Denise Louie Education Center

Audit of Financial Statements
Years Ended October 31, 2021 and 2020
Reports and Schedules in Accordance with
Government Auditing Standards and
Required by the Uniform Guidance
Year Ended October 31, 2021

The report accompanying these financial statements was issued by

BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Denise Louie Education Center

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Year Ended October 31, 2021

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Denise Louie Education Center (the Center), which comprise the statements of financial position as of October 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Denise Louie Education Center as of October 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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. Such 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

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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 July 27, 2022 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 27, 2022

Financial Statements

Denise Louie Education Center

Statements of Financial Position

October 31,		**2021**		2020
Assets				
Current Assets				
Cash and cash equivalents	$	**1,824,461**	$	1,066,736
Investments		**-**		4,139
Grants and contributions receivable		**838,815**		1,103,975
Other receivables		**27,653**		30,191
Prepaid expenses		**89,665**		99,703
Prepaid lease		**102,564**		102,564
Lease contribution receivable		**358,974**		358,974
Total Current Assets		**3,242,132**		2,766,282
Cash restricted for Yesler Terrace		**867,393**		695,912
Investments restricted for Yesler Terrace		**-**		477,423
Grants and contributions receivable, net of discount and current portion		**241,849**		858,961
Prepaid lease, net of current portion		**2,734,231**		1,786,325
Lease contribution receivable, net of current portion		**5,893,162**		6,252,137
Property and equipment, net		**1,752,195**		576,120
Total Assets	$	**14,730,962**	$	13,413,160
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	**230,939**	$	258,958
Accrued wages, taxes, and vacation		**518,464**		450,709
Notes payable, current portion		**235,086**		173,413
Total Current Liabilities		**984,489**		883,080
Notes payable, net of current portion		**1,281,531**		551,287
Deferred rent		**4,663**		6,164
Total Liabilities		**2,270,683**		1,440,531
Net Assets				
Without donor restrictions		**2,232,803**		979,607
With donor restrictions		**10,227,476**		10,993,022
Total Net Assets		**12,460,279**		11,972,629
Total Liabilities and Net Assets	$	**14,730,962**	$	13,413,160

See accompanying notes to financial statements.

Denise Louie Education Center

Statements of Activities

Year Ended October 31,	2021			2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Head Start funding	**$ 4,147,412**	**$ -**	**$ 4,147,412**	$ 3,562,708	$ -	$ 3,562,708
Other government grants	**2,287,107**	**-**	**2,287,107**	2,036,954	-	2,036,954
Contributions and grants	**472,738**	**83,274**	**556,012**	435,759	59,671	495,430
Yesler Terrace contributions	**-**	**169,794**	**169,794**	-	1,589,447	1,589,447
United Way contributions	**-**	**-**	**-**	153,033	-	153,033
In-kind contributions	**51,369**	**-**	**51,369**	64,302	-	64,302
Fundraising events	**154,605**	**-**	**154,605**	173,284	-	173,284
Tuition and fees	**215,398**	**-**	**215,398**	203,527	-	203,527
Other income	**183,804**	**-**	**183,804**	58,832	-	58,832
Investment income	**62,493**	**-**	**62,493**	(1,257)	-	(1,257)
Paycheck Protection Program Loan forgiveness	**525,178**	**-**	**525,178**	-	-	-
Net assets released from restrictions	**1,018,614**	**(1,018,614)**	**-**	686,330	(686,330)	-
Total Support and Revenue	**9,118,718**	**(765,546)**	**8,353,172**	7,373,472	962,788	8,336,260
Expenses						
Educational program services	**6,600,950**	**-**	**6,600,950**	6,362,820	-	6,362,820
Management and general	**1,081,910**	**-**	**1,081,910**	765,476	-	765,476
Fundraising	**111,174**	**-**	**111,174**	167,926	-	167,926
Total Expenses	**7,794,034**	**-**	**7,794,034**	7,296,222	-	7,296,222
Change in Net Assets before Depreciation and Amortization	**1,324,684**	**(765,546)**	**559,138**	77,250	962,788	1,040,038
Depreciation and amortization	**(71,488)**	**-**	**(71,488)**	(157,825)	-	(157,825)
Change in Net Assets	**1,253,196**	**(765,546)**	**487,650**	(80,575)	962,788	882,213
Net Assets, beginning of year	**979,607**	**10,993,022**	**11,972,629**	1,060,182	10,030,234	11,090,416
Net Assets, end of year	**$ 2,232,803**	**$ 10,227,476**	**$ 12,460,279**	$ 979,607	$ 10,993,022	$ 11,972,629

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

Year Ended October 31, 2021	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	$ 3,642,693	$ 522,976	$ 61,562	$ 4,227,231
Employee benefits	369,331	50,115	5,437	424,883
Payroll taxes	567,860	44,932	4,074	616,866
Total Employee Expenses	4,579,884	618,023	71,073	5,268,980
Occupancy	484,117	41,353	2,746	528,216
Professional fees	180,380	320,174	11,192	511,746
In-kind rent	475,039	-	-	475,039
Purchased food expense	162,269	953	(87)	163,135
Professional development	127,518	9,929	404	137,851
Classroom supplies	118,849	1,612	1,922	122,383
Office supplies	67,030	31,142	4,101	102,273
Internet and telephone	80,355	8,398	1,513	90,266
Parent activities	69,793	68	5,822	75,683
Dues and memberships	46,907	16,938	3,857	67,702
Utilities	62,591	2,236	83	64,910
Insurance	32,260	9,031	833	42,124
Repairs and maintenance	36,123	2,179	110	38,412
In-kind goods and services	37,869	-	-	37,869
Equipment rentals	25,465	8,641	750	34,856
Miscellaneous	3,159	10,084	415	13,658
Travel	10,156	910	(181)	10,885
Fundraising	1,186	239	6,621	8,046
Depreciation and amortization	62,237	9,251	-	71,488
Total Expenses	6,663,187	1,091,161	111,174	7,865,522
Less: Depreciation and amortization	(62,237)	(9,251)	-	(71,488)
Total Expenses Included in the Expense Section on the Statement of Activities	$ 6,600,950	$ 1,081,910	$ 111,174	$ 7,794,034

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
Occupancy	481,223	31,674	119	513,016
Professional fees	86,261	161,708	18,762	266,731
In-kind rent	479,933	-	-	479,933
Purchased food expense	136,482	928	361	137,771
Professional development	89,057	12,599	1,152	102,808
Classroom supplies	140,966	1,084	-	142,050
Office supplies	99,936	23,073	2,331	125,340
Internet and telephone	75,180	9,256	745	85,181
Parent activities	96,616	-	2,743	99,359
Dues and memberships	29,285	10,727	2,273	42,285
Utilities	62,579	4,367	70	67,016
Insurance	27,653	6,494	518	34,665
Repairs and maintenance	37,000	2,112	34	39,146
In-kind goods and services	45,908	-	-	45,908
Equipment rentals	23,164	3,643	435	27,242
Miscellaneous	1,257	11,588	1,143	13,988
Travel	23,313	1,994	352	25,659
Fundraising	-	268	14,593	14,861
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

Statements of Cash Flows

Year Ended October 31,	**2021**	2020
Cash Flows for Operating Activities		
Change in net assets	**$ 487,650**	$ 882,213
Adjustments to reconcile change in net assets to net cash flows for operating activities:		
Depreciation and amortization	**71,488**	157,825
Disposal of leasehold improvements	**52,437**	-
Contributions restricted for Building 9/Yesler Terrace	**(169,794)**	(1,589,447)
(Gains) losses on investments	**(41,955)**	3,099
Gain on forgiveness of Paycheck Protection Program loan	**(525,178)**	-
Changes in operating assets and liabilities		
Grants and contributions receivable	**328,822**	(120,069)
Other receivables	**2,538**	33,590
Prepaid expenses	**10,038**	10,246
Prepaid lease	**(947,906)**	102,564
Lease contribution receivable	**358,975**	358,974
Accounts payable	**(28,019)**	33,594
Accrued wages, taxes, and vacation	**67,755**	70,847
Deferred rent	**(1,501)**	(17,996)
Net Cash Flows for Operating Activities	**(334,650)**	(74,560)
Cash Flows from (for) Investing Activities		
Purchases of property and equipment	**-**	(77,372)
Purchase of investments	**-**	(581,661)
Sale of investments	**523,517**	183,016
Net Cash Flows from (for) Investing Activities	**523,517**	(476,017)
Cash Flows from Financing Activities		
Proceeds from long-term debt	**17,095**	-
Proceeds from Paycheck Protection Program Loan	**-**	724,700
Proceeds from contributions restricted for Yesler Terrace	**723,244**	1,115,997
Net Cash Flows from Financing Activities	**740,339**	1,840,697
Net Change in Cash and Cash Equivalents	**929,206**	1,290,120
Cash and Cash Equivalents, beginning of year	**1,762,648**	472,528
Cash and Cash Equivalents, end of year	**$ 2,691,854**	$ 1,762,648
Cash and Cash Equivalents	**$ 1,824,461**	$ 1,066,736
Cash Restricted for Yesler Terrace	**867,393**	695,912
Total Cash and Cash Equivalents	**$ 2,691,854**	$ 1,762,648
Supplemental Cash Flow Information		
Noncash financing and investing activities		
Purchase of property included in notes payable	**$ 1,300,000**	$ -
Purchase of leasehold improvements included in accounts payable	**$ -**	$ 57,458

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 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 Early Childhood Education Assistance Program, and foundations, corporations, and individuals. In addition, the Center relies on parent and community volunteers and other in-kind donations.

In March of 2021, the Center was awarded Early Head Start expansion funding to support 14 infant and toddlers in our Magnuson Park Center and 30 additional prenatal to three home-based children.

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. During the year ended October 31, 2021, the project broke ground, and is expected to be completed in 2023. 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,	**2021**	2020
Unrestricted	**$ 480,608**	$ 403,487
Investment in fixed assets	**1,752,195**	576,120
	$ 2,232,803	$ 979,607

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,	**2021**	2020
Lease receivable	**$ 8,038,462**	$ 8,500,000
Yesler Terrace	**1,687,165**	1,709,447
Time-restricted contributions	**501,849**	543,575
Forgivable loan	**-**	240,000
	$ 10,227,476	$ 10,993,022

The $240,000 loan from the City of Seattle at October 31, 2020, which the Center has treated as restricted grant income, was for the rehabilitation of the Beacon Hill site. The loan was forgiven by the City of Seattle during the year ended October 31, 2021, and the restrictions were released.

Concentrations

At October 31, 2021 and 2020, 68% and 81%, respectively, of grants and contributions receivable were due from three and four organizations, respectively. During the years ended October 31, 2021 and 2020, one and two organizations made up 50% and 61% 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

At October 31, 2020, investments consisted of equity securities, which were stated at fair value using Level 1 observable market inputs based on quoted market prices in active markets. There were no investments held at October 31, 2021.

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 reported in the statements of financial position as follows:

October 31,	**2021**	2020
Investments	$ -	$ 4,139
Investments restricted for Yesler Terrace	-	477,423
	$ -	$ 481,562

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, 2021 or 2020.

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, 2021, the discount rate used was 2.25%. At October 31, 2020, the discount rate used was 2.58%. Amortization of the discount is included in contributions and grants revenue in the statements of activities.

Conditional revenues that have not been recognized as of October 31, 2021, total $1,290,868, will be recognized as the Center overcomes the barriers (incurring eligible expenditures or meeting programmatic goals).

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 are deferred and recognized on a daily basis, but for convenience are 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, 2021 or 2020, 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, 2021 and 2020, 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.

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.

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 27, 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 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, 2021 and 2020, 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:

	2021	2020
Cash and cash equivalents	**$ 2,691,854**	$ 1,762,648
Investments	**-**	481,562
Grants and contributions receivable	**1,080,664**	1,962,936
Other receivables	**27,653**	30,191
	3,800,171	4,237,337
Less: Contributions restricted for Yesler Terrace	**(1,687,165)**	(1,709,447)
Less: Grants and contributions receivable over one year	**(241,849)**	(345,511)
Financial Assets Available to Meet General Expenditures within One Year	**$ 1,871,157**	$ 2,182,379

3. Grants and Contributions Receivable

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

October 31,		**2021**		2020
Receivable in less than one year	$	**838,815**	$	1,103,975
Receivable in one to five years		**250,000**		888,450
		1,088,815		1,992,425
Less: Discount		**(8,151)**		(29,489)
Net Grants and Contributions Receivable	$	**1,080,664**	$	1,962,936
Grants and contributions receivable	$	**838,815**	$	1,103,975
Grants and contributions receivable - noncurrent		**241,849**		858,961
Net Grants and Contributions Receivable	$	**1,080,664**	$	1,962,936

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. There were no such grants and contributions receivable outstanding at October 31, 2021.

4. Property and Equipment

Property and equipment consist of the following:

October 31,		**2021**		2020
Leasehold improvements	$	**2,292,068**	$	2,291,544
Land		**1,099,993**		-
Building		**200,007**		-
Vehicles		**108,997**		108,997
Office equipment		**127,364**		122,210
		3,828,429		2,522,751
Less: Accumulated depreciation and amortization		**(2,080,371)**		(2,008,884)
		1,748,058		513,867
Leasehold improvements in process		**4,137**		62,253
	$	**1,752,195**	$	576,120

Leasehold improvements in process at October 31, 2021 ad 2020, relate to the Center's new location known as Yesler Terrace.

5. Leasing Arrangements

The Center leases operating and program service space at four locations (the Center also leased space at its Beacon Hill location until the site was purchased during the year ended October 31, 2021). Rent expense under these leases was $269,426 and $259,792 for the years ended October 31, 2021 and 2020, respectively. Future minimum lease payments are $105,594 and $33,764 for the years ending October 31, 2022 and 2023, respectively.

In September 2017, the Center entered into a lease with Mercy Housing Northwest for its location at Building 9, located in Sand Point. 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 time-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 $6,252,136 and $6,611,111 at October 31, 2021 and 2020, respectively. The lease contribution receivable was reduced by $358,975 and $358,974 during the years ended October 31, 2021 and 2020, respectively, and was recognized in in-kind rent expense in the statements of functional expenses. The prepaid rent was reduced by $102,564 in both years ended October 31, 2021 and 2020, and was also recognized in in-kind rent expense in the statements of functional expenses.

In May 2021, the Center entered into a lease with Seattle Chinatown-International District Preservation and Development Authority (SCIDpda) for the future location, known as Yesler Terrace. The lease will commence when the project is completed, which is expected to be during the year ending October 31, 2023. The lease required a $1 million prepaid rent deposit, which will be amortized over the life of the lease, which is 20 years from the date of commencement. The rent deposit was paid during the year ended October 31, 2021, and has been included in the prepaid balance on the statements of financial position. A contribution will be recorded and recognized over the lease term should the fair value of the leased space exceed the deposit. At October 31, 2021, the lease is conditional upon the satisfaction of the delivery conditions outlined in the lease and the commencement date occurring on or before May 1, 2024.

6. Note Payable

The Center has the following notes payable:

October 31,		**2021**		2020
Paycheck Protection Program Loan that bears interest at 1%. This loan was partially forgiven in August 2021. The remaining amount has a maturity date of April 2022.	**$**	**199,522**	$	724,700
Note payable to the Washington Community Reinvestment Association in monthly payments of $2,841, including interest at 4.5%; matures September 2041; this note is unsecured.		**447,843**		-
Note payable to the Washington Community Reinvestment Association in monthly payments of $1,931, including interest at 0.5%; matures September 2041; this note is unsecured.		**439,252**		-
Non-interest bearing note payable to City of Seattle, secured by deed of trust on property owned by the Center. No payments are required until the note is due, which is on July 31, 2031.		**430,000**		-
Total Notes Payable		**1,516,617**		724,700
Less: Current portion		**(235,086)**		(173,413)
Notes Payable, net of current portion	**$**	**1,281,531**	$	551,287

Principal maturities on those notes are as follows for the years ending October 31:

2022	$	235,086
2023		36,012
2024		36,801
2025		37,622
2026		38,477
Thereafter		1,132,619
	$	1,516,617

7. COVID-19 and Related Government Funding

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.

Related Government Funding

In response to the COVID-19 outbreak, on March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (CARES) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits (Employee Retention Credit), 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 1.0% and is unsecured. The principal and interest of the note are forgivable if the proceeds are spent on qualifying costs during the 24-week period following the date the note was 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. Should any portion of the principal of the note not meet the forgiveness provisions, monthly principal and interest payments will be repayable using a monthly amortization schedule starting from the end of the deferral period until maturity on April 18, 2022.

The proceeds from the loan were used to retain staff. Under the SBA PPP loan program, PPP loans are forgivable if the entity receiving the loan complies with the provisions of the SBA PPP and proceeds are spent on qualifying costs during the specified period following the date the loan is issued. The application for these funds required the Center to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Center. This certification further required the Center to take into account its current business activity and ability to access other sources of liquidity sufficient to support ongoing operations in a manner that was not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Center having initially qualified for the loan and qualifying for the forgiveness of such loan based on its future adherence to the forgiveness criteria.

The Center applied for forgiveness of this PPP loan and, on August 11, 2021, received confirmation that forgiveness was granted for $524,867 of the loan by the SBA. The Center derecognized the liability for the forgiven portion of the note on its statement of financial position and recognized the gain on debt forgiveness during the year ended October 31, 2021. The Center will pay the remainder of the PPP loan according to the terms of the loan, and the loan was paid off in full on

April 11, 2022.The SBA has stated that all PPP loans in excess of $2 million, and other PPP loans as appropriate, will be subject to review by the SBA for compliance with program requirements. If the SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request or the subsequent use of loan proceeds, the SBA will seek repayment of the PPP loan, including interest and potential penalties. While the Center believes the PPP loan was properly obtained and forgiven, there can be no assurance regarding the outcome of an SBA review. The Center has not accrued any liability associated with the risk of an adverse SBA review.

On December 27, 2020, the “Consolidated Appropriations Act, 2021” was signed into law, which included additional economic stimulus and COVID-19 related relief including additional PPP funds and expansion of the Employee Retention Credit.

On March 11, 2021, the “American Rescue Plan Act of 2021” (the American Rescue Plan) was signed into law, 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 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 Center's statement of financial position as of October 31, 2021, 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 27, 2022.

Report on 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 were not identified.

Report on 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

July 27, 2022

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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

Opinion on Each Major Federal Program

We have audited Denise Louie Education Center's (the Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended October 31, 2021. 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.

In our opinion, the Center complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Center's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 27, 2022

Denise Louie Education Center

Schedule of Expenditures of Federal Awards
Year Ended October 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing 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	$ 95,629
Total Department of Agriculture			95,629
Department of Housing and Urban Development			
Passed through City of Seattle			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	DL21-1503	430,000
Total CDBG - Entitlement Grants Cluster and Department of Housing and Urban Development			430,000
Department of Health and Human Services			
Head Start Cluster			
Head Start	93.600	10CH011251	3,647,386
COVID-19 Head Start	93.600	10CH011251	443,652
COVID-19 Head Start	93.600	10HE000780	56,374
Total Head Start Cluster			4,147,412
Total Department of Health and Human Services			4,147,412
Total Federal Expenditures			$ 4,673,041

See accompanying 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, 2021. 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

The Schedule includes loans expended in previous years that have continuing compliance requirements. Loan amounts reported in the Schedule represent gross proceeds received that are still outstanding as of October 31, 2021. For the year ended October 31, 2021, the prior loan balance outstanding as of October 31, 2020 of $240,000 from award #DL05-1519 was forgiven as of October 31, 2021, and a new loan of $430,000 from award #DL21-1503 was made. The total outstanding loan balance for the year ended October 31, 2021 was $430,000.

Denise Louie Education Center

Schedule of Findings and Questioned Costs
Year Ended October 31, 2021

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:

Name of Federal Program or Cluster	Federal Asssistance Listing Number
Head Start Cluster	93.600

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.*