Denise Louie Education Center

Audit of Financial Statements
Years Ended October 31, 2023 and 2022

Reports and Schedules in Accordance with *Government Auditing Standards* and Required by the Uniform Guidance
Year Ended October 31, 2023

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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, 2023 and 2022, 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, 2023 and 2022, 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 audit 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 audit. 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 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 31, 2024 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.C.

July 31, 2024

Financial Statements

Denise Louie Education Center

Statements of Financial Position

October 31,	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 1,570,212	$ 887,217
Certificates of deposit	827,346	270,686
Grants and contributions receivable, current portion	865,285	822,789
Other receivables	26,698	9,062
Prepaid expenses	140,175	141,321
Prepaid lease	320,084	102,564
Lease contribution receivable	358,974	358,974
Total Current Assets	4,108,774	2,592,613
Cash and Cash Equivalents Restricted for Yesler Terrace	250,000	879,580
Certificates of Deposit Restricted for Yesler Terrace	-	531,714
Grants and Contributions Receivable, net of discount and current portion	72,293	228,915
Prepaid Lease, net of current portion	5,280,013	2,631,667
Lease Contribution Receivable, net of current portion	5,175,214	5,534,188
Property and Equipment, Net	1,965,529	1,838,394
Total Assets	$ 16,851,823	$ 14,237,071
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 204,905	$ 184,873
Accrued wages, taxes, and vacation	468,628	412,324
Notes payable, current portion	36,801	36,012
Total Current Liabilities	710,334	633,209
Notes Payable, net of current portion	1,209,030	1,245,831
Deferred Rent	-	2,518
Total Liabilities	1,919,364	1,881,558
Net Assets		
Without donor restrictions	3,157,467	2,975,380
With donor restrictions	11,774,992	9,380,133
Total Net Assets	14,932,459	12,355,513
Total Liabilities and Net Assets	$ 16,851,823	$ 14,237,071

See accompanying notes to financial statements.

Denise Louie Education Center

Statements of Activities

Year ended October 31,

	2023			2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Head Start funding	**$ 4,895,888**	**$ -**	**$ 4,895,888**	$ 4,689,207	$ -	$ 4,689,207
Other government grants	**2,333,573**	**3,300,000**	**5,633,573**	2,270,353	-	2,270,353
Contributions and grants	**454,537**	**6,378**	**460,915**	816,083	188,066	1,004,149
In-kind contributions	**41,819**	**-**	**41,819**	54,275	-	54,275
Fundraising events	**257,053**	**-**	**257,053**	198,513	-	198,513
Tuition and fees	**328,365**	**-**	**328,365**	274,357	-	274,357
Other income	**181,671**	**-**	**181,671**	85,434	-	85,434
Investment income	**34,874**	**-**	**34,874**	3,379	-	3,379
Net assets released from restrictions	**911,519**	**(911,519)**	**-**	1,035,409	(1,035,409)	-
Total Support and Revenue	**9,439,299**	**2,394,859**	**11,834,158**	9,427,010	(847,343)	8,579,667
Expenses						
Educational program services	**7,707,418**	**-**	**7,707,418**	7,250,608	-	7,250,608
Management and general	**1,230,972**	**-**	**1,230,972**	1,151,911	-	1,151,911
Fundraising	**246,718**	**-**	**246,718**	213,365	-	213,365
Total Expenses	**9,185,108**	**-**	**9,185,108**	8,615,884	-	8,615,884
Change in Net Assets, before depreciation and amortization	**254,191**	**2,394,859**	**2,649,050**	811,126	(847,343)	(36,217)
Depreciation and Amortization	**(72,104)**	**-**	**(72,104)**	(68,549)	-	(68,549)
Change in Net Assets	**182,087**	**2,394,859**	**2,576,946**	742,577	(847,343)	(104,766)
Net Assets, beginning of year	**2,975,380**	**9,380,133**	**12,355,513**	2,232,803	10,227,476	12,460,279
Net Assets, end of year	**$ 3,157,467**	**$ 11,774,992**	**$ 14,932,459**	$ 2,975,380	$ 9,380,133	$ 12,355,513

See accompanying notes to financial statements.

Denise Louie Education Center

Statement of Functional Expenses

Year ended October 31, 2023

	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	$ 4,348,471	$ 460,570	$ 118,424	$ 4,927,465
Employee benefits	636,110	58,093	6,278	700,481
Payroll taxes	454,627	44,885	11,704	511,216
Total Employee Expenses	5,439,208	563,548	136,406	6,139,162
Professional fees	269,067	365,649	17,363	652,079
In-kind rent	543,108	-	-	543,108
Occupancy	365,217	41,040	9,360	415,617
Office supplies	191,416	150,642	5,238	347,296
Purchased food expense	225,096	1,350	467	226,913
Classroom supplies	125,022	3,648	7,975	136,645
Internet and telephone	82,631	6,129	772	89,532
Dues and memberships	63,610	18,638	7,252	89,500
Professional development	84,196	3,865	76	88,137
Utilities	72,089	1,675	168	73,932
Repairs and maintenance	67,629	6,189	104	73,922
Depreciation and amortization	69,369	2,735	-	72,104
Miscellaneous	5,680	52,186	1,387	59,253
Fundraising	-	116	48,970	49,086
Insurance	38,233	9,783	824	48,840
In-kind professional services	41,819	-	-	41,819
Parent activities	30,889	377	9,505	40,771
Equipment rentals	30,127	4,825	566	35,518
Travel	32,381	1,312	285	33,978
Total Expenses	7,776,787	1,233,707	246,718	9,257,212
Less: depreciation and amortization	(69,369)	(2,735)	-	(72,104)
Total Expenses Included in the Expense Section on the Statement of Activities	$ 7,707,418	$ 1,230,972	$ 246,718	$ 9,185,108

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
Employee benefits	669,054	68,375	7,923	745,352
Payroll taxes	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
In-kind rent	461,538	-	-	461,538
Occupancy	407,462	48,896	12,293	468,651
Office supplies	141,480	128,651	4,466	274,597
Purchased food expense	216,094	1,578	487	218,159
Classroom supplies	167,869	1,199	4,034	173,102
Internet and telephone	66,923	5,502	830	73,255
Dues and memberships	70,671	22,213	6,763	99,647
Professional development	58,880	7,263	401	66,544
Utilities	70,179	2,089	221	72,489
Repairs and maintenance	34,243	1,185	40	35,468
Depreciation and amortization	65,361	3,188	-	68,549
Fundraising	-	167	31,169	31,336
Insurance	32,156	9,013	867	42,036
Miscellaneous	3,761	47,781	220	51,762
In-kind professional services	54,275	-	-	54,275
Parent activities	22,954	-	7,375	30,329
Equipment rentals	26,729	15,840	900	43,469
Travel	19,606	4,189	237	24,032
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

Statements of Cash Flows

Year ended October 31,		2023		2022
Cash Flows from Operating Activities				
Change in net assets	$	**2,576,946**	$	(104,766)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**72,104**		68,549
Disposal of property and equipment		**-**		545
Interest accrued on certificates of deposit		**(24,946)**		(2,199)
Changes in operating assets and liabilities:				
Grants and contributions receivable		**114,126**		28,960
Other receivables		**(17,636)**		18,591
Prepaid expenses		**1,146**		(51,656)
Prepaid lease		**(2,865,866)**		102,564
Lease contribution receivable		**358,974**		358,974
Accounts payable		**72,772**		(118,863)
Accrued wages, taxes, and vacation		**56,304**		(106,140)
Deferred rent		**(2,518)**		(2,145)
Net Cash Provided by Operating Activities		**341,406**		192,414
Cash Flows from Investing Activities				
Purchases of property and equipment		**(251,979)**		(82,496)
Purchase of certificates of deposit		**-**		(800,201)
Net Cash Used in Investing Activities		**(251,979)**		(882,697)
Cash Flows from Financing Activities				
Payments on notes payable		**(36,012)**		(234,774)
Net Change in Cash and Cash Equivalents		**53,415**		(925,057)
Cash and Cash Equivalents, beginning of year		**1,766,797**		2,691,854
Cash and Cash Equivalents, end of year	$	**1,820,212**	$	1,766,797
Cash and cash equivalents	$	**1,570,212**	$	887,217
Cash restricted for Yesler Terrace		**250,000**		879,580
Total Cash and Cash Equivalents	$	**1,820,212**	$	1,766,797
Supplemental Cash Flow Information				
Non-cash investing and financing activities:				
Purchase of property and equipment included in accounts payable	$	**20,057**	$	72,797
Supplemental Disclosure				
Cash paid for interest	$	**21,251**	$	22,010

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 four 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 Perinatal Services (a nonprofit). 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. The Center worked on the Yesler Terrace Project in conjunction with the Seattle Chinatown International District Preservation and Development Authority and Capitol Hill Housing. The Yesler Terrace Project encompasses additional services such as affordable housing and other community resources in addition to the Center's programs. During the year ended October 31, 2021, the project broke ground, and was completed in June 2023. The Center's space includes six classrooms serving at least 37 infants and 60 preschoolers. The city of Seattle's grant was contingent upon the Center's space being completed, and the lease for the space being in full effect, among other conditions. The $2,500,000 was recognized as revenues during the year ended October 31, 2023.

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 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. There are no conditional contributions outstanding at October 31, 2023.

Concentrations

At October 31, 2023 and 2022, 75% and 82%, respectively, of grants and contributions receivable were due from four organizations. During the years ended October 31, 2023 and 2022, two and one government agencies made up 70% and 54% 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 – This level consists of observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – This level consists of observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – This level consists of unobservable market inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset 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 and cash equivalents consist of cash held in checking and savings accounts and money market accounts. 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 (4.64% at October 31, 2023). The certificates of deposit have either an initial maturity of 180 days or nine months and will renew automatically. The certificates of deposit are currently set to expire in January 2024 and June 2024 and were repurchased and renewed through August 2024 and January 2025, respectively.

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 collectability 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, 2023 or 2022.

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, 2023 and 2022, ranged between 2.25% and 3.40%. Amortization of the discount is included in contributions and grants revenue in the statements of activities.

Property and Equipment

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

Asset Category	Years
Building	40
Leasehold Improvements	5-20
Vehicles and office equipment	5

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, 2023 or 2022 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, 2023 and 2022, 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. At October 31, 2023, there is $2,395,827 in conditional revenues that the Center has not recognized. Subsequent to October 31, 2023, the funding was increased by $2,506,722 for a total award of $4,902,549. These are expected to be earned and collected during the year ending October 31, 2024.

Fundraising Events

Revenues are recognized at the time of the event. Funds collected in advance of events taking place are deferred until the event occurs.

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 $41,819 and $54,275 for the years ended October 31, 2023 and 2022, 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.

Leases (Effective November 1, 2022)

The Center determines if an arrangement is a lease at inception. Assets and obligations related to operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the statements of financial position.

ROU assets represent the Center's right to use an underlying asset for the lease term and lease liabilities represent the Center's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. As the Center's leases do not provide an implicit rate, the discount rate based on the information available at commencement date is used in determining the present value of the lease payments. Certain lease terms may include options to extend or terminate the lease, and these are included when it is reasonably certain that the Center will exercise those options.

The Center's agreements with lease and non-lease components are all accounted for as a single lease component. For leases with an initial term of 12 months or less, the Center elected the exemption from recording ROU assets and lease liabilities for all leases that qualify, and records rent expense on a straight-line basis over the lease term.

Certain leases may include variable payments, which may vary based upon changes in facts or circumstances after the start of the lease. The Center excludes variable payments from lease ROU assets and lease liabilities to the extent not considered fixed, and instead expenses as incurred. Variable lease costs for the year ended October 31, 2023 are immaterial.

Leases (Through October 31, 2022)

Prior to November 1, 2022, rent expense for operating leases was recognized on a straight-line basis over the term of the lease.

Recent Accounting Pronouncement Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and subsequent amendments to the initial guidance (collectively, ASC 842). ASC 842 requires lessees to generally recognize on the statement of financial position, operating and finance lease liabilities and corresponding ROU assets for leases. Lessor accounting is largely unchanged under ASC 842. Entities are required to use a modified retrospective approach on adoption, with the option of applying the requirements of the standard either (1) retrospectively to each prior comparative reporting period presented or (2) retrospectively at the beginning of the period of adoption, through a cumulative-effect adjustment to net assets, if any. The Center elected to adopt the new standard retrospectively at the beginning of the period of adoption, November 1, 2022. There was no cumulative effect adjustment to net assets on the date of adoption. Adoption of the standard had no impact on the statements of financial position, activities, or cash flows. The Center elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things allows the Center to carry forward the historical lease classification for leases that commenced before November 1, 2023.

New Accounting Pronouncements Not Yet Adopted

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 an other-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 financial statements.

Subsequent Events

The Center has evaluated subsequent events through the date these financial statements were available to be issued, which was July 31, 2024. The certificates of deposit were repurchased and automatically renewed upon their maturity in 2024. See Note 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, and 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.

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:

October 31,		**2023**		2022
Cash and cash equivalents	**$**	**1,820,212**	$	1,766,797
Certificates of deposit		**827,346**		802,400
Grants and contributions receivable		**937,578**		1,051,704
Other receivables		**26,698**		9,062
		3,611,834		3,629,963
Less: contributions restricted for Yesler Terrace		**(405,414)**		(1,411,294)
Less: grants and contributions receivable over one year		**(72,293)**		(228,915)
Financial Assets Available to Meet General Expenditures within One Year	**$**	**3,134,127**	$	1,989,754

3. Grants and Contributions Receivable

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

October 31,		**2023**		2022
Receivable in less than one year	**$**	**865,285**	$	822,789
Receivable in one to five years		**76,000**		239,000
		941,285		1,061,789
Less: discount		**(3,707)**		(10,085)
Net Grants and Contributions Receivable	**$**	**937,578**	$	1,051,704
Grants and contributions receivable, current portion	**$**	**865,285**	$	822,789
Grants and contributions receivable, net of current portion		**72,293**		228,915
Net Grants and Contributions Receivable	**$**	**937,578**	$	1,051,704

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4. Property and Equipment

Property and equipment consist of the following:

October 31,		**2023**		2022
Leasehold improvements	$	**2,459,317**	$	2,427,103
Land		**1,099,993**		1,099,993
Building		**200,007**		200,007
Vehicles		**108,997**		108,997
Office equipment		**157,737**		127,418
		4,026,051		3,963,518
Less: accumulated depreciation and amortization		**(2,060,522)**		(2,148,920)
		1,965,529		1,814,598
Leasehold improvements in process		**-**		23,796
	$	**1,965,529**	$	1,838,394

Leasehold improvements in process at October 31, 2022, relate to the Center's new location known at Yesler Terrace. Construction began in 2021 and was completed in late June 2023.

5. Net Assets

Net assets without donor restrictions consist of the following:

October 31,		**2023**		2022
Unrestricted	$	**1,191,938**	$	174,656
Investment in fixed assets		**1,965,529**		2,800,724
	$	**3,157,467**	$	2,975,380

Net assets with donor restrictions consist of the following:

October 31,		**2023**		2022
Lease prepayments	$	**5,600,097**	$	2,734,231
Lease receivable		**5,534,188**		5,893,162
Yesler Terrace		**405,414**		360,825
Time-restricted contributions		**235,293**		391,915
	$	**11,774,992**	$	9,380,133

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6. Leasing Arrangements

The Center leases operating and program service space at four locations.

In 1996, the Center signed a lease, commencing in 1998, and subsequently extended the lease through April 2018 for $4,993 per month. The lease has continued on a month-to-month basis until terminated in August 2023. The services provided at the location were transferred to Yesler Terrace.

In 1998, the Center entered into a lease agreement that was most recently extended in 2013 through October 31, 2023 with monthly rent of $2,578 during the year ended October 31, 2023. The lease was termed early in June 2023.

In 2010, the Center entered into a lease agreement that was extended in 2021 through June 30, 2022 with five one-year options to extend (through June 30, 2027). The Center has not included the unexercised options to extend or terminate the lease in the calculation of ROU assets or lease liabilities as it is not reasonably certain that the Center will exercise these options.

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 $2,000,000 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 six 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 six 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 $5,534,188 and $5,893,162 at October 31, 2023 and 2022, respectively. The lease contribution receivable was reduced by $358,974 during each of the years ended October 31, 2023 and 2022 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, 2023 and 2022 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 its location known as Yesler Terrace. The lease commenced when the project was substantially completed in June 2023. The lease required a $4,350,407 prepaid rent deposit, which will be amortized over the life of the lease, which is 20 years from the date of commencement. Rent deposits of $1,050,407 and $3,050,000 were paid during the years ended October 31, 2021, and 2023, respectively, and has been included in the prepaid lease balance on the statements of financial position. The final $250,000 was paid in February 2024. The prepaid rent was reduced by $81,570 in the year ended October 31, 2023, and was recognized in in-kind rent expense in the statements of functional expenses.

The Center also leases equipment that expires in September 2028 and that qualifies as a financing lease. Management has not recorded a ROU asset or lease liability as the lease is immaterial to the financial statements.

Under ASC 840, rent expense amounted to $202,843 for operating leases during the year ended October 31, 2022.

Total operating and financing lease costs (included in operating cash flows) were $218,000 during the year ended October 31, 2023.

7. Notes Payable

Notes payable consists of the following:

October 31,		**2023**		2022
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 owned by the Center (carrying value of $1,394,224).	**$**	**418,739**	$	433,618
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 owned by the Center (carrying value of $1,394,224).		**397,092**		418,225
Non-interest bearing note payable to city of Seattle, secured by deed of trust on property owned by the Center (carrying value of $1,394,224). No payments are required until the note is due, which is on July 31, 2031. The loan remains interest-free providing there is no change in use of the building. If there is a change in use, the loan will bear contingent interest at the fair market value at the time of the change in use minus the outstanding principal balance.		**430,000**		430,000
Total Notes Payable		**1,245,831**		1,281,843
Less: current portion		**(36,801)**		(36,012)
Notes Payable, net of current portion	**$**	**1,209,030**	$	1,245,831

Interest expense was $21,251 and $22,010 for the years ended October 31, 2023 and 2022, respectively.

Principal maturities on those notes are as follows:

Year ending October 31,		
2024	$	36,801
2025		37,622
2026		38,477
2027		39,367
2028		40,293
Thereafter		1,053,271
	$	1,245,831

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, 2023, 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 31, 2024.

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.C.

July 31, 2024

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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, 2023. 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, 2023.

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.C.

July 31, 2024

Denise Louie Education Center

Schedule of Expenditures of Federal Awards

Year ended October 31, 2023

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Award/Pass-Through Entity Identifying Number	Total Federal Expenditures
United States Department of Agriculture			
Pass-through from state of Washington			
Office of the Superintendent of Public Instruction:			
Child and Adult Care Food Program	10.558	17-07-0181	$ 149,920
Total United States Department of Agriculture			149,920
United States Department of Health and Human Services			
Head Start Cluster:			
Head Start	93.600	10CH011251	4,791,654
COVID-19 Head Start	93.600	10HE000780	104,234
Total Head Start Cluster			4,895,888
Total United States Department of Health and Human Services			4,895,888
Total Federal Expenditures			$ 5,045,808

The accompanying notes are an integral part of this schedule.

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, 2023. 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 minimis indirect cost rate allowed under the Uniform Guidance.

4. Subrecipients

There were no program funds passed through the Center to subrecipients during the year ended October 31, 2023.

Denise Louie Education Center

Schedule of Findings and Questioned Costs
Year Ended October 31, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor 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 federal programs:

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

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X yes	_____ no

Section II - Financial Statement Findings

No findings were identified that were required to be reported.

Section III - Federal Award Findings and Questioned Costs

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