

UNIVERSITY HEIGHTS CENTER

FINANCIAL REPORT

DECEMBER 31, 2018

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 - 10

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, 2018 and 2017, 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, 2018 and 2017, 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 8, 2019

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 402,344	\$ 471,678
Rent receivable	84	160
Grants and contributions receivable	114,341	27,000
Prepaid expenses	3,163	3,774
Total current assets	519,932	502,612
Property and Equipment, net	7,971,484	7,721,098
Total assets	<u>\$ 8,491,416</u>	<u>\$ 8,223,710</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 65,461	\$ 19,860
Accrued payroll and benefits	28,970	27,041
Prepaid rent	30,775	17,904
Total current liabilities	125,206	64,805
Security Deposits	50,452	51,112
Total liabilities	175,658	115,917
Net Assets		
Without donor restrictions	8,315,758	8,099,043
With donor restrictions		8,750
Total net assets	8,315,758	8,107,793
Total liabilities and net assets	<u>\$ 8,491,416</u>	<u>\$ 8,223,710</u>

See Notes to Financial Statements

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Rent revenue	\$ 730,443	\$ -	\$ 730,443	\$ 697,086	\$ -	\$ 697,086
Grants and contributions	399,772		399,772	185,026	3,000	188,026
In-kind contributions	18,711		18,711	27,367		27,367
Program and other	14,637		14,637	8,700		8,700
Net assets released from restriction	8,750	(8,750)		6,250	(6,250)	
Total support and revenue	1,172,313	(8,750)	1,163,563	924,429	(3,250)	921,179
Expenses						
Program services	807,325		807,325	749,024		749,024
Management and general	76,710		76,710	73,573		73,573
Fundraising	71,563		71,563	29,435		29,435
Total expenses	955,598		955,598	852,032		852,032
Change in net assets	216,715	(8,750)	207,965	72,397	(3,250)	69,147
Net Assets, beginning of year	8,099,043	8,750	8,107,793	8,026,646	12,000	8,038,646
Net Assets, end of year	<u>\$ 8,315,758</u>	<u>\$ -</u>	<u>\$ 8,315,758</u>	<u>\$ 8,099,043</u>	<u>\$ 8,750</u>	<u>\$ 8,107,793</u>

See Notes to Financial Statements

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries, payroll taxes, and benefits	\$ 367,763	\$ 37,914	\$ 30,032	\$ 435,709	\$ 335,189	\$ 31,151	\$ 25,864	\$ 392,204
Professional fees	14,474	21,412	40,372	76,258	17,012	22,585	2,704	42,301
Utilities	57,952	1,183		59,135	57,234	6,359		63,593
Repairs and maintenance	41,229			41,229	31,588			31,588
Office expense	27,367	5,711	1,005	34,083	22,857	4,254	867	27,978
Supplies	33,267			33,267	22,096			22,096
Property insurance	27,861	569		28,430	37,788	771		38,559
Program expense	27,725			27,725	19,282			19,282
Other (including in-kinds)	34,111	6,338	154	40,603	38,689	8,453		47,142
Total expenses before depreciation	631,749	73,127	71,563	776,439	581,735	73,573	29,435	684,743
Depreciation	175,576	3,583		179,159	167,289			167,289
Total expenses	<u>\$ 807,325</u>	<u>\$ 76,710</u>	<u>\$ 71,563</u>	<u>\$ 955,598</u>	<u>\$ 749,024</u>	<u>\$ 73,573</u>	<u>\$ 29,435</u>	<u>\$ 852,032</u>

See Notes to Financial Statements

UNIVERSITY HEIGHTS CENTER

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 207,965	\$ 69,147
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	179,159	167,289
Changes in operating assets and liabilities		
Rent receivable	76	965
Grants and contributions receivable	(87,341)	964
Prepaid expenses	611	9,902
Accounts payable	45,601	13,523
Accrued payroll and benefits	1,929	6,153
Prepaid rent	12,871	(29,848)
Security deposits	(660)	199
	360,211	238,294
Net cash flows from operating activities	360,211	238,294
Cash Flows from Investing Activity		
Purchase of property and equipment	(429,545)	(279,564)
	(429,545)	(279,564)
Net change in cash and cash equivalents	(69,334)	(41,270)
Cash and Cash Equivalents, beginning of year	471,678	512,948
	471,678	512,948
Cash and Cash Equivalents, end of year	\$ 402,344	\$ 471,678

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and 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 4.

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.

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.

Net Assets with Donor Restrictions

University Heights Center records contributions and grants 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. Contributions and grants with donor-imposed restrictions that are met in the same year they are received are reported as revenues in the net assets without donor restrictions class.

Net assets with donor restrictions at December 31, 2017, consist of unexpended contributions and grants restricted for future time periods. There were no net assets with donor restrictions at December 31, 2018.

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.

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. Grants receivable from one donor represent 95% of grants and contributions receivable at December 31, 2018. There were no concentrations of grants and contributions receivable at December 31, 2017.

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, 2018 or 2017.

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 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 Center 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, 2018 and 2017, one tenant accounted for approximately 12% and 14%, 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:

2019	\$	450,596
2020		390,206
2021		338,082
2022		335,037
2023		200,219
Thereafter		569,300
		<hr/>
	\$	2,283,440
		<hr/> <hr/>

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.

Grants from one donor represented 28% of total support and revenue during the year ended December 31, 2018. There were no concentrations of grant and contribution revenue during the year ended December 31, 2017.

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 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 office expenses, utilities, insurance, and depreciation, which are allocated based on estimates of actual use made by the Accountant and Executive Director; as well as salaries and wages, benefits, payroll taxes, which are allocated on the basis of estimates of time and effort made by the Accountant and Executive Director.

Income Taxes

University Heights Center 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.

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, University Heights Center adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and availability of net assets classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. University Heights Center has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

Subsequent Events

University Heights Center has evaluated subsequent events through the date these financial statements were available to be issued, which was May 8, 2019.

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.

The following table reflects University Heights Center's financial assets as of December 31, 2018, available to meet general expenditures within one year of the statement of financial position date:

Financial assets at year-end:		
Cash and cash equivalents	\$	402,344
Rent receivable		84
Grants and contributions receivable		<u>114,341</u>
		516,769
Less amounts not available to be used within one year:		
Cash held for security deposits		<u>(50,452)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>466,317</u></u>

Note 3. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Building	\$ 834,662	\$ 834,662
Building improvements and equipment	<u>2,323,782</u>	<u>2,268,264</u>
	3,158,444	3,102,926
Less: accumulated depreciation	<u>(901,636)</u>	<u>(722,477)</u>
	2,256,808	2,380,449
Land	5,195,779	5,195,779
Construction in progress - building improvements	<u>518,897</u>	<u>144,870</u>
	<u><u>\$ 7,971,484</u></u>	<u><u>\$ 7,721,098</u></u>

Construction in progress at December 31, 2018 and 2017, consists primarily of building improvements related to water remediation. University Heights Center has construction commitments outstanding related to water remediation of approximately \$493,000 at December 31, 2018.

Note 4. Building and Land Acquisition

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 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 Center 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 Center was in compliance with all restrictive covenants under these agreements at both December 31, 2018 and 2017.