Denise Louie Education Center

Audit of Financial Statements
Years Ended October 31, 2022 and 2021
Reports and Schedules in Accordance with *Government Auditing Standards* and Required by the Uniform Guidance
Year Ended October 31, 2022

The report accompanying these financial statements was issued by

BDO USA, P.A., a Delaware professional service corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee.

Denise Louie Education Center

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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, 2022 and 2021, 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 GAAS. 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, 2023 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, P.A.

July 27, 2023

Financial Statements

Denise Louie Education Center

Statements of Financial Position

October 31,		**2022**		2021
Assets				
Current Assets				
Cash and cash equivalents	$	**887,217**	$	1,824,461
Certificates of deposit		**270,686**		-
Grants and contributions receivable		**822,789**		838,815
Other receivables		**9,062**		27,653
Prepaid expenses		**141,321**		89,665
Prepaid lease		**102,564**		102,564
Lease contribution receivable		**358,974**		358,974
Total Current Assets		**2,592,613**		3,242,132
Cash and cash equivalents restricted for Yesler Terrace		**879,580**		867,393
Certificates of deposit restricted for Yesler Terrace		**531,714**		-
Grants and contributions receivable, net of discount and current portion		**228,915**		241,849
Prepaid lease, net of current portion		**2,631,667**		2,734,231
Lease contribution receivable, net of current portion		**5,534,188**		5,893,162
Property and equipment, net		**2,800,724**		1,752,195
Total Assets	$	**15,199,401**	$	14,730,962
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	**184,873**	$	230,939
Accrued wages, taxes, and vacation		**412,324**		518,464
Accrued construction costs		**962,330**		-
Notes payable, current portion		**36,012**		235,086
Total Current Liabilities		**1,595,539**		984,489
Notes payable, net of current portion		**1,245,831**		1,281,531
Deferred rent		**2,518**		4,663
Total Liabilities		**2,843,888**		2,270,683
Net Assets				
Without donor restrictions		**2,975,380**		2,232,803
With donor restrictions		**9,380,133**		10,227,476
Total Net Assets		**12,355,513**		12,460,279
Total Liabilities and Net Assets	$	**15,199,401**	$	14,730,962

See accompanying notes to financial statements.

Denise Louie Education Center

Statements of Activities

Year Ended October 31,	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Head Start funding	**$ 4,689,207**	**$ -**	**$ 4,689,207**	$ 4,147,412	$ -	$ 4,147,412
Other government grants	**2,270,353**	**-**	**2,270,353**	2,287,107	-	2,287,107
Contributions and grants	**816,083**	**188,066**	**1,004,149**	472,738	83,274	556,012
Yesler Terrace contributions	**-**	**-**	**-**	-	169,794	169,794
In-kind contributions	**54,275**	**-**	**54,275**	51,369	-	51,369
Fundraising events	**198,513**	**-**	**198,513**	154,605	-	154,605
Tuition and fees	**274,357**	**-**	**274,357**	215,398	-	215,398
Other income	**85,434**	**-**	**85,434**	183,804	-	183,804
Investment income	**3,379**	**-**	**3,379**	62,493	-	62,493
Paycheck Protection Program Loan forgiveness	**-**	**-**	**-**	525,178	-	525,178
Net assets released from restrictions	**1,035,409**	**(1,035,409)**	**-**	1,018,614	(1,018,614)	-
Total Support and Revenue	**9,427,010**	**(847,343)**	**8,579,667**	9,118,718	(765,546)	8,353,172
Expenses						
Educational program services	**7,250,608**	**-**	**7,250,608**	6,600,950	-	6,600,950
Management and general	**1,151,911**	**-**	**1,151,911**	1,081,910	-	1,081,910
Fundraising	**213,365**	**-**	**213,365**	111,174	-	111,174
Total Expenses	**8,615,884**	**-**	**8,615,884**	7,794,034	-	7,794,034
Change in Net Assets before Depreciation and Amortization	**811,126**	**(847,343)**	**(36,217)**	1,324,684	(765,546)	559,138
Depreciation and amortization	**(68,549)**	**-**	**(68,549)**	(71,488)	-	(71,488)
Change in Net Assets	**742,577**	**(847,343)**	**(104,766)**	1,253,196	(765,546)	487,650
Net Assets, beginning of year	**2,232,803**	**10,227,476**	**12,460,279**	979,607	10,993,022	11,972,629
Net Assets, end of year	**$ 2,975,380**	**$ 9,380,133**	**$ 12,355,513**	$ 2,232,803	$ 10,227,476	$ 12,460,279

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

Year Ended October 31, 2022	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	$ 4,033,195	$ 545,746	$ 110,539	$ 4,689,480
Payroll taxes	669,054	68,375	7,923	745,352
Employee benefits	415,024	47,713	10,852	473,589
Total Employee Expenses	5,117,273	661,834	129,314	5,908,421
Professional fees	278,515	194,511	13,748	486,774
Occupancy	407,462	48,896	12,293	468,651
In-kind rent	461,538	-	-	461,538
Office supplies	141,480	128,651	4,466	274,597
Purchased food expense	216,094	1,578	487	218,159
In-kind professional services	54,275	-	-	54,275
Classroom supplies	167,869	1,199	4,034	173,102
Dues and memberships	70,671	22,213	6,763	99,647
Internet and telephone	66,923	5,502	830	73,255
Utilities	70,179	2,089	221	72,489
Professional development	58,880	7,263	401	66,544
Miscellaneous	3,761	47,781	220	51,762
Equipment rentals	26,729	15,840	900	43,469
Insurance	32,156	9,013	867	42,036
Repairs and maintenance	34,243	1,185	40	35,468
Parent activities	22,954	-	7,375	30,329
Fundraising	-	167	31,169	31,336
Travel	19,606	4,189	237	24,032
Depreciation and amortization	65,361	3,188	-	68,549
Total Expenses	7,315,969	1,155,099	213,365	8,684,433
Less: Depreciation and amortization	(65,361)	(3,188)	-	(68,549)
Total Expenses Included in the Expense Section on the Statement of Activities	$ 7,250,608	$ 1,151,911	$ 213,365	$ 8,615,884

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
Payroll taxes	567,860	44,932	4,074	616,866
Employee benefits	369,331	50,115	5,437	424,883
Total Employee Expenses	4,579,884	618,023	71,073	5,268,980
Professional fees	180,380	320,174	11,192	511,746
Occupancy	484,117	41,353	2,746	528,216
In-kind rent	475,039	-	-	475,039
Office supplies	67,030	31,142	4,101	102,273
Purchased food expense	162,269	953	(87)	163,135
In-kind professional services	22,966	-	-	22,966
Classroom supplies	118,849	1,612	1,922	122,383
Dues and memberships	46,907	16,938	3,857	67,702
Internet and telephone	80,355	8,398	1,513	90,266
Utilities	62,591	2,236	83	64,910
Professional development	127,518	9,929	404	137,851
Miscellaneous	3,159	10,084	415	13,658
Equipment rentals	25,465	8,641	750	34,856
Insurance	32,260	9,031	833	42,124
Repairs and maintenance	36,123	2,179	110	38,412
Parent activities	69,793	68	5,822	75,683
Fundraising	1,186	239	6,621	8,046
Travel	10,156	910	(181)	10,885
In-kind food	14,903	-	-	14,903
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

Statements of Cash Flows

Year Ended October 31,		**2022**		2021
Cash Flows for Operating Activities				
Change in net assets	$	**(104,766)**	$	487,650
Adjustments to reconcile change in net assets to net cash flows for operating activities:				
Depreciation and amortization		**68,549**		71,488
Disposal of property and equiptment		**545**		52,437
Interest accrued on certificates of deposit		**(2,199)**		-
Contributions restricted for Yesler Terrace		**-**		(169,794)
(Gains) losses on investments		**-**		(41,955)
Gain on forgiveness of Paycheck Protection Program loan		**-**		(525,178)
Changes in operating assets and liabilities				
Grants and contributions receivable		**28,960**		328,822
Other receivables		**18,591**		2,538
Prepaid expenses		**(51,656)**		10,038
Prepaid lease		**102,564**		(947,906)
Lease contribution receivable		**358,974**		358,975
Accounts payable		**(118,863)**		(28,019)
Accrued wages, taxes, and vacation		**(106,140)**		67,755
Deferred rent		**(2,145)**		(1,501)
Net Cash Flows for Operating Activities		**192,414**		(334,650)
Cash Flows from (for) Investing Activities				
Purchases of property and equipment		**(82,496)**		-
Purchase of certificates of deposit		**(800,201)**		-
Sale of investments		**-**		523,517
Net Cash Flows from (for) Investing Activities		**(882,697)**		523,517
Cash Flows from Financing Activities				
Payments on notes payable		**(234,774)**		-
Proceeds from contributions restricted for Yesler Terrace		**-**		723,244
Proceeds from issuance of notes payable		**-**		17,095
Net Cash Flows from Financing Activities		**(234,774)**		740,339
Net Change in Cash and Cash Equivalents		**(925,057)**		929,206
Cash and Cash Equivalents, beginning of year		**2,691,854**		1,762,648
Cash and Cash Equivalents, end of year	$	**1,766,797**	$	2,691,854
Cash and Cash Equivalents	$	**887,217**	$	1,824,461
Cash Restricted for Yesler Terrace		**879,580**		867,393
Total Cash and Cash Equivalents	$	**1,766,797**	$	2,691,854
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 and accrued construction costs	$	**1,035,127**	$	-

See accompanying notes to financial statements.

During the years ended October 31, 2022 and 2012, the Center paid $5,419 and $22,010 of interest in cash, respectively.

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 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,	**2022**	2021
Unrestricted	**$ 174,656**	$ 480,608
Investment in fixed assets	**2,800,724**	1,752,195
	$ 2,975,380	$ 2,232,803

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,	**2022**	2021
Lease receivable	**$ 7,576,924**	$ 8,038,462
Yesler Terrace	**1,411,294**	1,687,165
Time-restricted contributions	**391,915**	501,849
	$ 9,380,133	$ 10,227,476

Concentrations

At October 31, 2022 and 2021, 82% and 68%, respectively, of grants and contributions receivable were due from four and three organizations, respectively. During the years ended October 31, 2022 and 2021, one government agency made up 54% and 50% 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.

Certificates of Deposit

The Center's certificates of deposit are recorded at cost plus accrued interest (interest rates range between 0.78% and 1.79%). The certificates of deposit have an initial maturity of 180 days and will renew automatically. The initial terms expired in February and March 2023, and the certificates were renewed for another 180-day maturity.

Cash and Cash Equivalents and Certificates of Deposit Restricted for Yesler Terrace

Cash and cash equivalents and certificates of deposit for Yesler Terrace are classified as long-term assets as they are expected to be invested into property and equipment.

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, 2022 or 2021.

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. The discount rate at October 31, 2022 and 2021, ranged between 2.25% and 3.40%. 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, 2022, total $1,764,566, 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.

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, 2022 or 2021, 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, 2022 and 2021, there were no material estimates related to the constraint of cumulative revenue recognized. Amounts outstanding from parents, representing contract assets are included in other receivables on the statements of financial position.

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

The Center receives in-kind contributions such as professional services, rent and supplies. The estimated fair value of these items is allocated among program and administrative expenses in the period in which they are used. Donated services are recognized as contributions if these services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Donated space is valued at the fair value of similar properties available, determined by third-party appraisals. The Center recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Donated professional services are recognized at estimated fair values provided by the professional performing such services. The Center does not sell any in-kind donations. The value of in-kind contributions included in the financial statements were $54,275 and $51,369 for the years ended October 31, 2022, and 2021, respectively.

Contributions of property and equipment are recorded as support at the estimated fair value at the date of donation. Such contributions are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding the asset use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions associated with property and equipment when the donated or acquired assets are placed in service.

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, 2022, the Center retrospectively adopted the provisions of Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit*

Entities for Contributed Nonfinancial Assets, issued by the Financial Accounting Standards Board (FASB). The pronouncement was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU No. 2020-07 does not change the existing recognition and measurement requirements for contributed nonfinancial assets. The new standard requires that contributed nonfinancial assets are presented separately in the statement of activities. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. Adoption of ASU No. 2020-07 did not have an impact on the financial statements of the Center for the years ended October 31, 2022 or 2021.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the current lease guidance under Leases (Topic 840) and makes several changes, such as requiring an entity establishes a right-of use (ROU) model that requires a lessee to record a ROU asset and liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The update was originally effective for private companies for annual and interim reporting periods beginning after December 15, 2019. In July 2018, the FASB issued ASU 2018-10 *Codification Improvements to Topic 842, Leases*, to add clarity to certain areas within ASU 2016-02, to add an additional and optional transition method to adopt the new leases standard by allowing recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The revised effective date is for annual periods beginning after December 15, 2021. Management is currently evaluating the effect that adoption of this new standard will have on the Center's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, contract assets recognized as a result of applying ASC Topic *606 Revenue from Contracts with Customers*, loans and certain other instruments, entities will be required to use a new forward looking "expected loss" model that generally will result in an earlier recognition of credit losses than under today's incurred loss model. The revised effective date is for annual periods beginning after December 15, 2022, and should be adopted using a modified retrospective approach, which applies a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. A prospective approach is required for debt securities for which another-than-temporary impairment had been recognized before the effective date and loans and debt securities acquired with deteriorated credit quality. Early adoption is permitted. Management is currently evaluating the effect that adoption of this new standard will have on the Center's consolidated financial statements.

Subsequent Events

The Center has evaluated subsequent events through the date these financial statements were available to be issued, which was July 27, 2023. The Center renewed certificates of deposit that matured in early 2023, there were no changes to any terms, other than an increase in interest rates (increased to 4.1%).

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, 2022 and 2021, 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:

	2022	2021
Cash and cash equivalents	$ 1,766,797	$ 2,691,854
Certificates of deposit	802,400	-
Grants and contributions receivable	1,051,704	1,080,664
Other receivables	9,062	27,653
	3,629,963	3,800,171
Less: Contributions restricted for Yesler Terrace	(1,411,294)	(1,687,165)
Less: Grants and contributions receivable over one year	(228,915)	(241,849)
Financial Assets Available to Meet General Expenditures within One Year	$ 1,989,754	$ 1,871,157

3. Grants and Contributions Receivable

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

October 31,	2022	2021
Receivable in less than one year	$ 822,789	$ 838,815
Receivable in one to five years	239,000	250,000
	1,061,789	1,088,815
Less: Discount	(10,085)	(8,151)
Net Grants and Contributions Receivable	$ 1,051,704	$ 1,080,664
Grants and contributions receivable	$ 822,789	$ 838,815
Grants and contributions receivable - noncurrent	228,915	241,849
Net Grants and Contributions Receivable	$ 1,051,704	$ 1,080,664

4. Property and Equipment

Property and equipment consist of the following:

October 31,	**2022**	2021
Leasehold improvements	**$ 2,427,103**	$ 2,292,068
Land	**1,099,993**	1,099,993
Building	**200,007**	200,007
Vehicles	**108,997**	108,997
Office equipment	**127,418**	127,364
	3,963,518	3,828,429
Less: Accumulated depreciation and amortization	**(2,148,920)**	(2,080,371)
	1,814,598	1,748,058
Leasehold improvements in process	**986,126**	4,137
	$ 2,800,724	$ 1,752,195

Leasehold improvements in process at October 31, 2022 and 2021, relate to the Center's new location known as Yesler Terrace. Construction began in 2021 and is expected to be completed in late July 2023. The remaining construction costs are expected to be $1,608,183.

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 $202,843 and $269,426 for the years ended October 31, 2022 and 2021, respectively. Future minimum lease payments are $146,884 and $76,907 for the years ending October 31, 2023 and 2024, 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 $5,893,162 and $6,252,136 at October 31, 2022 and 2021, respectively. The lease contribution receivable was reduced by $358,974 during the years ended October 31, 2022 and 2021, 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, 2022 and 2021, 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 lease 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, 2022, 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. The fair value of the lease cannot be determined until construction is complete.

6. Notes Payable

Notes payable consists of the following:

October 31,	**2022**	2021
Note payable to the Washington Community Reinvestment Association in monthly payments of $2,841, including interest at 4.5%; matures September 2041; secured by a deed of trust on property owed by the Center (carrying value of $1,412,279).	**$ 433,618**	$ 447,843
Note payable to the Washington Community Reinvestment Association in monthly payments of $1,931, including interest at 0.5%; matures September 2041; secured by a deed of trust on property owed by the Center (carrying value of $1,412,279).	**418,225**	439,252
Non-interest bearing note payable to City of Seattle, secured by deed of trust on property owned by the Center (carrying value of $1,412,279). No payments are required until the note is due, which is on July 31, 2031. The loan remains interest-free providing there is no change in use of the building. If there is a change in use, the loan will bear contingent interest at the fair market value at the time of the change in use minus the outstanding principal balance.	**430,000**	430,000
Paycheck Protection Program (PPP) Loan in the amount of $724,700. The loan was partially forgiven by the Small Business Administration (SBA) in August 2021 with the remainder paid off in April 2022.	**-**	199,522
Total Notes Payable	**1,281,843**	1,516,617
Less: Current portion	**(36,012)**	(235,086)
Notes Payable, net of current portion	**$ 1,245,831**	$ 1,281,531

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

2023	$	36,012
2024		36,801
2025		37,622
2026		38,477
2027		39,367
Thereafter		1,093,565
	$	**1,281,843**

In April 2020, the Center received a forgivable loan under the Small Business Administration (SBA) PPP loan program. 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, was 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 paid the remainder of the PPP loan 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.

Supplementary 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, 2022, 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, 2023.

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 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, P.A.

July 27, 2023

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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, 2022. 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, 2022.

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.

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, P.A.

July 27, 2023

Denise Louie Education Center

Schedule of Expenditures of Federal Awards
Year Ended October 31, 2022

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	$ 129,077
Total Department of Agriculture			129,077
Department of Health and Human Services			
Head Start Cluster			
Head Start	93.600	10CH011251	4,448,258
COVID-19 Head Start	93.600	10HE000780	240,949
Total Head Start Cluster			4,689,207
Total Department of Health and Human Services			4,689,207
Total Federal Expenditures			$ 4,818,284

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 award activity of Denise Louie Education Center (the Center) under programs of the federal government for the year ended October 31, 2022. The information in this 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.

Denise Louie Education Center

Schedule of Findings and Questioned Costs
Year Ended October 31, 2022

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 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*