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, 2020 and 2019

Denise Louie Education Center

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Denise Louie Education Center (the Center), which comprise the statements of financial position as of October 31, 2020 and 2019, 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 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 Denise Louie Education Center as of October 31, 2020 and 2019, 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

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2021 on our consideration of Denise Louie Education 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 Denise Louie Education 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 Denise Louie Education Center's internal control over financial reporting and compliance.

BDO USA, LLP

August 6, 2021

Financial Statements

Denise Louie Education Center

Statements of Financial Position

October 31,		**2020**		2019
Assets				
Current Assets				
Cash and cash equivalents	$	**1,066,736**	$	432,528
Investments		**4,139**		86,016
Grants and contributions receivable		**1,103,975**		865,981
Other receivables		**30,191**		63,781
Prepaid expenses		**99,703**		109,949
Prepaid lease		**102,564**		102,564
Lease contribution receivable		**358,974**		358,974
Total Current Assets		**2,766,282**		2,019,793
Cash restricted for Yesler Terrace		**695,912**		40,000
Investments restricted for Yesler Terrace		**477,423**		-
Grants and contributions receivable, net of discount and current portion		**858,961**		503,436
Prepaid lease, net of current portion		**1,786,325**		1,888,889
Lease contribution receivable, net of current portion		**6,252,137**		6,611,111
Property and equipment, net		**576,120**		599,115
Total Assets	$	**13,413,160**	$	11,662,344
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	**258,958**	$	167,906
Accrued wages, taxes, and vacation		**450,709**		379,862
Note payable - Paycheck Protection Program		**173,413**		-
Total Current Liabilities		**883,080**		547,768
Note payable - Paycheck Protection Program, less current portion		**551,287**		-
Deferred rent		**6,164**		24,160
Total Liabilities		**1,440,531**		571,928
Net Assets				
Without donor restrictions		**979,607**		1,060,182
With donor restrictions		**10,993,022**		10,030,234
Total Net Assets		**11,972,629**		11,090,416
Total Liabilities and Net Assets	$	**13,413,160**	$	11,662,344

See accompanying notes to financial statements.

Denise Louie Education Center

Statements of Activities

Year Ended October 31,	2020			2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Head Start funding	$ **3,562,708**	$ **-**	$ **3,562,708**	$ 3,275,460	$ -	$ 3,275,460
Other government grants	**2,036,954**	**-**	**2,036,954**	1,293,870	2,000,000	3,293,870
Contributions and grants	**435,759**	**59,671**	**495,430**	189,191	708,436	897,627
Building 9 contributions	**-**	**-**	**-**	-	10,207	10,207
Yesler Terrace contributions	**-**	**1,589,447**	**1,589,447**	-	120,000	120,000
United Way contributions	**153,033**	**-**	**153,033**	204,484	-	204,484
In-kind contributions	**64,302**	**-**	**64,302**	151,729	7,000,000	7,151,729
Fundraising events	**173,284**	**-**	**173,284**	174,719	-	174,719
Tuition and fees	**203,527**	**-**	**203,527**	116,058	-	116,058
Other income	**58,832**	**-**	**58,832**	281	-	281
Investment income	**(1,257)**	**-**	**(1,257)**	3,532	-	3,532
Net assets released from restrictions	**686,330**	**(686,330)**	**-**	887,629	(887,629)	-
Total Support and Revenue	**7,373,472**	**962,788**	**8,336,260**	6,296,953	8,951,014	15,247,967
Expenses						
Educational program services	**6,362,820**	**-**	**6,362,820**	5,300,431	-	5,300,431
Management and general	**765,476**	**-**	**765,476**	483,730	-	483,730
Fundraising	**167,926**	**-**	**167,926**	223,672	-	223,672
Total Expenses	**7,296,222**	**-**	**7,296,222**	6,007,833	-	6,007,833
Change in Net Assets before Depreciation and Amortization	**77,250**	**962,788**	**1,040,038**	289,120	8,951,014	9,240,134
Depreciation and amortization	**(157,825)**	**-**	**(157,825)**	(122,379)	-	(122,379)
Change in Net Assets	**(80,575)**	**962,788**	**882,213**	166,741	8,951,014	9,117,755
Net Assets, beginning of year	**1,060,182**	**10,030,234**	**11,090,416**	893,441	1,079,220	1,972,661
Net Assets, end of year	$ **979,607**	$ **10,993,022**	$ **11,972,629**	$ 1,060,182	$ 10,030,234	$ 11,090,416

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

Year Ended October 31, 2020	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	$ 3,465,918	$ 392,985	$ 95,474	$ 3,954,377
Employee benefits	608,982	53,423	20,880	683,285
Payroll taxes	352,107	37,553	5,941	395,601
Total Employee Expenses	4,427,007	483,961	122,295	5,033,263
In-kind goods and services	525,841	-	-	525,841
Occupancy	481,223	31,674	119	513,016
Professional fees	86,261	161,708	18,762	266,731
Classroom supplies	140,966	1,084	-	142,050
Purchased food expense	136,482	928	361	137,771
Office supplies	99,936	23,073	2,331	125,340
Professional development	89,057	12,599	1,152	102,808
Parent activities	96,616	-	2,743	99,359
Internet and telephone	75,180	9,256	745	85,181
Utilities	62,579	4,367	70	67,016
Dues and memberships	29,285	10,727	2,273	42,285
Repairs and maintenance	37,000	2,112	34	39,146
Insurance	27,653	6,494	518	34,665
Equipment rentals	23,164	3,643	435	27,242
Travel	23,313	1,994	352	25,659
Fundraising	-	268	14,593	14,861
Miscellaneous	1,257	11,588	1,143	13,988
Depreciation and amortization	149,240	8,585	-	157,825
Total Expenses	6,512,060	774,061	167,926	7,454,047
Less: Depreciation and amortization	(149,240)	(8,585)	-	(157,825)
Total Expenses Included in the Expense Section on the Statement of Activities	$ 6,362,820	$ 765,476	$ 167,926	$ 7,296,222

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

Year Ended October 31, 2019	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
In-kind goods and services	136,195	-	-	136,195
Occupancy	418,737	28,064	1,666	448,467
Professional fees	93,762	32,390	16,419	142,571
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 development	63,628	3,721	171	67,520
Parent activities	19,312	253	1,824	21,389
Internet and telephone	55,148	15,144	493	70,785
Utilities	65,060	11,448	766	77,274
Dues and memberships	28,774	3,463	1,574	33,811
Repairs and maintenance	42,607	5,590	191	48,388
Insurance	21,956	7,056	308	29,320
Equipment rentals	25,185	2,718	334	28,237
Travel	64,677	4,876	1,293	70,846
Fundraising	-	-	53,359	53,359
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

Statements of Cash Flows

Year Ended October 31,		**2020**		2019
Cash Flows for Operating Activities				
Change in net assets	$	**882,213**	$	9,117,755
Adjustments to reconcile change in net assets to net cash flows for operating activities:				
Contribution of assets		**-**		(15,534)
Depreciation and amortization		**157,825**		122,379
Contributions restricted for Building 9/Yesler Terrace		**(1,589,447)**		(130,207)
Losses on investments		**3,099**		9,627
Changes in operating assets and liabilities				
Grants and contributions receivable		**(120,069)**		(961,393)
Other receivables		**33,590**		(4,560)
Prepaid expenses		**10,246**		(34,473)
Prepaid lease		**102,564**		(1,991,453)
Lease contribution receivable		**358,974**		(6,970,085)
Accounts payable		**33,594**		(11,479)
Accrued wages, taxes, and vacation		**70,847**		119,074
Deferred rent		**(17,996)**		(20,501)
Net Cash Flows for Operating Activities		**(74,560)**		(770,850)
Cash Flows for Investing Activities				
Purchases of property and equipment		**(77,372)**		(255,019)
Purchase of investments		**(581,661)**		(100,000)
Sale of investments		**183,016**		360,156
Net Cash Flows for Investing Activities		**(476,017)**		5,137
Cash Flows from Financing Activities				
Proceeds from Paycheck Protection Program loan		**724,700**		-
Proceeds from contributions restricted for Building 9/Yesler Terrace		**1,115,997**		289,540
Net Cash Flows from Financing Activities		**1,840,697**		289,540
Net Change in Cash and Cash Equivalents		**1,290,120**		(476,173)
Cash and Cash Equivalents, beginning of year		**472,528**		948,701
Cash and Cash Equivalents, end of year	$	**1,762,648**	$	472,528
Cash and Cash Equivalents	$	**1,066,736**	$	432,528
Cash Restricted for Yesler Terrace		**695,912**		40,000
Total Cash and Cash Equivalents	$	**1,762,648**	$	472,528
Supplemental Cash Flow Information				
Noncash financing and investing activity				
Purchase of leasehold improvements included in accounts payable	$	**57,458**	$	15,182

See accompanying 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 five locations in Seattle.

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.

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 the Center's space being completed, and the lease for the space is in full effect, among other conditions.

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:

October 31,	**2020**	2019
Unrestricted	**$ 403,487**	$ 461,067
Investment in fixed assets	**576,120**	599,115
	$ 979,607	$ 1,060,182

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. Conditional contributions are recognized as contributions when the related conditions are met. Conditional contributions with donor restrictions are recognized as unrestricted contributions when the restrictions are met in the same reporting period as the contributions are recognized.

Net assets with donor restrictions consist of the following:

October 31,	**2020**	2019
Lease receivable	**$ 8,500,000**	$ 8,961,538
Yesler Terrace	**1,709,447**	120,000
Time-restricted contributions	**543,575**	708,696
Forgivable loan	**240,000**	240,000
	$ 10,993,022	$ 10,030,234

The $240,000 loan from the City of Seattle at October 31, 2020 and 2019, 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 expired in December 2020. In June 2021, the loan was forgiven by the City of Seattle. The restrictions will be released during the year ending October 31, 2021.

Concentrations

At October 31, 2020 and 2019, 81% and 74%, respectively, of grants and contributions receivable were due from four and three organizations, respectively. During the years ended October 31, 2020 and 2019, two organizations made up 61% and 59% 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.

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:

October 31,		2020		2019
Equity securities	$	**481,562**	$	2,988
Mutual fund - ultra-short bond		**-**		83,028
	$	**481,562**	$	86,016

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

October 31,		2020		2019
Investments	**$**	**4,139**	$	86,016
Investments restricted for Yesler Terrace		**477,423**		-
	$	**481,562**	$	86,016

Tuition and Other Receivables

Tuition receivable is stated as the amount management expects to collect from outstanding balances. 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, 2020 or 2019.

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, 2020, the discount rate used was 2.58%. At October 31, 2019, the discount rate used was 2.25%. 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.

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 when the performance obligation has been satisfied (generally as services take place on a month-to-month basis). Amounts collected in advance of the monthly instruction is deferred and recognized on a daily basis, but for convenience is recorded on a monthly basis. Most tuition is subsidized by various federal grants and state/local programs, but certain families not fully subsidized pay tuition. Tuition is determined based on the age and level of the child, and the child's attendance schedule. The comprehensive services provided to parents represent a series of distinct services that are substantially the same and have the same pattern of transfer to the customer over time, which transfers daily. Parents are only obligated for one month of services at a time, and thus there are no contract obligations at October 31, 2020 or 2019, that have not been fulfilled. There are no significant judgments or estimates that significantly affect the determination of the amount, the allocation of the transaction price to performance obligations, or timing of revenue from contracts with customers. The nature of the Center's services does not require significant judgments or estimates to determine when control transfers to the customer. Based on past practices and customer specific circumstances, the Center may grant concessions that impact the total transaction price. If the transaction price may be subject to adjustment, significant judgment may be required to ensure that it is probable that significant reversal in the amount of cumulative revenue recognized will not occur. As of October 31, 2020, and 2019, there were no material estimates related to the constraint of cumulative revenue recognized.

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.

Recent Accounting Pronouncement Adopted

During the year ended October 31, 2020, the Center adopted the provisions of Accounting Standards Update (ASU) No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, commonly referred to as Accounting Standards Codification Topic 606 (ASC 606), issued by the Financial Accounting Standards Board (FASB). The pronouncement was issued to clarify the principles for recognizing revenue and the core principle of the guidance is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

Step 1: Identify the contract with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the company satisfies a performance obligation

ASC 606 only applies to earned revenue, so it is only applicable to tuition and fees. The ASU has been applied retrospectively to all periods presented, with no impact to the change in net assets or total net assets.

The Center also adopted the provisions of Accounting Standards Update No. 2018-08, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or exchange transaction. If the transaction is deemed to be a contribution, the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction, which will then govern the revenue recognition methodology and timing of the transaction. The ASU is effective for contributions received by the Center in periods beginning after December 15, 2018. The Center adopted this update during the year ended October 31, 2020, under the modified prospective basis. The adoption of this update did not impact contributions and grants revenue in the financial statements. Conditional revenues that have not been recognized as of October 31, 2020, total $951,142 and will be recognized as the Center overcomes that barriers (incurring eligible expenditures or performing required services).

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force)*. The update addressed diversity in practice with regard to the classification and presentation of changes in restricted cash on the statement of cash flows. The Center adopted this update during the year ended October 31, 2020 and applied the changes retrospectively. The Center's statements of cash flows now explain the change in total cash, cash equivalents, and restricted cash (excluding cash held in investment accounts) during each period.

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 August 6, 2021.

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.

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As of October 31, 2020, and 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:

	2020	2019
Cash and cash equivalents	$ 1,762,648	$ 472,528
Investments	481,562	86,016
Grants and contributions receivable	1,962,936	1,369,417
Other receivables	30,191	63,781
	4,237,337	1,991,742
Less: Contributions restricted for Yesler Terrace	(1,589,447)	(120,000)
Less: Grants and contributions receivable over one year	(345,511)	(463,436)
Financial Assets Available to Meet General Expenditures within One Year	$ 3,891,826	$ 1,528,306

3. Grants and Contributions Receivable

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

October 31,	2020	2019
Receivable in less than one year	$ 1,103,975	$ 865,981
Receivable in one to five years	888,450	540,000
	1,992,425	1,405,981
Less: Discount	(29,489)	(36,564)
Net Grants and Contributions Receivable	$ 1,962,936	$ 1,369,417
Grants and contributions receivable	$ 1,103,975	$ 865,981
Grants and contributions receivable - noncurrent	858,961	503,436
Net Grants and Contributions Receivable	$ 1,962,936	$ 1,369,417

At October 31, 2020, the grants and contributions receivable - noncurrent includes contributions to the Yesler Terrace project, which will fund the leasehold improvements of the Yesler Terrace space.

4. Property and Equipment

Property and equipment consist of the following:

October 31,	**2020**	2019
Leasehold improvements	$ **2,291,544**	$ 2,218,912
Vehicles	**108,997**	108,997
Office equipment	**122,210**	122,264
	2,522,751	2,450,173
Less: Accumulated depreciation and amortization	**(2,008,884)**	(1,851,058)
	513,867	599,115
Leasehold improvements in process	**62,253**	-
	$ **576,120**	$ 599,115

Leasehold improvements in process at October 31, 2020, relates to the Center's new location known as Yesler Terrace.

5. Leasing Arrangements

The Center leases operating and program service space at five locations. Rent expense under these leases was $259,792 and $290,493 for the years ended October 31, 2020 and 2019, respectively.

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

2021	$ 134,292
2022	105,594
2023	33,764
Total	$ 273,650

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 $6,611,111 and

$6,970,085 at October 31, 2020 and 2019, respectively. The lease contribution receivable was reduced by $358,974 and $29,915 in 2020 and 2019, respectively, and was recognized in in-kind goods and services expense in the statements of functional expenses. The prepaid rent was reduced by $102,564 and $8,547 in 2020 and 2019, respectively and was also recognized in in-kind goods and services expense in the statements of functional expenses.

6. Retirement Plan

The Center has a simple IRA plan for eligible participants. The Center contributed $63,394 and $59,486 to the plan during the years ended October 31, 2020 and 2019, respectively.

7. Note Payable

In April 2020, the Center applied for and received a loan from the Paycheck Protection Program implemented from the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The note bears interest at 1% and is unsecured. The balance outstanding at October 31, 2020 is $724,700.

8. COVID-19

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. While many businesses and nonprofits have been shut down, the Center continues to operate during the COVID-19 outbreak and, as of this report date, has not experienced significant negative impacts to its financial condition or liquidity. 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 2021.

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.

The CARES Act also appropriated funds for the Small Business Administration (SBA) Paycheck Protection Program (PPP) 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 the COVID-19 outbreak. The Center applied for and received a PPP loan on April 7, 2020, totaling $724,700. The note payable incurs interest at 1% and is unsecured. The principal and interest of the note is forgivable if the proceeds are spent on qualifying costs during the 24-week period following the date the note is issued.

Qualified costs are considered as 60% of the loan amount on payroll costs, and 40% on non-payroll costs including rent and utilities. Principal and interest payments are deferred for the first 10-months of the note period, following the 24-week period.

On December 27, 2020, President Trump signed into law the "Consolidated Appropriations Act, 2021", which included additional economic stimulus and COVID-19 related relief including additional PPP funds and expansion of the Employee Retention Credit. The Center continues to examine the impact that the Consolidated Appropriations Act, 2021, will have on its financial condition, results of operations, and liquidity.

On March 11, 2021, President Biden signed into law the "American Rescue Plan Act of 2021" (the American Rescue Plan), which included additional economic stimulus and tax credits, including the expansion of the Employee Retention Credit. The Center continues to examine the impact that the American Rescue Plan will have on its financial condition, results of operations, and liquidity.

The Center continues to examine the impact that the CARES Act, the Consolidated Appropriations Act, 2021, and the American Rescue Plan will have on its business, and currently, the Center is unable to determine the impact on its financial condition, results of operations, and liquidity.

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, the financial statements of Denise Louie Education Center (the Center), which comprise the statement of financial position as of October 31, 2020, 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 August 6, 2021.

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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

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

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direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BDO USA, LLP

August 6, 2021

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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, 2020. 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; 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, 2020.

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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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

August 6, 2021

Denise Louie Education Center

Schedule of Expenditures of Federal Awards
Year Ended October 31, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture			
Passed through State of Washington			
Office of the Superintendent of Public Instruction			
Child and Adult Care Food Program	10.558	17-07-0181	$ 101,485
Total Department of Agriculture			101,485
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
Department of Health and Human Services			
477 Cluster			
Passed through State of Washington			
Department of Children, Youth & Families			
COVID-19 Child Care and Development Block Grant	93.575	21-1116	37,090
Total 477 Cluster			37,090
Head Start Cluster			
Head Start	93.600	10CH011251	3,422,438
COVID-19 Head Start	93.600	10CH011251	140,269
Total Head Start Cluster			3,562,707
Total Department of Health and Human Services			3,599,797
Total Federal Expenditures			$ 3,941,282

See accompnaying 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, 2020. 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, 2020 and 2019, consists of the following:

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

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's 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	X no
• Significant deficiency(ies) identified?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards:

Internal control over major federal programs:		
• Material weakness(es) identified?	____ yes	X no
• Significant deficiency(ies) identified?	____ yes	X 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	X no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.600	Head Start Cluster

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000	
Auditee qualified as low-risk auditee:	X 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.*