

UNIVERSITY HEIGHTS CENTER

FINANCIAL REPORT

DECEMBER 31, 2016

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENTS OF FUNCTIONAL EXPENSES.....	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 9

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, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Prior Period Financial Statements

The financial statements of University Heights Center as of December 31, 2015, were audited by other auditors whose report dated June 2, 2016, expressed an unmodified opinion on those statements.

Peterson Sullivan LLP

August 11, 2017

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 **MAIN**
(206) 382-7700 **FAX**

psepa.com

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 512,948	\$ 406,900
Rent receivable	1,125	80
Grants and contributions receivable	27,964	10,000
Prepaid expenses	<u>13,676</u>	<u>12,116</u>
Total current assets	555,713	429,096
Property and Equipment, net	<u>7,608,823</u>	<u>7,188,527</u>
Total assets	<u><u>\$ 8,164,536</u></u>	<u><u>\$ 7,617,623</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 6,337	\$ 3,003
Accrued payroll and benefits	20,888	18,637
Deferred rent revenue	47,752	32,630
Security deposits	<u>50,913</u>	<u>41,560</u>
Total liabilities	125,890	95,830
Net Assets		
Unrestricted	8,026,646	7,515,293
Temporarily restricted	<u>12,000</u>	<u>6,500</u>
Total net assets	<u>8,038,646</u>	<u>7,521,793</u>
Total liabilities and net assets	<u><u>\$ 8,164,536</u></u>	<u><u>\$ 7,617,623</u></u>

See Notes to Financial Statements

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Rent revenue	\$ 659,744	\$ -	\$ 659,744	\$ 612,898	\$ -	\$ 612,898
Grants and contributions	31,333	12,000	43,333	3,765	6,500	10,265
In-kind contributions	3,051		3,051	39,000		39,000
Parking, tenant reimbursements, and other	7,619		7,619	30,886		30,886
Net assets released from restriction	6,500	(6,500)				
Total support and revenue	708,247	5,500	713,747	686,549	6,500	693,049
Expenses						
Program services	641,331		641,331	588,242		588,242
Management and general	70,455		70,455	76,170		76,170
Fundraising	24,808		24,808	16,231		16,231
Total expenses	736,594		736,594	680,643		680,643
Change in net assets before capital grants and contributions	(28,347)	5,500	(22,847)	5,906	6,500	12,406
In-Kind Contributions of Building Improvements	539,700		539,700			
Grants for Building Improvements				391,575		391,575
Change in net assets	511,353	5,500	516,853	397,481	6,500	403,981
Net Assets, beginning of year	7,515,293	6,500	7,521,793	7,117,812		7,117,812
Net Assets, end of year	\$ 8,026,646	\$ 12,000	\$ 8,038,646	\$ 7,515,293	\$ 6,500	\$ 7,521,793

See Notes to Financial Statements

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2016 and 2015

	2016				2015			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes, and benefits	\$ 291,056	\$ 28,569	\$ 22,595	\$ 342,220	\$ 304,534	\$ 28,747	\$ 13,490	\$ 346,771
Repairs and maintenance	57,266			57,266	45,556			45,556
Utilities	48,514	5,034		53,548	40,392	10,098		50,490
Insurance	26,393	539		26,932	25,440	519		25,959
Professional fees	2,797	20,829		23,626	8,276	21,202		29,478
Printing and copying	9,882			9,882	447	3,579	447	4,473
Property taxes	8,209	168		8,377	7,461	152		7,613
Technology	5,972	1,120	373	7,465	5,090	636	636	6,362
Marketing	5,254	657	657	6,568	19,294	33	575	19,902
Telephone	3,900	731	244	4,875	3,893	487	487	4,867
Supplies	1,635	307	103	2,045	268	2,140	268	2,676
Other (including in-kinds)	27,049	12,501	836	40,386	29,077	8,577	328	37,982
Total expenses before depreciation	487,927	70,455	24,808	583,190	489,728	76,170	16,231	582,129
Depreciation	153,404			153,404	98,514			98,514
Total expenses	<u>\$ 641,331</u>	<u>\$ 70,455</u>	<u>\$ 24,808</u>	<u>\$ 736,594</u>	<u>\$ 588,242</u>	<u>\$ 76,170</u>	<u>\$ 16,231</u>	<u>\$ 680,643</u>

See Notes to Financial Statements

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 516,853	\$ 403,981
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	153,404	98,514
In-kind contributions of building improvements	(539,700)	
Grants restricted for building improvements		(398,075)
Loss on disposal of property and equipment		3,664
Changes in operating assets and liabilities		
Rent receivable	(1,045)	9,026
Grants and contributions receivable	(17,964)	13,333
Prepaid expenses	(1,560)	444
Accounts payable	3,334	(31,777)
Accrued payroll and benefits	2,251	774
Deferred rent revenue	15,122	15,073
Security deposits	9,353	12,015
	140,048	126,972
Net cash flows from operating activities		
Cash Flows from Investing Activity		
Purchase of property and equipment	(34,000)	(728,895)
Cash Flows from Financing Activity		
Cash collected on grants restricted for building improvements		398,075
	106,048	(203,848)
Net change in cash and cash equivalents		
Cash and Cash Equivalents, beginning of year	406,900	610,748
Cash and Cash Equivalents, end of year	\$ 512,948	\$ 406,900

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 2015, preservation and renovation efforts included a seismic retrofit, overhaul of the drainage system, and complete redesign of the grounds. In 2016, the City of Seattle performed improvements on recreational space in the south lot of the 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, 2016 and 2015, consisted of \$12,000 and \$6,500, 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 and 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, 2016 or 2015.

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 deferred rent revenue.

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, 2016 and 2015, four tenants accounted for approximately 76% and 62%, respectively, of rent revenue.

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

2017	\$	440,237
2018		318,811
2019		275,700
2020		131,454
2021		93,258
Thereafter		425,932
		<hr/>
	\$	<u>1,685,392</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 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 balances have been reclassified in order 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 August 11, 2017.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Building	\$ 834,662	\$ 834,662
Building improvements and equipment	<u>2,151,476</u>	<u>1,584,763</u>
	2,986,138	2,419,425
Less: accumulated depreciation	<u>(573,094)</u>	<u>(426,677)</u>
	2,413,044	1,992,748
Land	<u>5,195,779</u>	<u>5,195,779</u>
	<u>\$ 7,608,823</u>	<u>\$ 7,188,527</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 center around operations and building use. The agreement expires in 2024.

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