GREEN RIVER COLLEGE FOUNDATION
AND SUBSIDIARY

CONSOLIDATING FINANCIAL REPORT

JUNE 30, 2019

C O N T E N T S

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Green River College Foundation
Auburn, Washington

We have audited the accompanying consolidating financial statements of Green River College Foundation and Subsidiary ("the Foundation"), which comprise the consolidating statements of financial position as of June 30, 2019 and 2018, and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements based on our audits. We did not audit the financial statements of the G.R.C.C. Student Village, L.L.C., a wholly owned subsidiary, whose statements reflect total assets of $10,709,126 and $10,923,139 as of June 30, 2019 and 2018, respectively, and total support and revenues of $2,730,058 and $2,849,839, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for G.R.C.C. Student Village, L.L.C., is based solely on the report of the other auditors. 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating financial statements.

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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, based on our audits and the report of the other auditors, the consolidating financial statements referred to above present fairly, in all material respects, the financial position of Green River College Foundation and Subsidiary as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the financial statements, in 2019, Green River College Foundation and Subsidiary 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. Our opinion is not modified with respect to this matter.

Peterson Sullivan LLP

December 17, 2019

GREEN RIVER COLLEGE FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019			2018		
ASSETS	Foundation	LLC	Total	Foundation	LLC	Total
Cash and cash equivalents	$ 58,687	$ 1,413,090	$ 1,471,777	$ 83,063	$ 1,657,785	$ 1,740,848
Cash and cash equivalents held for endowment	100,234		100,234	78,711		78,711
Pooled investments, less allowance of $156,360 and $127,751, respectively	19,544,915		19,544,915	17,122,753		17,122,753
Investments - bond reserves		1,517,884	1,517,884		1,689,242	1,689,242
Accounts and pledges receivable, less allowance of $19,171 and $20,002, and discount of $0 and $1,029 at June 30, 2019 and 2018, respectively	64,611	175,476	240,087	47,468	179,814	227,282
Installment contracts receivable	46,650		46,650	54,455		54,455
Annuity policies	596,151		596,151	481,231		481,231
Land, at cost	367,808		367,808	367,808		367,808
Buildings and equipment, net	269,997	7,583,907	7,853,904	308,549	7,374,437	7,682,986
Other assets	1,694	18,769	20,463	1,633	21,861	23,494
Total assets	$ 21,050,747	$ 10,709,126	$ 31,759,873	$ 18,545,671	$ 10,923,139	$ 29,468,810
LIABILITIES						
Accounts payable and other	$ 58,002	$ 181,948	$ 239,950	$ 35,356	$ 224,744	$ 260,100
Annuities payable	275,750		275,750	217,818		217,818
Unearned rental revenue		357,394	357,394		358,400	358,400
Interest payable		36,506	36,506		38,145	38,145
Fair value of interest rate swap agreement		739,483	739,483		195,533	195,533
Notes payable, net	95,700	11,758,365	11,854,065	154,762	12,281,367	12,436,129
Total liabilities	429,452	13,073,696	13,503,148	407,936	13,098,189	13,506,125
NET ASSETS						
Without Donor Restrictions						
Without donor restrictions - Foundation	8,135,553		8,135,553	6,776,570		6,776,570
Member's deficit - LLC		(2,364,570)	(2,364,570)		(2,175,050)	(2,175,050)
With Donor Restrictions	12,485,742		12,485,742	11,361,165		11,361,165
Total net assets	20,621,295	(2,364,570)	18,256,725	18,137,735	(2,175,050)	15,962,685
Total liabilities and net assets	$ 21,050,747	$ 10,709,126	$ 31,759,873	$ 18,545,671	$ 10,923,139	$ 29,468,810

See Notes to Consolidating Financial Statements

GREEN RIVER COLLEGE FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total Foundation	LLC	Total
Support and Revenue					
Contributions	$ 1,218,149	$ 888,404	$ 2,106,553	$ -	$ 2,106,553
In-kind contributions		48,083	48,083		48,083
Value of services per agreement with GRC	364,362		364,362		364,362
Investment return	644,425	925,805	1,570,230	6,081	1,576,311
Rental income	104,929		104,929	2,617,923	2,722,852
Program fees	41,723		41,723		41,723
Fundraisers	14,044	6,848	20,892		20,892
Change in annuities payable		(22,964)	(22,964)		(22,964)
Other	34,625	44,483	79,108	106,054	185,162
Net assets released from restrictions and other transfers	766,082	(766,082)			
Total support and revenue	3,188,339	1,124,577	4,312,916	2,730,058	7,042,974
Expenses					
Program services	1,252,478		1,252,478	2,375,627	3,628,105
General and administration	294,023		294,023		294,023
Fundraising	282,855		282,855		282,855
Total expenses	1,829,356		1,829,356	2,375,627	4,204,983
Change in net assets before change in fair value of interest rate swap agreement	**1,358,983**	**1,124,577**	**2,483,560**	**354,431**	**2,837,991**
Change in fair value of interest rate swap agreement				(543,951)	(543,951)
Change in net assets without donor restrictions	**1,358,983**		**1,358,983**	**(189,520)**	**1,169,463**
Change in net assets with donor restrictions		**1,124,577**	**1,124,577**		**1,124,577**
Total change in net assets	**1,358,983**	**1,124,577**	**2,483,560**	**(189,520)**	**2,294,040**
Net Assets, beginning of year	6,776,570	11,361,165	18,137,735	(2,175,050)	15,962,685
Net Assets, end of year	$ 8,135,553	$ 12,485,742	$ 20,621,295	$ (2,364,570)	$ 18,256,725

See Notes to Consolidating Financial Statements

GREEN RIVER COLLEGE FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total Foundation	LLC	Total
Support and Revenue					
Contributions	$ 120,145	$ 531,804	$ 651,949	$ -	$ 651,949
In-kind contributions	6,067	22,933	29,000		29,000
Value of services per agreement with GRC	355,563		355,563		355,563
Investment return	485,543	724,989	1,210,532	5,731	1,216,263
Rental income	104,931		104,931	2,719,041	2,823,972
Program fees	72,243		72,243		72,243
Fundraisers	11,958	7,579	19,537		19,537
Change in annuities payable		(18,202)	(18,202)		(18,202)
Other	36,079		36,079	125,067	161,146
Net assets released from restrictions and other transfers	778,950	(778,950)			
Total support and revenue	1,971,479	490,153	2,461,632	2,849,839	5,311,471
Expenses					
Program services	1,125,993		1,125,993	2,299,151	3,425,144
General and administration	241,616		241,616		241,616
Fundraising	264,620		264,620		264,620
Total expenses	1,632,229		1,632,229	2,299,151	3,931,380
Change in net assets before change in fair value of interest rate swap agreement	**339,250**	**490,153**	**829,403**	**550,688**	**1,380,091**
Change in fair value of interest rate swap agreement				340,417	340,417
Change in net assets without donor restrictions	**339,250**		**339,250**	**891,105**	**1,230,355**
Change in net assets with donor restrictions		**490,153**	**490,153**		**490,153**
Total change in net assets	**339,250**	**490,153**	**829,403**	**891,105**	**1,720,508**
Net Assets, beginning of year	6,437,320	10,871,012	17,308,332	(3,066,155)	14,242,177
Net Assets, end of year	$ 6,776,570	$ 11,361,165	$ 18,137,735	$ (2,175,050)	$ 15,962,685

See Notes to Consolidating Financial Statements

GREEN RIVER COLLEGE FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	Program					
	Foundation	LLC	Total Program	General and Administration	Fundraising	Total
Personnel assistance	$ 130,235	$ 362,288	$ 492,523	$ -	$ 135,816	$ 628,339
Depreciation	38,552	520,535	559,087			559,087
Scholarships	546,777		546,777			546,777
Interest	2,270	464,521	466,791			466,791
Building and maintenance		396,787	396,787			396,787
In-kinds from the College	102,709		102,709	200,108	56,123	358,940
Rent and utilities		347,078	347,078			347,078
Program development	175,536		175,536			175,536
Management fees		136,639	136,639			136,639
Donations	128,113		128,113			128,113
Taxes and insurance		72,510	72,510	9,316		81,826
Trophies and awards	69,077		69,077	9,940	579	79,596
Professional fees	3,450	26,310	29,760	27,334	5,925	63,019
Software support				7,487	39,870	47,357
Hosting	18,506		18,506		26,094	44,600
Office expense	26,692		26,692	11,028	279	37,999
Travel	6,926	11,001	17,927		2,726	20,653
Printing	264		264		8,685	8,949
Other	3,371	37,958	41,329	28,810	6,758	76,897
Total expenses	$ 1,252,478	$ 2,375,627	$ 3,628,105	$ 294,023	$ 282,855	$ 4,204,983

See Notes to Consolidating Financial Statements

GREEN RIVER COLLEGE FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program					
	Foundation	LLC	Total Program	General and Administration	Fundraising	Total
Personnel assistance	$ 176,022	$ 363,168	$ 539,190	$ -	$ 127,630	$ 666,820
Depreciation	38,552	459,116	497,668			497,668
Scholarships	471,112		471,112			471,112
Interest	3,304	482,874	486,178			486,178
Building and maintenance		403,099	403,099			403,099
In-kinds from the College	135,949		135,949	176,645	42,969	355,563
Rent and utilities		316,855	316,855			316,855
Program development	170,063		170,063			170,063
Management fees		140,380	140,380			140,380
Donations	50,183		50,183			50,183
Taxes and insurance		70,196	70,196	9,048		79,244
Trophies and awards	32,391		32,391	6,264	319	38,974
Professional fees	9,556	32,188	41,744	26,050	513	68,307
Software support				7,620	32,446	40,066
Hosting	12,742		12,742		23,276	36,018
Office expense	6,038		6,038	10,946	602	17,586
Travel	9,511	4,106	13,617	2,616	20,403	36,636
Printing	646		646		12,302	12,948
Other	9,924	27,169	37,093	2,427	4,160	43,680
Total expenses	$ 1,125,993	$ 2,299,151	$ 3,425,144	$ 241,616	$ 264,620	$ 3,931,380

See Notes to Consolidating Financial Statements

GREEN RIVER COLLEGE FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Foundation	LLC	Total	Foundation	LLC	Total
Cash Flows from Operating Activities						
Change in net assets	$ 2,483,560	$ (189,520)	$ 2,294,040	$ 829,403	$ 891,105	$ 1,720,508
Adjustments to reconcile change in net assets to net cash flows from operating activities						
Depreciation and amortization	38,552	520,535	559,087	38,552	459,116	497,668
Amortization of debt issuance costs		17,375	17,375		16,216	16,216
Donated annuities	(32,502)		(32,502)			
Realized and unrealized gains on pooled investments and annuity policies	(1,120,329)		(1,120,329)	(805,653)		(805,653)
Change in fair value of interest rate swap agreement		543,951	543,951		(340,417)	(340,417)
Contributions restricted for long-term purposes	(315,840)		(315,840)	(63,878)		(63,878)
Dividends and interest restricted for long-term purposes	(39,266)		(39,266)	(51,403)		(51,403)
Change in value of annuities payable	26,134		26,134	18,202		18,202
Changes in operating assets and liabilities						
Accounts and pledges receivable, net	(17,143)	4,338	(12,805)	56,214	(25,997)	30,217
Installment contracts receivable	7,805		7,805	(5,742)		(5,742)
Other assets	(61)	3,092	3,031	5	19,129	19,134
Accounts payable and other	22,646	(42,796)	(20,150)	(23,655)	81,055	57,400
Unearned rental revenue		(1,006)	(1,006)		(5,821)	(5,821)
Interest payable		(1,639)	(1,639)		(1,581)	(1,581)
Net cash flows from operating activities	1,053,556	854,330	1,907,886	(7,955)	1,092,805	1,084,850
Cash Flows from Investing Activities						
Proceeds from sale of investments	2,957,455		2,957,455	1,762,315		1,762,315
Purchase of investments	(4,274,208)		(4,274,208)	(1,917,583)		(1,917,583)
Net proceeds of LLC investments		171,358	171,358		101,559	101,559
Purchases of buildings and equipment		(630,682)	(630,682)		(6,744)	(6,744)
Additions to construction in progress		(99,324)	(99,324)		(196,986)	
Net cash flows from investing activities	(1,316,753)	(558,648)	(1,875,401)	(155,268)	(102,171)	(257,439)
Cash Flows from Financing Activities						
Change in cash and cash equivalents held for endowment	(21,523)		(21,523)	46,617		46,617
Proceeds from contributions restricted for long-term purposes	315,840		315,840	63,878		63,878
Interest and dividends restricted for reinvestment	39,266		39,266	51,403		51,403
Payments on notes and annuities payable	(94,762)	(540,377)	(635,139)	(85,928)	(521,038)	(606,966)
Payments for cost of issuance					(45,245)	(45,245)
Net cash flows from financing activities	238,821	(540,377)	(301,556)	75,970	(566,283)	(490,313)
Net change in cash and cash equivalents	**(24,376)**	**(244,695)**	**(269,071)**	**(87,253)**	**424,351**	**337,098**
Cash and Cash Equivalents, beginning of year	83,063	1,657,785	1,740,848	170,316	1,233,434	1,403,750
Cash and Cash Equivalents, end of year	$ 58,687	$ 1,413,090	$ 1,471,777	$ 83,063	$ 1,657,785	$ 1,740,848
Supplemental Disclosure of Cash Flow Information						
Cash paid for interest	$ 2,270	$ 448,785	$ 451,055	$ 3,304	$ 468,072	$ 471,376

See Notes to Consolidating Financial Statements

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

The Green River College Foundation ("the Foundation") is a not-for-profit organization that provides community-oriented programs and broader educational opportunities to Green River College students, staff, faculty, and residents of the surrounding communities. Through its fund development efforts, the Foundation is able to offer programs in arts and education, and recreational opportunities. The Foundation serves the communities of the Puyallup, Green and Cedar River Valleys, the Enumclaw plateau, and Federal Way.

The G.R.C.C. Student Village, LLC ("the LLC") is a wholly owned subsidiary of the Foundation. The LLC consists of a 343-bedroom housing facility located in Auburn, Washington for the Green River College ("GRC"). The LLC is operated under a management agreement between the Foundation and Capstone On-Campus Management, LLC ("Capstone").

Series 2003 Bonds

In 2003, the LLC participated in a bond issuance by borrowing money from a public authority that can issue tax-exempt debt. Part of the underlying property on which the housing project is located is owned by the Foundation and is leased to the LLC under a ground lease. The housing project was constructed using proceeds from primarily tax-exempt bonds and is mortgaged as security for the financing.

The Washington State Housing Finance Commission ("the Commission") issued $19,050,000 in revenue bonds, which were payable solely from revenues from the LLC. The proceeds of the Series 2003 bonds were loaned to the LLC pursuant to a loan agreement dated as of July 1, 2003, between the Commission and the LLC. On August 28, 2013, the proceeds of a loan and other funds of the LLC were used to refund the Series 2003 bonds.

Series 2013 Bonds

On August 28, 2013, the LLC refunded the outstanding Series 2003 bonds through a tax-exempt direct placement revenue bond issue that was purchased by Washington Federal Bank ("the Bank"). A par amount of $14,885,000 in bonds were issued, which, when combined with the existing escrow accounts, provided funds for the refunding. The Series 2013 bonds were issued in variable rate mode with the Bank providing an interest rate swap as a synthetic fixed rate on the financing. The purpose of the refunding was to reduce the amount of outstanding debt and realize savings through a lower interest rate.

Principles of Consolidation

The consolidating financial statements include the accounts of the Foundation and its wholly owned subsidiary, the LLC. All significant inter-entity accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidating 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 of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets, support and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Included in net assets without donor restrictions are net assets that are board-designated for quasi-endowments amounting to $7,664,747 and $6,318,488 at June 30, 2019 and 2018, respectively. During the year ended June 30, 2019, the Board designated $108,664 related to a matching grant. The Board has no intentions to undesignate these funds.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation. Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Endowment assets	$ 7,158,639	$ 6,694,733
Unappropriated endowment earnings	4,217,998	3,332,217
School programs	701,837	1,005,913
Scholarships	407,268	328,302
	$ 12,485,742	$ 11,361,165

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, 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 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.

Revenue Recognition

The LLC generally leases apartment units based on annual academic year and quarterly lease agreements. Tenants are billed either monthly or quarterly based on the provisions of their signed lease, and the LLC recognizes revenue at that time. It is not uncommon for tenants to pay rent in advance. These amounts are recorded as unearned rental revenue on the consolidating statements of financial position.

Accounts and pledges receivable consist primarily of unconditional promises to give. Unconditional promises to give are recognized as revenues and support in the period the promise is made. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Donated Goods, Services, and Investments

Donated goods and services are primarily personnel costs and other goods from GRC. Donated goods and services are recorded as in-kind contributions at their estimated fair values using prices for similar items at the date of donation (assuming appropriate accounting rules for recognition are met). Donated investments are recorded at fair value on the date acquired and are converted to cash immediately thereafter.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to cash. Generally, only investments with original maturities of three months or less are considered in this category. The Foundation and the LLC maintain cash accounts in banks that are in excess of the amount insured by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying consolidating statements of activities. Gains and losses on sales of investments are determined using the specific identification method.

Receivables

Accounts receivable (and other receivables) that are expected to be collected within one year are stated at the amount management expects to collect from outstanding balances. Accounts receivable (and other receivables) that are expected to be collected in more than one year are initially recorded at the amount management expects to collect from outstanding balances and then discounted to present value. Management provides for probable uncollectible amounts by setting up a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable balance. The discounts on receivable amounts expected to be collected in more than one year are computed using risk-adjusted rates applicable to the donors from which the promises are received. Amortization of the discounts is included in contribution revenue.

Buildings and Equipment

Buildings and equipment are carried at cost, if purchased, or fair value, if donated. Depreciation is computed on a straight-line basis using 30- or 31-year lives for buildings and 5- to 7-year lives for furniture and equipment. All purchases greater than $5,000 that have a useful life of greater than one year are capitalized. Depreciation expense for the years ended June 30, 2019 and 2018, was $559,087 and $497,668, respectively.

Split-Interest Agreements

The Foundation receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable gift annuities whereby the Foundation acts as trustee and holds the assets. The Foundation recognizes the assets ("annuity policies") at fair value. The fair value of the distributions expected to be paid to the beneficiaries over the term of the agreement is recorded as a liability ("annuities payable") and the difference is recorded as contribution revenue. The discount rates used to compute the present value of these annuities payable range from 3.75% to 5%, and the discount periods are based on Internal Revenue Service actuarial tables. As required by accounting principles generally accepted in the United States, discount rates are estimated based on the underlying asset mix and estimated maturity of the gifts. These are Level 3 inputs in the fair value hierarchy. As an issuer of charitable gift annuities, the Foundation has maintained minimum reserves as required by Washington State.

Changes to the present value of annuities payable were the result of the following:

Balance at June 30, 2017	$ 227,516
Payments	(27,900)
Increase in balance due to decrease in discount period	18,202
Balance at June 30, 2018	217,818
Annuities donated	67,498
Payments	(35,700)
Increase in balance due to decrease in discount period	26,134
Balance at June 30, 2019	$ 275,750

Income Taxes

The Foundation is a tax-exempt organization under the provisions of the Internal Revenue Code Section 501(c)(3). The LLC is a single-member limited liability company that is disregarded as a separate entity for income tax purposes. As such, the activities are reported on the return of its sole member, the Foundation.

Functional Allocation of 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 rent and utilities, building and maintenance, which are allocated on a square footage basis, as well as personnel assistance, office expenses, interest, and insurance and in-kinds from the college.

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2019, the Foundation 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 understandability of net asset 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. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability note (see Note 2).

Reclassifications

Certain items from the June 30, 2018, financial statements have been reclassified to conform to the current presentation. These reclassifications had no impact on net assets or change in net assets as previously reported.

Subsequent Events

The Foundation has evaluated subsequent events through the date these consolidating financial statements were available to be issued, which was December 17, 2019.

Note 2. Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs and scholarships. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 55% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi-) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Financial assets at year end:		
Cash and cash equivalents	$	1,572,011
Accounts and pledges receivable		240,087
Installment contracts receivable		46,650
Annuity policies		596,151
Investments - bond reserves		1,517,884
Pooled investments		19,544,915
Total financial assets		23,517,698
Less: amounts not available to be used within one year		
Investments held in perpetuity		(7,158,639)
Investments held for quasi-endowments		(7,664,747)
Investments - bond reserves		(1,517,884)
Unappropriated endowment earnings		(4,217,998)
Other donor restricted assets		(1,109,105)
Total financial assets available to meet cash needs for general expenditures within one year	$	1,849,325

Note 3. Investments

Investments

The following table represents information about the Foundation's investments that have been measured at fair value on a recurring basis as of June 30:

	2019	2018
Pooled investments		
Mutual funds		
Large blend mutual funds	$ 8,651,266	$ 7,505,843
Bond mutual funds	5,743,102	5,007,328
Foreign large blend mutual funds	2,873,140	2,523,518
Real estate investment trusts	1,918,910	1,669,854
Money market funds	358,497	385,169
Real estate contracts		31,041
Total pooled investments	19,544,915	17,122,753
Bond reserves		
Cash and money market funds	1,008,032	1,179,725
Certificates of deposit (maturing through August 2020)	509,852	509,517
Total bond reserves	1,517,884	1,689,242
Annuity policies		
Life insurance policy	21,831	18,147
Mutual funds		
Large blend mutual funds	256,636	202,959
Bond mutual funds	170,581	135,486
Foreign large blend mutual funds	85,337	68,280
Real estate investment trusts	56,989	45,182
Money market funds	4,777	11,177
Total annuity policies	596,151	481,231
	$ 21,658,950	$ 19,293,226

Bond Reserves

Under the terms of the LLC's financing agreements, various reserves must be established and maintained for each of the LLC's projects. These documents can restrict the types of investments that can be made and the requirements for collateralization.

Note 4. Fair Value Measurements

The following tables present information about the Foundation's assets and liabilities that have been measured at fair value on a recurring basis as of June 30, 2019 and 2018, and indicate the classification by level of input within the fair value hierarchy:

	Fair Value Measurements at June 30, 2019, Using:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Assets (Liabilities):				
Pooled investments	$ 19,544,915	$ -	$ -	$ 19,544,915
Bond reserves	1,517,884			1,517,884
Annuity policies	596,151			596,151
Annuities payable			(275,750)	(275,750)
Interest rate swap agreement			(739,483)	(739,483)

	Fair Value Measurements at June 30, 2018, Using:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Assets (Liabilities):				
Pooled investments	$ 17,091,712	$ -	$ 31,041	$ 17,122,753
Bond reserves	1,689,242			1,689,242
Annuity policies	481,231			481,231
Annuities payable			(217,818)	(217,818)
Interest rate swap agreement			(195,533)	(195,533)

Pooled Investments

Mutual Funds: Pooled investments represent mutual funds and real estate investment trusts valued using quoted market prices in active markets. These investments are classified within Level 1 of the fair value hierarchy.

Real Estate Contracts: Real estate contracts are valued at cost net of an allowance in order to approximate the value of the investments and are classified within Level 3 of the fair value hierarchy. The allowance is determined using an income approach based on several factors, including historical averages of collectibility, the value of the underlying real estate securing the contracts, and the creditworthiness of the borrowers.

The table below is a summary of changes in the fair value of the Foundation's Level 3 pooled investments for the years ended June 30:

	2019	2018
Beginning balance	$ 31,041	$ 29,987
Increase in principal		1,053
Adjustments to allowance	(31,041)	1
Ending balance	$ -	$ 31,041

Adjustments to the allowance are recorded in bad debt recovery/expense in the consolidating statements of activities.

Bond Reserves

Investments in bond reserves consist of cash, money market investments, and certificates of deposit. These short-term investments are invested according to bond documents, which work to mitigate the credit risk of those investments. Fair values are determined using quoted market prices in active markets and are classified within Level 1 of the fair value hierarchy.

Investments in Annuity Policies

These investments are invested in mutual funds classified within Level 1 of the fair value hierarchy.

Note 5. Endowment

The Foundation's endowments consist of approximately 82 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments ("quasi-endowments"). As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, plus (b) the original value of subsequent gifts to the endowment, plus 10% of investment income from endowment restricted investments. The remaining portion of the donor-restricted endowment fund that is not classified as amounts to be held in perpetuity within donor-restricted net assets is classified within net assets as donor-restricted for time or purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the Foundation and donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net assets consist of the following for the years ended June 30:

	2019			
	Without Donor Restrictions Quasi-Endowment	With Donor Restrictions Purpose and Time	With Donor Restrictions Endowment	Total
Donor-restricted endowment funds	$ -	$ 4,217,998	$ 7,158,639	$ 11,376,637
Board-designated quasi-endowment funds	7,664,747			7,664,747
Total funds	$ 7,664,747	$ 4,217,998	$ 7,158,639	$ 19,041,384

	2018			
	Without Donor Restrictions Quasi-Endowment	With Donor Restrictions Purpose and Time	With Donor Restrictions Endowment	Total
Donor-restricted endowment funds	$ -	$ 3,332,217	$ 6,694,733	$ 10,026,950
Board-designated quasi-endowment funds	6,318,488			6,318,488
Total funds	$ 6,318,488	$ 3,332,217	$ 6,694,733	$ 16,345,438

Changes in endowment net assets are as follows for the years ended June 30:

	2019			
	Without Donor Restrictions Quasi-Endowment	With Donor Restrictions Purpose and Time	With Donor Restrictions Endowment	Total
Endowment net assets, beginning of year	$ 6,318,488	$ 3,332,217	$ 6,694,733	$ 16,345,438
Investment return				
Investment income	222,908	210,610	26,043	459,561
Net realized/unrealized gain	421,516	652,964	13,223	1,087,703
Total investment return	644,424	863,574	39,266	1,547,264
Contributions	776,380	61,929	315,840	1,154,149
Redesignation			108,800	108,800
Appropriation of endowment assets for expenditure	(74,545)	(39,722)		(114,267)
Endowment net assets, end of year	$ 7,664,747	$ 4,217,998	$ 7,158,639	$ 19,041,384

	2018			
	Without Donor Restrictions Quasi-Endowment	Without Donor Restrictions Purpose and Time	With Donor Restrictions Endowment	Total
Endowment net assets, beginning of year	$ 6,009,127	$ 3,062,671	$ 6,564,213	$ 15,636,011
Investment return				
Investment income	182,434	200,232	24,551	407,217
Net realized/unrealized gain	198,946	425,387	26,852	651,185
Total investment return	381,380	625,619	51,403	1,058,402
Contributions	504	7,010	63,878	71,392
Transfers			15,239	15,239
Appropriation of endowment assets for expenditure	(72,523)	(363,083)		(435,606)
Endowment net assets, end of year	$ 6,318,488	$ 3,332,217	$ 6,694,733	$ 16,345,438

Return Objectives and Risk Parameters

The Foundation has adopted an investment policy and spending guideline for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as quasi-endowment funds. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's scholarship endowment spending guideline targets 90% of the 10-year trailing average return on investment of all pooled endowment investments excluding the highest yearly investment return and the lowest return over the 10-year period in order to obtain more accurate averages. This resulted in 9.56% and 8.96% for the 10 years ended June 30, 2019 and 2018, respectively. The Foundation's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires. In the cases when this happens, spending for that particular endowment is suspended to prevent spending of the corpus. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies at June 30, 2019 or 2018.

Note 6. Buildings and Equipment

Buildings and equipment consist of the following at June 30:

	2019	2018
Buildings	$ 14,106,359	$ 13,748,457
Equipment	1,816,757	1,543,977
Construction in progress	296,309	196,986
	16,219,425	15,489,420
Less: accumulated depreciation	(8,365,521)	(7,806,434)
	$ 7,853,904	$ 7,682,986

Note 7. Notes Payable

The Foundation has a note payable to Key Bank with a balance outstanding of $95,700 and $154,762, at June 30, 2019 and 2018, respectively. Monthly payments amount to $5,111 and include interest at 1.75%. The note is secured by a deed of trust on a building in Enumclaw, Washington with a carrying value of $347,100 at June 30, 2019. The note matures on March 31, 2021. In addition, the Foundation must maintain a debt service coverage ratio of no less than 1.15 to 1.00. The Foundation was in compliance with the debt service coverage ratio for the years ended June 30, 2019 and 2018.

The LLC issued a note payable on August 28, 2013, concurrent with the bonds payable redemption. Interest and principal payments are due monthly through July 1, 2035. The interest rate is a fluctuating rate per annum equal to 70% of BBA Libor, plus 1.50%, but is fixed by an interest rate swap agreement as discussed in Note 8. The note is secured by interest in property and security interests in all of the LLC's accounts with the lender. The LLC is required to maintain a fixed charges coverage ratio excluding reserves of at least 1.15 and a fixed charges coverage ratio including reserves of at least 1.00 in each rate covenant test period. For the rate covenant test period ended June 30, 2019, the fixed charges coverage ratio has been met. The principal balance on the note payable was $12,034,920 and $12,575,297 at June 30, 2019 and 2018, respectively. On December 15, 2017, the LLC entered into a First Omnibus Modification Agreement with the Washington State Housing Finance Commission, Washington Federal Bank, and US Bank National Association. This modification was requested by the LLC in order to amend the definition of LIBOR, amend call dates and interest rates, and release a portion of the Debt Service Reserve Fund. These changes resulted in a reissuance and a current refunding of the Bond on the date of the agreement for federal income tax purposes.

Debt issuance costs are reported on the consolidating statements of financial position as a direct deduction from the face amount of debt for all years presented, as shown in the table below. Amortization of debt issuance costs is included in interest expense in the consolidating statements of activities.

	2019	2018
Notes payable	$ 12,130,620	$ 12,730,059
Less: unamortized debt issuance costs	(276,555)	(293,930)
	$ 11,854,065	$ 12,436,129

Principal payments for both notes will be as follows for the years ending June 30:

2020	$ 620,642
2021	616,728
2022	602,809
2023	625,184
2024	648,089
Thereafter	9,017,168
	$ 12,130,620

Note 8. Interest Rate Swap Agreement

The LLC has an interest rate swap agreement that was entered into as a hedge against the risk of increases in the variable rate of interest associated with the note payable. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in interest expense as incurred. Terms of the swap agreement require the differential interest to be paid or received monthly. As a result of the implementation of the First Omnibus Modification Agreement, the swap agreement was extended by five years to September 1, 2028.

Generally accepted accounting principles require derivative instruments such as interest rate swap agreements to be recognized at fair value as either assets or liabilities in the statement of financial position. Accordingly, the negative value of the swap agreement of $739,483 and $195,533 at June 30, 2019 and 2018, respectively, is reported as a liability in the consolidating statements of financial position. Fair value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying the valuation models.

The initial notional principal amount of the swap agreement was $14,885,000. At June 30, 2019 and 2018, the notional balances were $12,034,920 and $12,575,297, respectively. The agreement effectively fixes the LLC's interest rate exposure at 3.64%. Interest expense on the underlying note totaled $447,146 and $466,658 for the years ended June 30, 2019 and 2018, respectively. Included in interest expense is $61,497 and $139,006 of interest required to be paid under the swap agreement for the years ended June 30, 2019 and 2018, respectively.

Note 9. Project Management

The management and daily operations of the LLC are conducted by Capstone. The management of the LLC includes collection of rents, payment of indebtedness and expenses, repairs, maintenance, and administrative services. All employees necessary to manage the LLC are under the control and supervision of Capstone.

The management fee is an amount equal to the sum of $80,000 per year ("the Fixed Amount") plus the amount by which 5% of rental revenues for such year exceeds the Fixed Amount. The total sum shall not exceed an amount equal to twice the Fixed Amount. In the event the controllable expenses for the housing facility project exceed the budgeted amount during any fiscal year, the management fee would be reduced by the amount by which the actual operating expenses exceed the budgeted operating expenses. The fee is subordinated in any year when the required debt ratio coverage is not met. Management fees for the years ended June 30, 2019 and 2018, were $136,639 and $140,380, respectively.

On August 1, 2017, the LLC and Capstone agreed to extend the management agreement with an effective date of September 1, 2017, and expiring on September 1, 2022. The agreement will automatically renew for up to two additional three-year terms. Any extension of the term of this agreement beyond the second three-year term will require a written agreement by both parties.

Note 10. Rental Income

The Foundation leases a facility to GRC, a related party, through February 28, 2021, with an option to renew for an additional five years. Monthly rental income is $8,744.

The Foundation and GRC have a 40-year ground lease with the LLC that expires on July 31, 2043. Annual rental income is $100 per year.

Future minimum rental income is as follows for the years ending June 30:

2020	$ 105,029
2021	70,053
2022	100
2023	100
2024	100
Thereafter	1,900
	$ 177,282

All of the Foundation's land and buildings recorded on the consolidating statements of financial position are leased under the leases described above. The building is recorded at cost of $1,156,546 with accumulated depreciation of $886,550 and $847,997 at June 30, 2019 and 2018, respectively.

Note 11. Administrative Costs

The Foundation has entered into an agreement with GRC whereby GRC provides services such as equipment, supplies, personnel, and other services in consideration of the value that the Foundation provides to GRC. The Foundation pays a fixed fee to GRC for these goods and services, which amounted to $184,980 and $174,722 for the years ended June 30, 2019 and 2018, respectively. Since the fair value of these goods and services exceeded the fixed fee paid, the Foundation also recognized an in-kind contribution from GRC. The Foundation's financial statements include in-kind contributions and expenses from GRC of $358,940 and $355,563 for the years ended June 30, 2019 and 2018, respectively.

Note 12. Line of Credit

The LLC obtained a $250,000 line of credit with Washington Federal on March 27, 2018. The line of credit has a three-year maturity and bears a prime interest rate. No draws were made by the LLC during the years ended June 30, 2019 and 2018.