451	46,451
Repairs and maintenance	26,405	3,100	47	29,552
Dues and memberships	25,528	3,820	1,510	30,858
Insurance	20,361	2,094	185	22,640
Equipment rentals	25,223	2,576	235	28,034
Parent activities	37,080	1,563	3	38,646
Miscellaneous	1,327	2,959	231	4,517
Depreciation and amortization	65,221	54,956	-	120,177
Total Expenses	4,547,695	495,640	181,631	5,224,966
Less: Depreciation and amortization	(65,221)	(54,956)	-	(120,177)
Total Expenses Included in the Expense Section on the Statement of Activities	\$ 4,482,474	\$ 440,684	\$ 181,631	\$ 5,104,789

See accompanying notes to financial statements.

Denise Louie Education Center

Statements of Cash Flows

<i>Years Ended October 31,</i>	2019	2018
Cash Flows from (for) Operating Activities		
Change in net assets	\$ 9,117,755	\$ (242,278)
Adjustments to reconcile change in net assets to net cash flows from (for) operating activities:		
Contribution of assets	(15,534)	-
Depreciation and amortization	122,379	120,177
Contributions restricted for capital campaign	(10,207)	(10,000)
Losses (gains) on investments	9,627	(1,438)
Changes in operating assets and liabilities:		
Grants and contributions receivable	(7,931,478)	149,498
Tuition and other receivables	(4,560)	106,012
Prepaid expenses	(34,473)	14,960
Prepaid lease	(1,991,453)	-
Accounts payable	(11,479)	74,580
Accrued wages, taxes, and vacation	119,074	6,542
Deferred rent	(20,501)	(19,596)
Net Cash Flows from (for) Operating Activities	(650,850)	198,457
Cash Flows from (for) Investing Activities		
Purchases of property and equipment	(255,019)	(144,810)
Purchase of investments	(100,000)	(250,000)
Sale of investments	360,156	-
Transfers to cash restricted for Building 9	154,938	(72,438)
Net Cash Flows from (for) Investing Activities	160,075	(467,248)
Cash Flows from Financing Activities		
Repayments on note	-	(85,000)
Proceeds from contributions restricted for capital campaign	169,540	495,000
Net Cash Flows from Financing Activities	169,540	410,000
Net Change in Cash and Cash Equivalents	(321,235)	141,209
Cash and Cash Equivalents, beginning of year	793,763	652,554
Cash and Cash Equivalents, end of year	\$ 472,528	\$ 793,763
Supplemental Cash Flow Information		
Noncash financing and investing activity:		
Purchase of leasehold improvements included in accounts payable	\$ 15,182	\$ 40,342

See accompanying notes to financial statements.

Denise Louie Education Center

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Organization

Founded in 1978, the Denise Louie Education Center (the “Center”) is a nonprofit organization that has grown to serve over 500 children (prenatal to five years old) and families with quality multi-cultural preschool service, comprehensive home visiting services, and play and learn groups. The Center has six locations in Seattle.

In November 2019, the Center was awarded \$2,500,000 by the City of Seattle as part of the overall development of the Yesler Terrace Project. This award is part of a larger project that the Center is embarking on to construct a facility that will serve around 80 children in six classrooms. The Center is working on the Yesler Terrace project in conjunction with the Seattle Chinatown International District Preservation and Development Authority and Capitol Hill Housing and will encompass additional services such as affordable housing and other community resources. This project is still in the development stage, with additional funding being secured, and the City of Seattle’s grant is contingent upon this funding being secured.

The Center is a Head Start/Early Head Start grantee operating a federally funded child and family development program. The program provides comprehensive services to ensure that infants and toddlers get off to a strong start and that preschool children are ready for kindergarten. Preschool services include part-day and full-day preschool that address social emotional development, language and literacy, science and math, approaches to learning, and cognitive and physical development. Preschool families receive periodic home visits and conferences, and children’s progress is documented through portfolios and teacher observations. Infants and toddlers receive weekly 90-minute home visits that cover all aspects of the child’s development. Families receive two group socializations per month with topics including health, attachment, nutrition, language development, and oral health. Pregnant women also receive weekly home visits and are connected with doulas through a partnership with Open Arms. All families receive health prevention, early intervention for children with special needs, and assistance to access community resources. Parents are included in leadership opportunities like the Policy Council and Board of Directors.

The majority of children and families served by the Center speak a language other than English. The Center provides a unique service to these children and their families by helping them develop English while retaining their native language. The Center assists families in successfully transitioning to life in the United States of America through referrals to community-based organizations and a partnership with Seattle Goodwill to offer on-site English as a Second Language classes. The following languages are spoken by the Center’s staff: American Sign Language, Amharic, Cantonese, French, Mandarin, Russian, Somali, Spanish, Taishanese, Uzbek, and Vietnamese. The Center also serves several teenage parents through partnerships with Southlake High School in Seattle and the Highline School District. Many of the Center’s staff are current or former Head Start/Early Head Start parents.

In addition to federal Head Start/Early Head Start funding, the Center also receives financial support from the United Way of King County, the State of Washington’s Working Connections Child Care program, parent co-payments, the federal Free and Reduced Lunch Program, City of Seattle Preschool Program and ECEAP Program, and foundations, corporations, and individuals. In addition, the Center relies on parent and community volunteers and other in-kind donations.

Denise Louie Education Center

Notes to Financial Statements

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 and disclosures. Accordingly, actual results could differ from the estimated amounts.

Financial Statement Presentation

The Center reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Contributions that are received are recorded depending on the existence and/or nature of any donor restrictions.

Net Assets without Donor Restrictions

Net assets without donor restrictions consist of the following:

<i>October 31,</i>	2019	2018
Unrestricted	\$ 461,067	\$ 460,822
Investment in fixed assets	599,115	432,619
	\$ 1,060,182	\$ 893,441

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met.

Net assets with donor restrictions consist of the following:

<i>October 31,</i>	2019	2018
Lease receivable	\$ 8,961,538	\$ -
Time-restricted contributions	708,696	106,513
Forgivable loan	240,000	240,000
Yesler Terrace	120,000	-
Building 9 Project	-	732,707
	\$ 10,030,234	\$ 1,079,220

The \$240,000 loan from the City of Seattle at October 31, 2019 and 2018, which the Center has treated as restricted grant income, is for the rehabilitation of the Beacon Hill site.

The loan is forgivable as long as 51% of the recipients of the Beacon Hill services are low- and moderate-income persons. The terms of this agreement expire in December 2020. If the terms of the loan are violated before the expiration date, the Center is liable for payment of the full amount of the loan, plus interest. The Center intends to use the facility for the intended purpose for the duration of the agreement.

Denise Louie Education Center

Notes to Financial Statements

Concentrations

At October 31, 2019 and 2018, 74% and 81%, respectively, of grants and contributions receivable were due from three and four organizations, respectively. During the years ended October 31, 2019 and 2018, two organizations made up 59% and 67% of total support and revenue, respectively.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable market inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Cash and Cash Equivalents

Cash consists of cash held in checking and savings accounts. Cash equivalents consist of cash held in a money market account. The Center considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. At times, the Center has amounts deposited with financial institutions in excess of federally insured limits.

Investments

Investments consist of equity securities, a bond mutual fund, and certificates of deposit with original maturities of longer than 90 days. Equity securities and the bond mutual fund are stated at fair value using Level 1 observable market inputs based on quoted market prices in active markets. Certificates of deposit are stated at cost plus accrued interest.

Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Realized gains and losses on sales of investments are determined using the specific identification method.

Investments are composed of the following:

<i>October 31,</i>		2019		2018
Mutual fund - ultra-short bond	\$	83,028	\$	250,334
Equity securities		2,988		2,258
Certificates of deposit		-		103,207
	\$	86,016	\$	355,799

Denise Louie Education Center

Notes to Financial Statements

Investments are reported in the statements of financial position as follows:

<i>October 31,</i>		2019		2018
Investments	\$	86,016	\$	105,465
Investments restricted for Building 9		-		250,334
	\$	86,016	\$	355,799

The components of investment income were as follows:

<i>Years Ended October 31,</i>		2019		2018
Interest and dividends	\$	13,159	\$	4,251
Gains (losses) on investments		(9,627)		1,438
	\$	3,532	\$	5,689

Tuition and Other Receivables

Management reviews the collectibility of tuition and other receivables on a periodic basis and determines the amount estimated to be uncollectible. A reserve for doubtful accounts is then established. The Center charges off receivables against the allowance when management determines that a receivable is not collectible. The Center does not generally require collateral on any of its receivables.

No allowance for doubtful accounts was considered necessary at October 31, 2019 or 2018.

Grants and Contributions

Unconditional promises to give are recognized as revenue in the period promised as pledges receivable. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Long-term pledges are recognized at fair value when received and are measured at the present value of the estimated cash flows. In arriving at fair value, the promises to give are discounted using an estimated rate, which includes a present value discount rate and an estimated rate for an allowance for doubtful accounts. At October 31, 2019, the discount rate used was 2.25%. At October 31, 2018, no discount was recorded as management determined that the discount would be immaterial to these financial statements. Amortization of the discount is included in contributions and grants revenue in the statements of activities.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of receipt, if donated. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed by the straight-line method over the shorter of the lease terms or the asset's useful life. Assets with a value of over \$5,000 and an estimated useful life of at least one year are capitalized.

Denise Louie Education Center

Notes to Financial Statements

A significant amount of the Center's property was obtained with grant monies. The federal and state government funded property retains a reversionary interest to the grantors. Such assets may be reclaimed either at the end of the program or if the use of the property changes from the original intent. The grantor may also relinquish title to the Center. The Center does not intend to change the use of the properties acquired with such funds.

Deferred Rent

As discussed in Note 5, the Center's facilities lease has payments that gradually increase. Deferred rent represents the effect of recognizing lease payments equally over the lease term.

Tuition and Fees

Tuition and fees are recognized as revenue in the period the related services are provided. Tuition received in advance of the period to which it applies is deferred.

Cost Reimbursement Contracts

Revenues under cost reimbursement and/or advance payment type contracts (generally government funding) are recognized based on billings submitted for reimbursement and are subject to audit and retroactive adjustments by the funding agencies.

Fundraising Events

Revenues are recognized at the time of the event.

Advertising

Advertising costs are expensed as incurred.

In-Kind Goods and Services

Goods and services donated to the Center have been recorded in the statements of activities as in-kind support and expense at amounts that would have been paid for similar goods and services, if purchased. In kind goods and services consist primarily of donated meals, donated professional services, and rent.

Allocations of Functional 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. Costs are directly applied to the related program or supporting services when identified. Occupancy-related costs are allocated according to the approximate space used by each function. General operating costs across nearly all-natural categories are allocated based on estimates of time and effort and enrollment numbers.

Income Taxes

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

Denise Louie Education Center

Notes to Financial Statements

Recent Accounting Pronouncement Adopted

During the year ended October 31, 2019, the Center adopted the provisions of Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The client has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability note (see Note 2).

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified to conform to the current-year presentation.

Subsequent Events

The Center has evaluated subsequent events through the date these financial statements were available to be issued, which was July 1, 2020.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Center’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Center is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. The Center continues to examine the impact that the CARES Act may have on its business. Currently, the Center is unable to determine the impact that the CARES Act will have on its financial condition, results of operations, or liquidity.

On April 7, 2020, the Center received funding under the SBA’s Paycheck Protection Program totaling \$724,700. The proceeds from the note will be used to retain current staff. The note payable incurs interest at 1% and is unsecured. The principal of the note is forgivable if the proceeds are spent on

Denise Louie Education Center

Notes to Financial Statements

qualifying costs during the eight-week period following the date the note is issued. Qualified costs are considered as 75% of the loan amount on payroll costs and 25% on non-payroll costs including rent and utilities. Interest payments are deferred for the first six months of the note period and are not forgivable. Should any portion of the principal of the note not meet the forgiveness provisions, the principal and interest will be repayable monthly over an 18-month amortization period starting November 7, 2020, through maturity of April 7, 2022.

2. Liquidity and Availability

The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments for Head Start programs and other county, state, city preschool and home-visiting programs. The Center's draws funds from the federal payment management system on a bi-weekly basis to cover Head Start Program reimbursable costs. The draw of federal funds covers program expenses on an on-going basis.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities of providing services preschool and home-visiting programs as well as the conduct of services undertaken to support those activities to be general expenditures.

As of October 31, 2019, the following table shows the total financial assets held by the Center and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$	472,528
Investments		86,016
Grants and contributions receivable		1,401,945
Tuition and other receivables		31,253
		<hr/>
		1,991,742
Less: Non-operational contributions		(120,000)
Less: Grants and contributions receivable over one year		(463,436)
		<hr/>
Financial Assets Available to Meet General Expenditures within One Year	\$	1,528,306

Denise Louie Education Center

Notes to Financial Statements

3. Grants and Contributions Receivable

Grants and contributions receivable are recorded in the statements of financial position as follows:

<i>October 31,</i>	2019	2018
Receivable in less than one year	\$ 898,509	\$ 598,218
Receivable in one to five years	540,000	1,667
	1,438,509	599,885
Less: Discount	(36,564)	-
Net Grants and Contributions Receivable	\$ 1,401,945	\$ 599,885
Grants and contributions receivable	\$ 898,509	\$ 436,852
Grants and contributions receivable - noncurrent	503,436	163,033
Net Grants and Contributions Receivable	\$ 1,401,945	\$ 599,885

At October 31, 2018, the grants and contributions receivable - noncurrent represents contributions to the Building 9 project, which were collected during the year ended October 31, 2019. These have been recorded as noncurrent as they funded the leasehold improvements of the Building 9 space. Noncurrent grants and contributions receivable at October 31, 2019, represent contributions expected to be collected more than one year from the date of the statement of financial position.

4. Property and Equipment

Property and equipment consist of the following:

<i>October 31,</i>	2019	2018
Leasehold improvements	\$ 2,218,912	\$ 1,848,205
Vehicles	108,997	108,997
Office equipment	122,264	36,549
	2,450,173	1,993,751
Less: Accumulated depreciation and amortization	(1,851,058)	(1,731,819)
	599,115	261,932
Leasehold improvements in process	-	170,687
	\$ 599,115	\$ 432,619

Leasehold improvements in process at October 31, 2018 relates to the Center's new location known as Building 9 and were placed in service during the year ended October 31, 2019.

Denise Louie Education Center

Notes to Financial Statements

5. Leasing Arrangements

The Center leases operating and program service space at six locations. Rent expense under these leases was \$290,493 and \$283,485 for the years ended October 31, 2019 and 2018, respectively.

Future minimum lease payments are as follows for the years ending October 31:

2020	\$	200,584
2021		89,396
2022		33,102
2023		33,765
2024		-
<hr/>		
Total	\$	356,847

In September 2017, the Center entered into a lease with Mercy Housing Northwest for the future location at Building 9. The lease commenced in September 2019. The lease required a \$2 million prepaid rent deposit, granted and paid to the Center by the City of Seattle, which will be amortized over the life of the lease, which is 19 years and 6 months from the date of commencement. The Center will also have the option to extend the lease for three five-year periods. As the payment is significantly below the fair value of the lease, a temporarily restricted in-kind lease contribution and a lease contribution receivable were recognized during the year ended October 31, 2019, for 19 years and 6 months (contracted term of the lease) at \$358,974 per year (current portion) or \$7,000,000. The unamortized balance of the lease contribution receivable was \$6,970,085 at October 31, 2019. The lease contribution receivable was reduced by \$29,915 in 2019 and was recognized in rent expense in the statement of functional expenses. The prepaid rent was reduced by \$8,547 in 2019 and was also recognized in rent expense in the 2019 statement of functional expenses.

6. Retirement Plan

The Center has a simple IRA plan for eligible participants. The Center contributed \$59,486 and \$52,344 to the plan during the years ended October 31, 2019 and 2018, respectively.

**Supplemental Reports and Schedules in Accordance
with *Government Auditing Standards* and Required by
the Uniform Guidance**



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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*

To the Board of Directors
Denise Louie Education Center
Seattle, 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 of America, the financial statements of Denise Louie Education Center (the “Center”), which comprise the statement of financial position as of October 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center’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 Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Center’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.



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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

July 1, 2020



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Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Denise Louie Education Center
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited Denise Louie Education Center’s (the “Center”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center’s major federal programs for the year ended October 31, 2019. The Center’s major federal programs are 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 statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Center’s major federal programs 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 of America; 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”). 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 Center’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 each major federal program. However, our audit does not provide a legal determination of the Center’s compliance.

Opinion on Each Major Federal Program

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



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Report on Internal Control Over Compliance

Management of the Center 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 Center'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 Center'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.

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.

BDO USA, LLP

July 1, 2020

Denise Louie Education Center
Schedule of Expenditures of Federal Awards
Year Ended October 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services			
Head Start	93.600	10CH0219-05	\$ 3,275,460
Total Department of Health and Human Services			3,275,460
Department of Agriculture			
Passed through State of Washington:			
Office of the Superintendent of Public Instruction			
Child and Adult Care Food Program	10.558	17159407	103,571
Total Department of Agriculture			103,571
Department of Housing and Urban Development			
Passed through City of Seattle:			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	DL05-1519	240,000
Total CDBG - Entitlement Grants Cluster and Department of Housing and Urban Development			240,000
Total Federal Expenditures			\$3,619,031

The accompanying notes are an integral part of this schedule.

Denise Louie Education Center

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Denise Louie Education Center (the "Center") under programs of the federal government for the year ended October 31, 2019. The information in the Schedule is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

2. Summary of Significant Accounting Principles

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 allowed or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

3. Indirect Cost Rate

The Center has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

4. Loans Outstanding

In prior years, the Center received loan proceeds from the City of Seattle. As required by the Uniform Guidance, the loan balance outstanding at year-end is included in the federal expenditures presented in the Schedule as there are continuing compliance requirements. The Center received no additional loans during the year. The balance of the loan outstanding at October 31, 2019 and 2018, consists of the following:

CFDA Number	Program Name	Outstanding Balance
14.218	Community Development Block Grants/Entitlement Grants - Loan	\$ 240,000

Denise Louie Education Center

Schedule of Findings and Questioned Costs Year Ended October 31, 2019

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of Major Programs:

CFDA Number(s)
93.600

Name of Federal Program or Cluster
Head Start

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee:

yes no

Section II - Financial Statement Findings

No findings were identified that were required to be reported.

Section III - Federal Award Findings and Questioned Costs

There were no findings identified that are required to be reported in accordance with Title 2, Part 200 of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.