



FINANCIAL REPORT

OCTOBER 31, 2017

**C O N T E N T S**

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1 and 2</b>
 <b>FINANCIAL STATEMENTS</b>	
STATEMENTS OF FINANCIAL POSITION .....	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENT OF FUNCTIONAL EXPENSES – 2017 .....	5
STATEMENT OF FUNCTIONAL EXPENSES – 2016 .....	6
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS .....	8 - 14
 <b>SUPPLEMENTARY REPORTS AND SCHEDULES IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> AND THE UNIFORM GUIDANCE</b>	
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....</b>	<b>16 and 17</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....</b>	<b>18 and 19</b>
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	20
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	22

Note: there were no prior year findings or questioned costs, so a schedule of prior year audit findings is not included.

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of Denise Louie Education Center ("the Center"), which comprise the statements of financial position as of October 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of October 31, 2017 and 2016, 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.

## **Other Matters – Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. 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 \_\_\_\_\_, 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.

*Peterson Sullivan LLP*

June 12, 2018

**DENISE LOUIE EDUCATION CENTER**

STATEMENTS OF FINANCIAL POSITION

October 31, 2017 and 2016

ASSETS	2017	2016
	<u>          </u>	<u>          </u>
Current Assets		
Cash and cash equivalents	\$ 735,054	\$ 757,592
Investments	104,361	206,908
Grants and contributions receivable	492,589	243,924
Tuition and other receivables	132,705	8,736
Prepaid expenses	90,436	76,252
	<u>          </u>	<u>          </u>
Total current assets	1,555,145	1,293,412
Grants and Contributions Receivable, net of discount and current portion	741,794	32,500
Property and Equipment, net	362,745	551,653
Other Assets, net	6,740	10,341
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 2,666,424</u>	<u>\$ 1,887,906</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 49,281	\$ 67,974
Accrued wages, taxes, and vacation	254,246	225,285
	<u>          </u>	<u>          </u>
Total current liabilities	303,527	293,259
Deferred Rent	64,257	82,264
Note Payable, net of loan fees	83,701	60,401
	<u>          </u>	<u>          </u>
Total liabilities	451,485	435,924
Net Assets		
Unrestricted	986,253	1,039,286
Temporarily restricted	1,228,686	412,696
	<u>          </u>	<u>          </u>
Total net assets	2,214,939	1,451,982
	<u>          </u>	<u>          </u>
Total liabilities and net assets	<u>\$ 2,666,424</u>	<u>\$ 1,887,906</u>

See Notes to Financial Statements

**DENISE LOUIE EDUCATION CENTER**

STATEMENTS OF ACTIVITIES

For the Years Ended October 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support						
Head Start funding	\$ 2,997,513	\$ -	\$ 2,997,513	\$ 2,800,432	\$ -	\$ 2,800,432
Other government grants	787,234		787,234	933,785		933,785
Contributions and grants	243,156	293,760	536,916	287,784	18,907	306,691
Fundraising events	225,997		225,997	159,776		159,776
Building 9 contributions		717,000	717,000		115,000	115,000
United Way contributions	10,000	20,000	30,000	14,634	44,271	58,905
Net assets released from restrictions	214,770	(214,770)		59,752	(59,752)	
Total support	4,478,670	815,990	5,294,660	4,256,163	118,426	4,374,589
Revenue						
Tuition and fees	215,395		215,395	215,335		215,335
Investment income	2,790		2,790	1,629		1,629
Other income	467		467	1,150		1,150
Total revenue	218,652		218,652	218,114		218,114
Total support and revenue	4,697,322	815,990	5,513,312	4,474,277	118,426	4,592,703
Expenses						
Educational program services	4,029,675		4,029,675	3,756,460		3,756,460
Management and general	399,207		399,207	562,795		562,795
Fundraising	190,076		190,076	143,604		143,604
Total expenses	4,618,958		4,618,958	4,462,859		4,462,859
<b>Change in net assets before     depreciation and amortization</b>	<b>78,364</b>	<b>815,990</b>	<b>894,354</b>	<b>11,418</b>	<b>118,426</b>	<b>129,844</b>
Depreciation and Amortization	(131,397)		(131,397)	(130,263)		(130,263)
<b>Change in net assets</b>	<b>(53,033)</b>	<b>815,990</b>	<b>762,957</b>	<b>(118,845)</b>	<b>118,426</b>	<b>(419)</b>
Net Assets, beginning of year	1,039,286	412,696	1,451,982	1,158,131	294,270	1,452,401
Net Assets, end of year	\$ 986,253	\$ 1,228,686	\$ 2,214,939	\$ 1,039,286	\$ 412,696	\$ 1,451,982

See Notes to Financial Statements

**DENISE LOUIE EDUCATION CENTER**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2017

	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	\$ 2,246,064	\$ 260,638	\$ 79,884	\$ 2,586,586
Employee benefits	418,267	43,807	14,028	476,102
Payroll taxes	247,145	28,344	9,259	284,748
	<hr/>	<hr/>	<hr/>	<hr/>
Total employee expenses	2,911,476	332,789	103,171	3,347,436
Occupancy	325,533	23,072	16,801	365,406
Purchased food expense	141,482	2,103	16,175	159,760
Professional fees	107,159	10,869	30,619	148,647
In-kind goods and services	117,495			117,495
Office supplies	62,028	3,984	877	66,889
Professional development	58,831	2,594	61	61,486
Utilities	48,995	7,644	1,072	57,711
Travel	49,127	1,656	597	51,380
Internet and telephone	44,162	4,202	772	49,136
Classroom supplies	43,175	855	1,201	45,231
Repairs and maintenance	44,712	88		44,800
Equipment rentals	26,825	4,415	214	31,454
Dues and memberships	20,821	1,303	1,970	24,094
Insurance	19,073	3,207	141	22,421
Fundraising			15,935	15,935
Parent activities	8,159	8	199	8,366
Vehicles	395			395
Printing	99		161	260
Miscellaneous	128	418	110	656
Depreciation and amortization	71,200	60,197		131,397
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	4,100,875	459,404	190,076	4,750,355
Less: depreciation and amortization	(71,200)	(60,197)		(131,397)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses included in the expense section on the statement of activities	<u>\$ 4,029,675</u>	<u>\$ 399,207</u>	<u>\$ 190,076</u>	<u>\$ 4,618,958</u>

See Notes to Financial Statements

**DENISE LOUIE EDUCATION CENTER**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2016

	Educational Program Services	Management and General	Fundraising	Total Expenses
Salary and wages	\$ 2,173,725	\$ 310,057	\$ 56,746	\$ 2,540,528
Employee benefits	348,910	110,092	3,000	462,002
Payroll taxes	218,760	69,684	7,427	295,871
	<hr/>	<hr/>	<hr/>	<hr/>
Total employee expenses	2,741,395	489,833	67,173	3,298,401
Occupancy	311,409	27,352	9,284	348,045
Purchased food expense	135,054	1,667	2	136,723
Professional fees	70,506	13,089	14,289	97,884
In-kind goods and services	132,350			132,350
Office supplies	40,595	4,532	899	46,026
Professional development	52,446	3,780	93	56,319
Utilities	45,411			45,411
Travel	39,799	3,084	345	43,228
Internet and telephone	44,111	3,683	983	48,777
Classroom supplies	29,502	1,167	1,285	31,954
Repairs and maintenance	31,575	880	301	32,756
Equipment rentals	27,372	5,858	175	33,405
Dues and memberships	17,145	1,328	171	18,644
Insurance	21,470	2,966	199	24,635
Fundraising		91	42,575	42,666
Parent activities	11,445	394	3,668	15,507
Vehicles	810			810
Printing	4,065	525	995	5,585
Miscellaneous		2,566	1,167	3,733
Depreciation and amortization	117,520	12,743		130,263
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	3,873,980	575,538	143,604	4,593,122
Less: depreciation and amortization	(117,520)	(12,743)		(130,263)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses included in the expense section on the statement of activities	<u>\$ 3,756,460</u>	<u>\$ 562,795</u>	<u>\$ 143,604</u>	<u>\$ 4,462,859</u>

See Notes to Financial Statements

**DENISE LOUIE EDUCATION CENTER**

STATEMENTS OF CASH FLOWS

For the Years Ended October 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 762,957	\$ (419)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	131,397	130,263
Contributions restricted for capital campaign	(717,000)	(115,000)
Gains on investments	(358)	(236)
Changes in operating assets and liabilities		
Grants and contributions receivable	(181,052)	198,294
Tuition and other receivables	(123,969)	3,514
Prepaid expenses	(14,184)	(28,272)
Accounts payable	(18,693)	8,122
Accrued wages, taxes, and vacation	28,961	(11,695)
Deferred rent	(18,007)	(18,852)
Net cash flows from operating activities	(149,948)	165,719
Cash Flows from Investing Activities		
Purchases of property and equipment	(76,295)	(90,283)
Proceeds from sale (purchase) of investments	102,905	(1,025)
Net cash flows from investing activities	26,610	(91,308)
Cash Flows from Financing Activities		
Borrowings on note	22,467	60,033
Proceeds from contributions restricted for capital campaign	78,333	50,000
Net cash flows from financing activities	100,800	110,033
<b>Net change in cash and cash equivalents</b>	<b>(22,538)</b>	<b>184,444</b>
Cash and Cash Equivalents, beginning of year	757,592	573,148
Cash and Cash Equivalents, end of year	\$ 735,054	\$ 757,592
Supplemental Cash Flow Information		
Noncash financing and investing activity		
Loan fees netted with borrowings	\$ -	\$ 2,500

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 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 and Sea-Tac.

The Center is working with Mercy Housing Northwest (which is responsible for the overall project development) on the redevelopment of the building commonly known as Building 9, located at the former Sand Point Naval Air Station, consisting of 148 units of affordable housing and approximately 24,000 square feet of commercial and community services space. The Center will be the primary tenant in the community space to operate as an early learning program serving children birth to five. The Center and Mercy Housing Northwest have entered into a Memorandum of Agreement and are in the preliminary stages of negotiating a long-term lease for 20 years. The opening of the site is anticipated to occur during the year ending October 31, 2020. See further discussion of the lease in Notes 3 and 4.

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 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 United Way of King County, the State of Washington's Working Connections Child Care program, parent co-payments, the federal free and reduced lunch program, City of Seattle Comprehensive Child Care Program and Step Ahead Program, and foundations, corporations, and individuals. In addition, the Center relies on parent and community volunteers and other in-kind donations.

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions that are received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Center has no permanently restricted net assets.

## **Unrestricted Net Assets**

Unrestricted net assets consist of the following at October 31:

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 623,508	\$ 487,633
Investment in fixed assets	362,745	551,653
	<u>\$ 986,253</u>	<u>\$ 1,039,286</u>

## **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met.

Temporarily restricted net assets consist of the following at October 31:

	<u>2017</u>	<u>2016</u>
Building 9 Project	\$ 769,925	\$ 109,518
Forgivable loan	240,000	240,000
Time-restricted contributions	218,761	63,178
	<u>\$ 1,228,686</u>	<u>\$ 412,696</u>

The \$240,000 loan from the City of Seattle at October 31, 2017 and 2016, is for the rehabilitation of the Beacon Hill site, which the Center has treated as restricted grant income.

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

## **Concentrations**

At October 31, 2017 and 2016, 68% and 86% of grants and contributions receivable were due from four organizations, respectively. During both the years ended October 31, 2017 and 2016, two agencies made up 65% and 75% of total support and revenue, respectively.

## **Fair Value Measurements**

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

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

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

## **Cash and Cash Equivalents**

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

## **Investments**

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

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

Investments are composed of the following at October 31:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 102,455	\$ 205,360
Equity securities	1,906	1,548
	<u>\$ 104,361</u>	<u>\$ 206,908</u>

The components of investment income were as follows for the years ended October 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 2,432	\$ 1,393
Gains on investments	358	236
	<u>\$ 2,790</u>	<u>\$ 1,629</u>

### **Tuition and Other Receivables**

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

No allowance for doubtful accounts was considered necessary at October 31, 2017 or 2016.

### **Grants and Contributions**

Unconditional promises to give are recognized as revenue in the period promised as pledges receivable. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Long-term pledges are recognized at fair value when received and are measured at the present value of the estimated cash flows. In arriving at fair value, the promises to give are discounted using an estimated rate, which includes a present value discount rate and an estimated rate for an allowance for doubtful accounts. At October 31, 2017, the discount rate used was 2.35%. At October 31, 2016, no discount was recorded as management determined that the discount would be immaterial to these financial statements. Amortization of the discount is included in contributions and grants revenue in the statements of activities.

### **Property and Equipment**

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

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

### **Deferred Rent**

As discussed in Note 4, the Center's facilities lease has payments that gradually increase. Deferred rent represents the effect of recognizing lease payments equally over the lease term.

### **Tuition and Fees**

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

### **Advertising**

Advertising costs are expensed as incurred.

### **In-Kind Goods and Services**

Goods and services donated to the Center have been recorded in the statements of activities as in-kind support and expense at amounts that would have been paid for similar goods and services, if purchased. In-kind contributions for the years ended October 31, 2017 and 2016, totaled \$117,495 and \$132,350, respectively, and are included with contributions in the statements of activities. In-kind goods and services consist primarily of donated meals, donated professional services, and rent.

### **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.

### **Allocations of Functional Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Income Taxes**

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

### **Subsequent Events**

The Center has evaluated subsequent events through the date these financial statements were available to be issued, which was June 12, 2018.

## Note 2. Grants and Contributions Receivable

Grants and contributions receivable are recorded in the statements of financial position as follows at October 31:

	2017	2016
Receivable in less than one year	\$ 1,138,956	\$ 243,924
Receivable in one to five years	101,667	32,500
	1,240,623	276,424
Less: discount	6,240	
Net pledges receivable	<u>\$ 1,234,383</u>	<u>\$ 276,424</u>
Grants and contributions receivable	\$ 492,589	\$ 243,924
Grants and contributions receivable - noncurrent	741,794	32,500
Net pledges receivable	<u>\$ 1,234,383</u>	<u>\$ 276,424</u>

Included in the grants and contributions receivable – noncurrent is \$646,367 of contributions to the Building 9 project, which are expected to be collected during the year ending October 31, 2019. These have been recorded as noncurrent as they are expected to help fund the leasehold improvements of the Building 9 space.

## Note 3. Property and Equipment

Property and equipment consists of the following at October 31:

	2017	2016
Leasehold improvements	\$ 1,830,429	\$ 1,822,914
Vehicles	108,997	108,997
Office equipment	26,326	26,326
	1,965,752	1,958,237
Less: accumulated depreciation and amortization	<u>(1,616,542)</u>	<u>(1,489,578)</u>
	349,210	468,659
Leasehold improvements in process	13,535	82,994
	<u>\$ 362,745</u>	<u>\$ 551,653</u>

Leasehold improvements in process at October 31, 2017 and 2016, relates to the Center's new location known as Building 9, which is anticipated to be completed during the year ending October 31, 2020.

#### Note 4. Lease Commitments

The Center leases operating and program service space at five locations. Rent expense under these leases was \$292,788 and \$278,703 for the years ended October 31, 2017 and 2016, respectively.

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

2018	\$	267,667
2019		236,868
2020		200,584
2021		89,396
2022		33,102
Thereafter		33,764
		<hr/>
	\$	861,381
		<hr/> <hr/>

In September 2017, the Center entered into a lease with Mercy Housing Northwest for the future location at Building 9. The lease will commence when the project is completed, which is expected to be during the year ending October 31, 2020. The lease requires a \$2 million prepaid rent deposit, which will be amortized over the life of the lease, which is anticipated to be 19 years and 6 months from date of commencement. The fair value of the leased space has not been determined, but should the fair value of the leased space exceed the deposit, an in-kind contribution will be recorded and recognized over the lease term.

#### Note 5. Retirement Plan

The Center has a simple IRA plan for eligible participants. The Center contributed \$43,864 and \$46,708 to the plan for the years ended October 31, 2017 and 2016, respectively.

#### Note 6. Note Payable

During 2016, the Center entered into a note for \$85,000 to fund the leasehold improvements for the Building 9 project. The note bears no interest and is due in full in April 2019. Management has not imputed interest on this note as it would not be material. Of the \$85,000 that was approved, only \$62,533 was borrowed during the year ended October 31, 2016, of which \$2,500 related to debt issuance costs. The remaining balance was fully drawn on during the year ended October 31, 2017. The debt issuance costs will be amortized on a straight-line basis (which approximates the effective interest method) over the term of the note to amortization expense, and the unamortized portion is netted with the noncurrent portion of the note payable on the statements of financial position. The Center amortized \$833 and \$368 during the years ended October 31, 2017 and 2016, respectively. The outstanding balance is composed of the following at October 31:

	2017	2016
	<hr/>	<hr/>
Note payable	\$ 85,000	\$ 62,533
Less: unamortized debt issuance costs	(1,299)	(2,132)
	<hr/>	<hr/>
	\$ 83,701	\$ 60,401
	<hr/> <hr/>	<hr/> <hr/>

SUPPLEMENTARY REPORTS AND  
SCHEDULES IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
AND THE UNIFORM GUIDANCE

**INDEPENDENT AUDITORS' 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 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 statements of financial position as of October 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Peterson Sullivan LLP*

June 12, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Denise Louie Education Center's ("the Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended October 31, 2017. The Center's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Center's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended October 31, 2017.

## **Report on Internal Control Over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

June 12, 2018

**DENISE LOUIE EDUCATION CENTER**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended October 31, 2017

Award Description	Award	Federal CFDA Number	Federal Expenditures
<u>Department of Health and Human Services</u>			
Head Start*	10CH0219-03	93.600	\$ 2,997,513
<u>Department of Agriculture</u>			
Passed through State of Washington Office of the Superintendent of Public Instruction Child and Adult Care Food Program	159407	10.558	108,342
<u>US Department of Housing and Urban Development</u>			
CDBG - Entitlement Grants Cluster Passed through City of Seattle Community Development Block Grants/Entitlement Grants - Loan	DL05-1519	14.218	<u>240,000</u>
Total CDBG - Entitlement Grants Cluster			<u>240,000</u>
Total			<u><u>\$ 3,345,855</u></u>

\* Denotes a major program

See Notes to Schedule of Expenditures of Federal Awards

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Denise Louie Education Center ("the Center") under programs of the federal government for the year ended October 31, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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.

### Note 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.

Pass-through entity identifying numbers are presented where available.

### Note 3. Indirect Cost Rate

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

### Note 4. Loans Outstanding

In prior years, the Center received loan proceeds from the City of Seattle. As required by the Uniform Guidance, the loan balance outstanding at year-end is included in the federal expenditures presented in the Schedule as there are continuing compliance requirements. The Center received no additional loans during the year. The balance of the loan outstanding at October 31, 2017 and 2016, consists of:

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

**DENISE LOUIE EDUCATION CENTER**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended October 31, 2017

A. Summary of Audit Results

**Financial Statements:**

Type of auditors' report issued: Unmodified

**Internal Control Over Financial Reporting:**

Material weaknesses identified: No  
Significant deficiencies identified not considered to be material weaknesses: None reported  
Noncompliance material to financial statements noted: No

**Federal Awards:**

Material weaknesses identified: No  
Significant deficiencies identified not considered to be material weaknesses: None reported  
Type of auditors' report issued on compliance for major programs: Unmodified  
Any audit findings disclosed that are required to be reported: No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.600	Head Start

**Dollar threshold used to distinguish between Type A and B programs:** \$ 750,000

Auditee qualified as low-risk auditee: Yes

B. Findings - Financial Statement Audit None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit None