

UNIVERSITY HEIGHTS CENTER

Financial Statements
December 31, 2022 and 2021

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Jason Mallon, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
University Heights Center
Seattle, Washington

Opinion

We have audited the accompanying financial statements of University Heights Center (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Heights Center as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 University Heights Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University Heights 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 generally accepted 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, including omissions, 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.

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In performing an audit in accordance with generally accepted 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 University Heights 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 University Heights 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.

Greenwood Ohlund

Seattle, Washington
April 19, 2023

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF FINANCIAL POSITION December 31, 2022 and 2021

ASSETS	2022	2021
Current Assets		
Cash and cash equivalents	\$ 531,126	\$ 728,091
Rent receivable, net	61,893	37,406
Grants and contributions receivable	713,030	95,691
Advances to tenants	99,539	-
Total current assets	1,405,588	861,188
Property and Equipment, net	9,075,908	8,392,407
Total assets	\$ 10,481,496	\$ 9,253,595
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 254,547	\$ 21,912
Accrued payroll and benefits	44,849	42,391
Prepaid rent	16,745	25,038
Total current liabilities	316,141	89,341
Long-Term Debt	299,900	-
Security Deposits	61,952	59,039
Total liabilities	677,993	148,380
Net Assets		
Without donor restrictions	8,875,884	9,015,241
With donor restrictions	927,619	89,974
Total net assets	9,803,503	9,105,215
Total liabilities and net assets	\$ 10,481,496	\$ 9,253,595

See accompanying notes to financial statements.

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Rent revenue	\$ 763,783	\$ -	\$ 763,783	\$ 738,396	\$ -	\$ 738,396
Grants and contributions	637,522	841,645	1,479,167	452,055	46,024	498,079
In-kind contributions	8,788	-	8,788	12,779	-	12,779
Program and other	17,158	-	17,158	21,686	-	21,686
Net assets released from restrictions	4,000	(4,000)	-	21,000	(21,000)	-
Total support and revenue	1,431,251	837,645	2,268,896	1,245,916	25,024	1,270,940
Expenses						
Program services	1,377,061	-	1,377,061	1,068,575	-	1,068,575
Administration and general	53,098	-	53,098	114,765	-	114,765
Fundraising	140,449	-	140,449	110,163	-	110,163
Total expenses	1,570,608	-	1,570,608	1,293,503	-	1,293,503
Change in net assets	(139,357)	837,645	698,288	(47,587)	25,024	(22,563)
Net Assets, beginning of year	9,015,241	89,974	9,105,215	9,062,828	64,950	9,127,778
Net Assets, end of year	<u>\$ 8,875,884</u>	<u>\$ 927,619</u>	<u>\$ 9,803,503</u>	<u>\$ 9,015,241</u>	<u>\$ 89,974</u>	<u>\$ 9,105,215</u>

See accompanying notes to financial statements.

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2022 and 2021

	2022				2021			
	Program Services	Administration and General	Fundraising	Total	Program Services	Administration and General	Fundraising	Total
Salaries, benefits, and taxes	\$ 571,406	\$ 37,677	\$ 78,790	\$ 687,873	\$ 433,865	\$ 56,606	\$ 71,015	\$ 561,486
Professional fees	266,204	3,130	39,594	308,928	115,174	32,339	36,168	183,681
Utilities	66,151	272	-	66,423	67,087	1,369	-	68,456
Community events expense	57,289	-	-	57,289	40,476	-	-	40,476
Office expense	30,345	2,458	19,895	52,698	19,144	1,819	2,577	23,540
Property insurance	43,050	879	-	43,929	37,648	768	-	38,416
Supplies and building expense	25,950	-	-	25,950	20,784	-	-	20,784
Repairs and maintenance	23,474	-	-	23,474	39,050	-	-	39,050
Other (including in-kinds)	15,321	3,157	44	18,522	20,985	3,021	-	24,006
Marketing and communication	7,140	-	2,126	9,266	3,631	-	403	4,034
Bad debts	-	-	-	-	-	13,318	-	13,318
Total expenses before depreciation	1,106,330	47,573	140,449	1,294,352	797,844	109,240	110,163	1,017,247
Depreciation	270,731	5,525	-	276,256	270,731	5,525	-	276,256
Total expenses	\$ 1,377,061	\$ 53,098	\$ 140,449	\$ 1,570,608	\$ 1,068,575	\$ 114,765	\$ 110,163	\$ 1,293,503

See accompanying notes to financial statements.

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 698,288	\$ (22,563)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	276,256	276,256
Bad debt expense	-	13,318
In-kind contribution of property and equipment	(7,887)	(3,655)
Changes in operating assets and liabilities:		
Rent receivable	(24,487)	(23,899)
Grants and contributions receivable	(617,339)	186,003
Advances to tenants	(99,539)	3,295
Accounts payable	15,390	(15,570)
Accrued payroll and benefits	2,458	9,776
Prepaid rent	(8,293)	(11,318)
Security deposits	2,913	3,582
Net cash flows from operating activities	237,760	415,225
Cash Flows from Investing Activity		
Purchases of property and equipment	(734,625)	(43,835)
Cash Flows from Financing Activity		
Proceeds from issuance of long-term debt	299,900	-
Net change in cash and cash equivalents	(196,965)	371,390
Cash and Cash Equivalents, beginning of the year	728,091	356,701
Cash and Cash Equivalents, end of the year	\$ 531,126	\$ 728,091
Supplemental Cash Flow Information		
Property and equipment included in accounts payable at December 31	\$ 217,245	\$ -

See accompanying notes to financial statements.

UNIVERSITY HEIGHTS CENTER

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

The mission of University Heights Center is to promote lifelong learning, creativity, culture, community activism, and the preservation of its historic building. Built in 1902, University Heights Center 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 Center 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.

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

Financial Statement Presentation

University Heights Center is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets with Donor Restrictions

University Heights Center records grants and contributions received as with or without donor restrictions depending on the existence of any donor restrictions. Net assets are transferred between classes as expenditures are incurred for the restricted purpose or as time restrictions are met.

Gifts of property and equipment are reported as increases in net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service. Net assets with donor restrictions consist of amounts restricted for elevator construction at December 31, 2022 and 2021.

Cash and Cash Equivalents

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

UNIVERSITY HEIGHTS CENTER

NOTES TO FINANCIAL STATEMENTS

Receivables

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

Unconditional promises to give (grants and contributions receivable) are all expected to be collected in one year and are recorded at net realizable value. Grants and contributions receivable from one donor represented 77% of total grants and contributions receivable at December 31, 2022. There were no concentrations of grants and contributions receivable at December 31, 2021.

Management reviews all receivables on a regular basis and establishes an allowance for accounts that may not be collectible. Any amounts written off are charged against the allowance. The allowance was \$31,973 as of December 31, 2022 and 2021.

Advances to Tenants

Advances to tenants consist of construction costs paid for by University Heights Center that are to be reimbursed by a tenant.

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 Center 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 10 and 27.5 years. Repairs and maintenance are charged to expense when incurred.

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Building	\$ 834,662	\$ 834,662
Building improvements and equipment	<u>3,738,985</u>	<u>3,738,985</u>
	4,573,647	4,573,647
Less: accumulated depreciation	<u>(1,884,415)</u>	<u>(1,608,158)</u>
	2,689,232	2,965,489
Land	5,195,779	5,195,779
Construction in progress - elevator project	<u>1,190,897</u>	<u>231,139</u>
	<u>\$ 9,075,908</u>	<u>\$ 8,392,407</u>

In February 2022, University Heights entered into a construction contract related to the elevator project for \$1,501,821. At December 31, 2022, approximately \$742,000 is remaining on the contract. The elevator project is expected to be completed in 2023.

UNIVERSITY HEIGHTS CENTER

NOTES TO FINANCIAL STATEMENTS

Rent Revenue

Rental income is recognized 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 Center receives regular monthly income from tenants with operating leases with terms expiring through 2029 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.

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

2023	\$	570,398
2024		591,707
2025		568,729
2026		297,345
2027		222,643
Thereafter		357,945
		<hr/>
	\$	<u>2,608,767</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 incurring qualified reimbursable expenditures. Revenue from conditional grants and contributions is recognized at the time the qualified expenditure is incurred. At December 31, 2022, University Heights Center has conditional awards outstanding of \$439,285 for the elevator capital project, \$428,818 for the early learning center expansion, and \$80,030 for the Emergency Housing Voucher Housing Support and Tenancy Services program.

During the year ended December 31, 2021, University Heights Center received a Paycheck Protection Program loan from the United States Small Business Administration of \$110,400. This loan included forgivable conditions which were met during the year ended December 31, 2021, and, therefore, the loan amount was recognized to grants and contributions revenue.

During the year ended December 31, 2022, grants and contributions from two government agencies represented 39% of total support and revenue. There were no concentrations of grants and contributions revenue during the year ended December 31, 2021.

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.

UNIVERSITY HEIGHTS CENTER

NOTES TO FINANCIAL STATEMENTS

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain expenses are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The expenses that are allocated include salaries, benefits, and taxes, which are allocated on the basis of estimates of time and effort, and professional fees, utilities, property insurance, other, and depreciation, which are allocated based on estimates of actual use.

Income Taxes

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

Subsequent Events

University Heights Center has evaluated subsequent events through the date these financial statements were available to be issued, which was April 19, 2023.

Note 2 – Liquidity and Availability of Resources

University Heights Center strives to maintain liquid financial assets and reserves sufficient to cover at least 180 days of general expenditures. Financial assets in excess of daily cash requirements are held in checking and savings accounts. Financial assets not available include cash held for security deposits from building tenants and net assets with donor restrictions for capital projects.

The following table reflects University Heights Center's financial assets available to meet general expenditures within one year of the statement of financial position date at December 31:

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 531,126	\$ 728,091
Rent receivable	61,893	37,406
Grants and contributions receivable	713,030	95,691
Advances to tenants	99,539	95,691
	<u>1,405,588</u>	<u>956,879</u>
Amounts not available to be used within one year:		
Cash held for security deposits	(61,952)	(59,039)
Net assets with donor restrictions for purpose	(927,619)	(89,974)
	<u>\$ 416,017</u>	<u>\$ 807,866</u>

UNIVERSITY HEIGHTS CENTER

NOTES TO FINANCIAL STATEMENTS

Note 3 – Building and Land Compliance and Covenants

In 2009, University Heights Center 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 Center operates. University Heights Center is required to be in compliance with covenants as part of the agreement that restrict 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 Center is required to be in compliance with covenants as part of the agreement that restrict operations and building use. The agreement expires in 2024.

University Heights Center was in compliance with all restrictive covenants under these agreements at both December 31, 2022 and 2021.

Note 4 – Long-Term Debt

Long-term debt consists of the following at December 31, 2022:

Economic Injury Disaster Loan (EIDL) payable to the U.S. Small Business Administration (SBA), bearing interest at a fixed rate of 2.75%, secured by generally all assets of University Heights Center. No payments are due for the first 12 months, however, interest will accrue. Monthly principal and interest repayments of \$641 (to be applied to accrued interest first) are due beginning March 2023 and through maturity of March 2052. \$ 149,900

Loan payable to the NDC Community Impact Loan Fund, bearing interest at a fixed rate of 3.00%, secured by generally all assets of University Heights Center. Monthly interest-only payments for the first 12 months, then monthly principal and interest repayments of \$3,320 are due beginning January 2024 and through maturity of December 2027. 150,000

\$ 299,900

Principal maturities of long-term debt are as follows for the years ending December 31:

2023	\$ -
2024	39,422
2025	40,612
2026	41,838
2027	43,108
Thereafter	134,920
	<u>\$ 299,900</u>