

**UNIVERSITY HEIGHTS CENTER**

FINANCIAL REPORT

DECEMBER 31, 2017

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
University Heights Center  
Seattle, Washington

We have audited the accompanying financial statements of University Heights Center, which comprise the statements of financial position as of December 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. 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 University Heights Center as of December 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.

*Peterson Sullivan LLP*

May 10, 2018

**UNIVERSITY HEIGHTS CENTER**

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 471,678	\$ 512,948
Rent receivable	160	1,125
Grants and contributions receivable	27,000	27,964
Prepaid expenses	<u>3,774</u>	<u>13,676</u>
Total current assets	502,612	555,713
Property and Equipment, net	<u>7,721,098</u>	<u>7,608,823</u>
Total assets	<u><u>\$ 8,223,710</u></u>	<u><u>\$ 8,164,536</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 19,860	\$ 6,337
Accrued payroll and benefits	27,041	20,888
Prepaid rent	<u>17,904</u>	<u>47,752</u>
Total current liabilities	64,805	74,977
Security Deposits	<u>51,112</u>	<u>50,913</u>
Total liabilities	115,917	125,890
Net Assets		
Unrestricted	8,099,043	8,026,646
Temporarily restricted	<u>8,750</u>	<u>12,000</u>
Total net assets	<u>8,107,793</u>	<u>8,038,646</u>
Total liabilities and net assets	<u><u>\$ 8,223,710</u></u>	<u><u>\$ 8,164,536</u></u>

See Notes to Financial Statements

**UNIVERSITY HEIGHTS CENTER**

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Rent revenue	\$ 697,086	\$ -	\$ 697,086	\$ 659,744	\$ -	\$ 659,744
Grants and contributions	185,026	3,000	188,026	31,333	12,000	43,333
In-kind contributions	26,328		26,328	3,051		3,051
Program and other	8,700		8,700	7,619		7,619
Net assets released from restriction	6,250	(6,250)		6,500	(6,500)	
<b>Total support and revenue</b>	<b>923,390</b>	<b>(3,250)</b>	<b>920,140</b>	<b>708,247</b>	<b>5,500</b>	<b>713,747</b>
Expenses						
Program services	749,024		749,024	641,331		641,331
Management and general	73,573		73,573	70,455		70,455
Fundraising	29,435		29,435	24,808		24,808
<b>Total expenses</b>	<b>852,032</b>		<b>852,032</b>	<b>736,594</b>		<b>736,594</b>
<b>Change in net assets before capital grants and contributions</b>	<b>71,358</b>	<b>(3,250)</b>	<b>68,108</b>	<b>(28,347)</b>	<b>5,500</b>	<b>(22,847)</b>
In-Kind Contributions of Building Improvements	1,039		1,039	539,700		539,700
<b>Change in net assets</b>	<b>72,397</b>	<b>(3,250)</b>	<b>69,147</b>	<b>511,353</b>	<b>5,500</b>	<b>516,853</b>
Net Assets, beginning of year	8,026,646	12,000	8,038,646	7,515,293	6,500	7,521,793
Net Assets, end of year	<u>\$ 8,099,043</u>	<u>\$ 8,750</u>	<u>\$ 8,107,793</u>	<u>\$ 8,026,646</u>	<u>\$ 12,000</u>	<u>\$ 8,038,646</u>

See Notes to Financial Statements

**UNIVERSITY HEIGHTS CENTER**

STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries, payroll taxes, and benefits	\$ 335,189	\$ 31,151	\$ 25,864	\$ 392,204	\$ 291,056	\$ 28,569	\$ 22,595	\$ 342,220
Utilities	57,234	6,359		63,593	48,514	5,034		53,548
Repairs and maintenance	48,522			48,522	57,266			57,266
Professional fees	17,012	22,585		39,597	2,797	20,829		23,626
In-kind professional fees	20,640			20,640				
Insurance	37,788	771		38,559	26,393	539		26,932
Taxes	17,426	917		18,343	16,585	168		16,753
Marketing	6,939	867	867	8,673	5,254	657	657	6,568
Telephone	4,877	1,219		6,096	3,900	731	244	4,875
License and permits	5,610			5,610	4,612			4,612
Printing and copying	3,526	881		4,407	9,882			9,882
Technology	3,494	874		4,368	5,972	1,120	373	7,465
Supplies	1,651	413		2,064	1,635	307	103	2,045
Other (including in-kinds)	21,827	7,536	2,704	32,067	14,061	12,501	836	27,398
Total expenses before depreciation	581,735	73,573	29,435	684,743	487,927	70,455	24,808	583,190
Depreciation	167,289			167,289	153,404			153,404
Total expenses	<u>\$ 749,024</u>	<u>\$ 73,573</u>	<u>\$ 29,435</u>	<u>\$ 852,032</u>	<u>\$ 641,331</u>	<u>\$ 70,455</u>	<u>\$ 24,808</u>	<u>\$ 736,594</u>

See Notes to Financial Statements

## UNIVERSITY HEIGHTS CENTER

### STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 69,147	\$ 516,853
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	167,289	153,404
In-kind contributions of building improvements	(1,039)	(539,700)
Changes in operating assets and liabilities		
Rent receivable	965	(1,045)
Grants and contributions receivable	964	(17,964)
Prepaid expenses	9,902	(1,560)
Accounts payable	13,523	3,334
Accrued payroll and benefits	6,153	2,251
Prepaid rent	(29,848)	15,122
Security deposits	199	9,353
	237,255	140,048
Net cash flows from operating activities	237,255	140,048
Cash Flows from Investing Activity		
Purchase of property and equipment	(278,525)	(34,000)
	(278,525)	(34,000)
<b>Net change in cash and cash equivalents</b>	<b>(41,270)</b>	<b>106,048</b>
Cash and Cash Equivalents, beginning of year	512,948	406,900
	512,948	406,900
Cash and Cash Equivalents, end of year	\$ 471,678	\$ 512,948

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization and Significant Accounting Policies

#### Organization

The mission of University Heights Center ("University Heights") is to promote lifelong learning, creativity, culture, community activism, and the preservation of its historic building. Built in 1902, University Heights is a national and local historic landmark. The community came together in 1989 to save the historic building from demolition and to form the community center that exists today. Originally the site of University Heights Elementary School, the building and land was acquired from the Seattle School District in 2009. Since inception, University Heights has occupied its present location, but prior to acquisition, it had leased the building from the Seattle School District. The building and land purchase was made possible through grants received from the City of Seattle and the State of Washington. See further discussion of the building and land purchase in Note 3.

In 2016, the City of Seattle performed improvements on recreational space in the south lot of University Heights, and University Heights recognized an in-kind contribution of building improvements of \$539,700 based on the estimated fair value of the improvements.

#### Financial Statement Presentation

University Heights is required to report 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. University Heights has no permanently restricted net assets, so this class of net assets is not shown on the financial statements.

#### 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 certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

#### Temporarily Restricted Net Assets

University Heights records contributions and grants received as unrestricted or temporarily restricted support depending on the existence of any donor restrictions. Temporarily restricted net assets consist of unexpended contributions and grants 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. Contributions and grants with donor-imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class. Temporarily restricted net assets at December 31, 2017 and 2016, consisted of \$8,750 and \$12,000, respectively, restricted for future time periods.

#### Cash and Cash Equivalents

University Heights considers highly liquid investments with an original maturity of three months or less to be cash equivalents. At times, University Heights has cash balances in excess of federal insurance limits.

## **Receivables**

Receivables from tenants for rent are stated at their outstanding principal balances.

Unconditional promises to give (contributions and grants receivable) are all expected to be collected in one year and are recorded at net realizable value.

Management reviews rent, contributions, and grants receivable on a regular basis and establishes an allowance for accounts that may not be collectible. Any amounts written off are charged against the allowance. Management determined an allowance for uncollectible receivables was not necessary at December 31, 2017 or 2016.

## **Property and Equipment**

Property and equipment are recorded at cost, if purchased, or at estimated fair value at the date of receipt, if donated. University Heights capitalizes all fixed assets with a cost in excess of \$5,000 and a useful life of one year or more. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets ranging between 3 and 25 years. Repairs and maintenance are charged to expense when incurred.

## **Rent Revenue**

Rental income is recognized on the straight-line basis over the lease term as it becomes receivable according to the provisions of the lease. An adjustment to the straight-line basis has not been recognized as the amount is not material to the financial statements. Rent received in advance of the lease period is recognized as prepaid rent.

University Heights receives regular monthly income from tenants with operating leases and hourly income from various entities looking to temporarily rent space for events. Revenue is recognized in accordance with lease contracts or on the date the hourly tenants occupy the space. During the years ended December 31, 2017 and 2016, one tenant accounted for approximately 14% and 11%, respectively, of total support and revenue.

Future noncancelable minimum rental payments to be received for the leasable space are as follows for the years ending December 31:

2018	\$	465,572
2019		403,477
2020		244,389
2021		188,929
2022		182,901
Thereafter		690,559
		<hr/>
	\$	<u>2,175,827</u>

## **Grant and Contribution Revenue**

Grant and contribution revenue is recognized when the unconditional grant or contribution is awarded, unless the grant is conditional upon approval of qualified reimbursable expenditures. In this situation, revenue is recognized at the time the qualified expenditure is incurred.

### **In-Kind Contributions**

In-kind contributions are recognized at estimated fair value when received. Donated services are recognized if the services received require specialized skills, are provided by a person possessing those skills, and would need to be purchased if not provided by donation.

### **Allocation 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**

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

### **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

### **Subsequent Events**

University Heights has evaluated subsequent events through the date these financial statements were available to be issued, which was May 10, 2018.

## **Note 2. Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Building	\$ 834,662	\$ 834,662
Building improvements and equipment	<u>2,268,264</u>	<u>2,134,326</u>
	3,102,926	2,968,988
Less: accumulated depreciation	<u>(722,477)</u>	<u>(573,094)</u>
	2,380,449	2,395,894
Land	5,195,779	5,195,779
Construction in progress - building improvements	<u>144,870</u>	<u>17,150</u>
	<u>\$ 7,721,098</u>	<u>\$ 7,608,823</u>

**Note 3. Building and Land Acquisition**

In 2009, University Heights and the Seattle Department of Parks and Recreation entered into a purchase agreement with the Seattle School District for the building and land where University Heights operates. University Heights is required to be in compliance with certain restrictive covenants as part of the agreement that center around the use of the building. The agreement expires in 2049.

To assist in the purchase, grants were received from the City of Seattle and the State of Washington. University Heights is required to be in compliance with certain restrictive covenants as part of the agreement that also center around operations and building use. The agreement expires in 2024.

University Heights was in compliance with all restrictive covenants under these agreements at both December 31, 2017 and 2016.