

DISTRICT 17
COMMUNITY COLLEGES
FOUNDATION
(A Washington Non-Profit Organization)
Spokane, Washington
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
June 30, 2015 and 2014

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
(A Non - Profit Corporation)
Spokane, Washington

FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT

June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
District 17 Community Colleges Foundation
Spokane, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of District 17 Community Colleges Foundation (the Foundation) (a non-profit corporation) as of June 30, 2015 and 2014, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, 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 of America; 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 statement, 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 estimated 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 District 17 Community Colleges Foundation as of June 30, 2015 and 2014, and the results of its activities and changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Spokane, WA
September 14, 2015

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 1,490,811	\$ 4,566,797
Promises to give, less allowance for uncollectible promises	80,944	8,905
Prepaid expenses	23,150	24,942
Property and equipment, net	10,055,339	9,815,462
Future interests receivable from trusts	129,858	145,778
Other assets, loan costs, net	-	141,524
Investments, at fair value	<u>15,864,199</u>	<u>14,709,367</u>
Total assets	<u>\$ 27,644,301</u>	<u>\$ 29,412,775</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 136,668	\$ 127,700
Deposits held for others	1,636,954	1,542,254
Notes and bonds payable	<u>5,421,000</u>	<u>7,200,000</u>
Total liabilities	<u>7,194,622</u>	<u>8,869,954</u>
Net assets:		
Unrestricted	8,159,755	7,830,697
Temporarily restricted	2,543,095	2,268,611
Permanently restricted	<u>9,746,829</u>	<u>10,443,513</u>
Total net assets	<u>20,449,679</u>	<u>20,542,821</u>
Total liabilities and net assets	<u>\$ 27,644,301</u>	<u>\$ 29,412,775</u>

See accompanying independent auditor's report and notes to financial statements.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND SUPPORT:				
Cash contributions	\$ 13,575	\$ 794,039	\$ 69,655	\$ 877,269
Noncash contributions	133,065	152,499	-	285,564
Investment income, including gains and losses on investments	(139,375)	344,366	(645,622)	(440,631)
Grant income	-	117,500	-	117,500
Administration fees	118,599	-	-	118,599
Rental income	2,320,724	-	25,264	2,345,988
Net assets released from restrictions	1,275,847	(1,126,866)	(148,981)	-
Total revenues, gains, and support	<u>3,722,435</u>	<u>281,538</u>	<u>(699,684)</u>	<u>3,304,289</u>
EXPENSES:				
Program services:				
Program support	321,880	-	-	321,880
Noncash program support	285,564	-	-	285,564
Scholarships	502,807	-	-	502,807
Rental	1,590,760	-	-	1,590,760
Total program services	<u>2,701,011</u>	<u>-</u>	<u>-</u>	<u>2,701,011</u>
General and administrative	582,713	-	-	582,713
Fundraising	113,707	-	-	113,707
Total supporting services	<u>696,420</u>	<u>-</u>	<u>-</u>	<u>696,420</u>
Total expenses	<u>3,397,431</u>	<u>-</u>	<u>-</u>	<u>3,397,431</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	325,004	281,538	(699,684)	(93,142)
TRANSFERS: Reclassify net assets	<u>4,054</u>	<u>(7,054)</u>	<u>3,000</u>	<u>-</u>
CHANGE IN NET ASSETS	329,058	274,484	(696,684)	(93,142)
NET ASSETS, BEGINNING OF YEAR	<u>7,830,697</u>	<u>2,268,611</u>	<u>10,443,513</u>	<u>20,542,821</u>
NET ASSETS, END OF YEAR	<u>\$ 8,159,755</u>	<u>\$ 2,543,095</u>	<u>\$ 9,746,829</u>	<u>\$ 20,449,679</u>

See accompanying independent auditor's report and notes to financial statements.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT:				
Cash contributions	\$ 2,209	\$ 558,757	\$ 114,594	\$ 675,560
Noncash contributions	197,884	175,589	-	373,473
Investment income, including gains and losses on investments	660,846	323,194	976,363	1,960,403
Gain on sale of property	2,094,183	78,662	-	2,172,845
Grant income	5,000	62,250	-	67,250
Administration fees	123,426	-	-	123,426
Rental income	2,339,041	-	25,264	2,364,305
Net assets released from restrictions	1,071,677	(926,162)	(145,515)	-
Total revenues, gains, and support	6,494,266	272,290	970,706	7,737,262
EXPENSES:				
Program services:				
Program support	239,008	-	-	239,008
Noncash program support	373,473	-	-	373,473
Scholarships	440,990	-	-	440,990
Rental	1,505,260	-	-	1,505,260
Total program services	2,558,731	-	-	2,558,731
General and administrative	481,037	-	-	481,037
Fundraising	55,355	-	-	55,355
Total supporting services	536,392	-	-	536,392
Total expenses	3,095,123	-	-	3,095,123
CHANGE IN NET ASSETS BEFORE TRANSFERS	3,399,143	272,290	970,706	4,642,139
TRANSFERS: Reclassify net assets	74,983	(97,460)	22,477	-
CHANGE IN NET ASSETS	3,474,126	174,830	993,183	4,642,139
NET ASSETS, BEGINNING OF YEAR	4,356,571	2,093,781	9,450,330	15,900,682
NET ASSETS, END OF YEAR	\$ 7,830,697	\$ 2,268,611	\$ 10,443,513	\$ 20,542,821

See accompanying independent auditor's report and notes to financial statements.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (93,142)	\$ 4,642,139
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	338,949	378,637
Amortization	141,524	60,387
(Gain) loss on sale of properties	-	(2,172,845)
(Gain) loss on investments - unrealized	1,148,657	(1,404,107)
(Gain) loss on investments - realized	(57,304)	63,207
(Gain) loss on future interests - unrealized	15,920	(8,401)
Contributions restricted for endowments	(69,656)	(114,594)
Net (increase) decrease in:		
Promises to give	(72,039)	65,376
Prepaid expenses	1,792	2,215
Non-cash construction in process	-	67,922
Net increase (decrease) in:		
Accounts payable	8,968	(42,729)
Deposits held for others-interest reinvest	1,278	102
Deposits held for others-income and capital expenditures	(406,578)	(304,334)
Deferred revenue	-	(78,467)
Net cash from operating activities	958,369	1,154,508
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for buildings, improvements, and equipment	(578,826)	(765,504)
Proceeds (net) from sale of constructed property	-	272,102
Proceeds from sale of property	-	3,113,193
Purchase of investments	(3,336,254)	(15,742,176)
Sale of investments	1,090,069	14,966,750
Net cash from (used by) investing activities	(2,825,011)	1,844,365
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowments	69,656	114,594
Refinance of long-term debt	5,421,000	-
Contributions by CCS for refinance of long-term debt	500,000	-
Payment on long-term debt upon refinance	(7,200,000)	(2,186,339)
Net cash from (used by) financing activities	(1,209,344)	(2,071,745)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,075,986)	927,128
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,566,797	3,639,669
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,490,811	\$ 4,566,797
Supplemental Disclosure of Cash Flow Information:		
Interest paid in cash	\$ 284,655	\$ 374,177

See accompanying independent auditor's report and notes to financial statements.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS:

District 17 Community Colleges Foundation (the Foundation) is a Washington nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation is organized to provide benefits to Washington State Community College District 17 (Community Colleges of Spokane) and to the students of Spokane Community College and Spokane Falls Community College. The Foundation is operated to receive, hold, invest, and properly administer the assets and to make expenditures to or for the benefit of the aforementioned institutions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The summary of significant accounting policies of District 17 Community Colleges Foundation (the Foundation) is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of accounting - The Foundation maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors or by management for the use for those resources.

Financial Statement Presentation - The financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets: permanently restricted, temporarily restricted, or unrestricted, as follows:

<u>Fund Group</u>	<u>Net Asset Class</u>
Board designated funds	Unrestricted net assets
Unrestricted operating funds	Unrestricted net assets
Property and Equipment funds	Unrestricted net assets
Scholarship funds	Temporarily restricted net assets
Program support funds	Temporarily restricted net assets
Restricted endowment funds	Permanently restricted net assets
Charitable Remainder Trusts	Permanently restricted net assets

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

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

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 the reported amounts of assets and liabilities at the statement-of-financial-position date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For purposes of reporting cash flows, the Foundation considers highly liquid debt instruments, if any, purchased with maturity of three months or less, to be cash equivalents.

Concentration of credit risk - The Foundation has contribution receivables at June 30, 2015 and 2014, respectively of \$80,944 and \$8,905. The pledges are from a variety of businesses and individuals operating and residing in Spokane, Washington, and the surrounding Inland Northwest.

At June 30, 2015, the carrying amount of the Foundation's cash and equivalents amounted to \$1,490,811, of which \$928,432 was insured by Federal Deposit Insurance Corporation (FDIC), \$560,020 was insured by National Credit Union Administration (NCUA), and \$2,359 was uninsured.

Fair Valuation of Financial Instruments - The carrying amount of financial instruments, including prepaid expenses, loan costs, accounts payable, deposits held for others and deferred revenue approximates fair value, due to the short maturity of these instruments. Promises to give (pledges receivable) are discounted (See Note 3). Fair value measurements are applied to future interests receivable and marketable investment securities (See Note 6) and to interest rate swaps on long-term debt (See Note 9).

Property and Equipment and Depreciation - Assets purchased for general purposes are capitalized at cost and depreciated on the straight-line method over five to ten years. Buildings are depreciated over 31 to 40 years. Assets with a value over \$5,000 are capitalized (See note 4).

Revenues - Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets resulting from the fulfillment of donor-stipulated purpose or by passage of the stipulated time period are reported as net assets released from restrictions between the applicable classes of net assets.

Contributions - Contributions, including unconditional promises to give, are recognized as support in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible promises is provided based upon management's judgment or potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions with restrictions met in the same year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported in the unrestricted net asset class.

Donated equipment and materials - The Foundation received significant amounts of donated equipment and materials, which pass through the Foundation to its charitable beneficiaries. Donated equipment and materials are recorded at their estimated fair market value. During the years ended June 30, 2015 and 2014, the Foundation recorded non-cash contributed equipment and materials totaling \$152,499 and \$175,589, respectively.

Donated services and support - The District provides personnel, office space, and other administrative support to the Foundation at no cost, in accordance with a cooperative agreement. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the years ended June 30, 2015 and 2014, the Foundation recorded non-cash contributed services and support totaling \$133,065 and \$197,884, respectively.

Net Asset Classifications - In August 2008, the Financial Accounting Standards Board issued Staff position No. FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to and Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FAS 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The State of Washington has adopted UPMIFA and the Foundation has adopted FAS 117-1. A majority of the Foundation's net assets meet the definition of endowment funds under UPMIFA (see also Note 10, Funds Held for Endowment).

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Spending Rule - The Foundation has adopted a spending rule for permanently restricted endowment funds. The annual spending rule transfer is calculated by applying 4% to the three-year moving average fair market value of the permanently restricted net assets. In addition, the Foundation assesses a 1% administration fee. The spending policy was in effect for the years ended June 30, 2015 and 2014 (see also note 10).

Income Tax Status - The Foundation is exempt from income taxes as a publicly supported organization under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions - The Foundation has adopted FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. The Organization will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Foundation continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Foundation's evaluation on June 30, 2015 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2012 through 2014 tax years remain subject to examination by the IRS. The Corporation does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Derivative financial instruments - The Organization made limited use of derivative instruments for the purpose of managing interest rate risks, which were terminated during 2015 (see also note 9).

Date of Management's Review - Management has evaluated subsequent events through September 14, 2015, (the date the financial statements were available to be issued) and has identified no events that, if disclosed, would influence the readers' opinion concerning these financial statements.

NOTE 3 - PROMISES TO GIVE / PLEDGES RECEIVABLE:

The Foundation conducts various fund-raising campaigns. A provision for estimated uncollectible promises and discount of future year promises has been recorded, which was calculated as a combined rate of 15% of outstanding promises to give at June 30, 2014 and 2013. Maturities of long-term promises to give are as follows for the years ended June 30:

Amounts due in:	2015	2014
Less than one year	\$ -	\$ -
One to two years	50,228	7,143
Two to three years	15,000	3,334
Three to four years	15,000	-
Four to five years	15,000	-
Total	95,228	10,477
Allowable for uncollectibles and discount	(14,284)	(1,572)
Net	\$ 80,944	\$ 8,905

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 4 - PROPERTY AND EQUIPMENT:

Property and equipment, recorded at cost or fair market value at date of gift, consisted of the following for the years ended June 30, 2015 and 2014:

	2015	2014
Equipment	\$ 44,793	\$ 44,793
Land	3,459,042	3,459,042
Buildings	9,753,931	9,753,931
Building improvements	2,372,886	1,794,060
Total property and equipment	15,630,652	15,051,826
Less: Accumulated depreciation	(5,575,313)	(5,236,364)
Net property and equipment	\$ 10,055,339	\$ 9,815,462

At June 30, 2015, the Foundation has refinanced the Riverpoint One building, and there is a pending Memorandum of Understanding change transaction with the Community Colleges of Spokane. See also Notes 9, 15, 16 and 17.

Depreciation is recorded using the straight-line method over estimated lives of 31 to 40 years (buildings) and 5 to 10 years (equipment). Equipment over \$5,000 is capitalized. Depreciation expense was \$338,949 and \$378,637 for the years ended June 30, 2015 and 2014, respectively.

NOTE 5 - CHARITABLE REMAINDER TRUSTS:

The Foundation, through its deferred giving program, is the beneficiary of four charitable remainder unitrusts. The trusts, formulated through written legal trust documents, are separate legal entities for reporting to the Internal Revenue Service. In accordance with trust documents, trust property and all receipts of every kind shall be managed and invested by the independent trustee as a single fund from which the trustee shall pay an annuity amount in each taxable year of the trust. Future interests receivable from trusts are computed and represented based on actuarial assumptions of the trusts' life beneficiaries' estimated life expectancies and current interest rates.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6 - FAIR VALUE HIERARCHY:

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels for disclosure purposes. The level in the fair value hierarchy is based on the priority of the inputs to the respective valuation technique.

The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and gives the lowest priority (Level 3) to unobservable inputs. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The levels of the fair value hierarchy are as follows:

Level 1 - Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Prices are obtained from readily available sources for market transactions involving identical assets or liabilities.

Level 2 - Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Observable inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets and other market observable inputs such as interest rate, credit spread and foreign currency exchange rates observable in the marketplace or derived from market transactions.

Level 3 - Fair values are based on at least one significant unobservable input for the asset or liability and as a result considerable judgment may be used in determining the fair values. These fair values are generally obtained through the use of valuation models or methodologies using a significant unobservable input or broker quote.

Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 requires the use of observable market data if such data is available without undue cost and effort. Investment assets have been valued using a market approach, and future interests are valued at market and discounted (see Note 5). There were no changes in the valuation techniques during the current year.

As of June 30, 2015 and 2014, the following financial assets of the Foundation were measured at fair value on a recurring basis consistent with the fair value hierarchy provisions. Fair value of interest rate swap agreements is discussed in Note 9.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6 - FAIR VALUE HIERARCHY (continued):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
<u>June 30, 2015</u>				
Multi-Strategy equity fund	\$ 10,577,419	\$ -	\$ -	\$ 10,577,419
Other assets	2,405,595	-	-	2,405,595
Bond fund	2,881,185	-	-	2,881,185
Totals	<u>\$ 15,864,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,864,199</u>
Future interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,858</u>	<u>\$ 129,858</u>

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
<u>June 30, 2014</u>				
Multi-Strategy equity fund	\$ 9,837,065	\$ -	\$ -	\$ 9,837,065
Other assets	1,580,096	-	-	1,580,096
Bond fund	3,292,206	-	-	3,292,206
Totals	<u>\$ 14,709,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,709,367</u>
Future interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,778</u>	<u>\$ 145,778</u>

Summary of Level 3 activity for the years ended June 30, 2015 and 2014:

	<u>Future interests</u>
July 1, 2013	\$ 137,377
Transfers in/out of Level 3	-
Adjustment for present value	<u>8,401</u>
June 30, 2014	145,778
Transfers in/out of Level 3	-
Adjustment for present value	<u>(15,920)</u>
June 30, 2015	<u>\$ 129,858</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 7 - INVESTMENTS:

The following schedule summarizes the investment return and its classification in the statements of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2015:				
Interest and dividends	\$ 242,120	\$ 1,114	\$ 423,408	\$ 666,642
Transfer income per spending rule	30,888	343,252	(374,140)	-
Change in trust value	-	-	(15,920)	(15,920)
Gains and losses, net	<u>(412,383)</u>	<u>-</u>	<u>(678,970)</u>	<u>(1,091,353)</u>
Total investment return	<u>\$ (139,375)</u>	<u>\$ 344,366</u>	<u>\$ (645,622)</u>	<u>\$ (440,631)</u>
Year ended June 30, 2014:				
Interest and dividends	\$ 191,865	\$ 1,036	\$ 419,542	\$ 612,443
Transfer income per spending rule	28,449	322,158	(350,607)	-
Change in trust value	-	-	8,401	8,401
Gains and losses, net	<u>440,532</u>	<u>-</u>	<u>899,027</u>	<u>1,339,559</u>
Total investment return	<u>\$ 660,846</u>	<u>\$ 323,194</u>	<u>\$ 976,363</u>	<u>\$ 1,960,403</u>

NOTE 8 - NOTES AND BONDS PAYABLE:

Notes and bonds payable consisted of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Note payable to Banner Bank, payable in monthly installments of \$35,000 including interest at 4.77%, due June 1, 2025; secured by real property (Riverpoint One building). There is a prepayment penalty of 1% of the original principal balance if paid within the first three year period by refinance. The current loan requires the Organization maintain a debt service ratio equal to or in excess of 1.25 to 1.00. At June 30, 2015, the debt service coverage ratio is 4.70 to 1.	\$ 5,421,000	\$ -
Washington State Housing Finance Commission Tax Exempt Bonds, Series A, variable interest until 9/1/2030; however, 3.89% interest rate through 9/15/2015 via a rate swap agreement (note 9); secured by a letter of credit with Bank of America. The Foundation pays line of credit fees, trustee/admin. fees, remarketing fees, and WSHFC fees equal to 1.145% of the outstanding balance of the bonds (Riverpoint One).	-	4,520,000

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 8 - NOTES AND BONDS PAYABLE (continued):

	2015	2014
Washington State Housing Finance commission Taxable Bonds, Series B, variable interest until 9/1/2030; however, 4.75% interest rate through 9/15/2015 via a rate swap agreement (note 9); secured by a letter of credit with Bank of America. The Foundation pays line of credit fees, trustee/admin. fees, remarketing fees, and WSHFC fees equal to 1.145% of the outstanding balance of the bonds (Riverpoint One).	\$ -	\$ 2,680,000
Totals	<u>\$ 5,421,000</u>	<u>\$ 7,200,000</u>

Interest expense amounted to \$284,655 and \$374,177 for the years ending June 30, 2015 and 2014, respectively. Principal payments on the above debt are as follows for the years ended June 30:

2016	142,843
2017	170,874
2018	179,323
2019	188,191
2020	196,878
Thereafter	<u>4,542,891</u>
	<u>\$ 5,421,000</u>

NOTE 9 - DERIVATIVE TRANSACTIONS:

With the Riverpoint One refinance, the Organization closed its interest rate swap agreements (which had been utilized to reduce the impact of changes in interest rates on its floating rate long-term debt). Those agreements had effectively changed the Organization's interest rate exposure on its \$4,520,000 floating rate note to a fixed 3.89% and its \$2,680,000 floating rate note to a fixed 4.75%.

NOTE 10 - FUNDS HELD FOR ENDOWMENT:

Net asset classifications:

The State of Washington has adopted UPMIFA and the Foundation has adopted FAS 117-1. A majority of the Foundation's net assets meet the definition of endowment funds under UPMIFA.

The Foundation is governed subject to the Governing Documents for the Foundation and most contributions are received subject to the terms of the Governing Documents.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 10 - FUNDS HELD FOR ENDOWMENT (continued):

Under the terms of the Governing Documents, the board of directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. The Foundation considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement (i.e. future interests and supporting organization).

Endowment Investment and Spending Policies:

The Foundation has adopted investment and spending policies 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. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to return a reasonable rate of return, net of investment fees. Actual returns in any year may vary.

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 current 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 parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The annual spending rule transfer is calculated by applying 4% distribution calculation to the three-year moving average fair market value of the permanently restricted net assets. In addition the Foundation assesses a 1% administration fee. The spending policy was in effect for the years ended June 30, 2015 and 2014, along with the administrative fee charged against endowment funds. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 10 - FUNDS HELD FOR ENDOWMENT (continued):

Endowment Net Asset Composition by type of fund for the year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Scholarships	\$ 5,256,780	\$ 5,620,289
Program support	909,082	981,035
Emerging Needs	797,002	845,877
Faculty/Staff Development	2,654,107	2,850,534
Charitable Remainder Trusts	<u>129,858</u>	<u>145,778</u>
Endowment net assets, end of year	<u>\$ 9,746,829</u>	<u>\$ 10,443,513</u>

Change in Endowment Net Assets for the year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Endowment net assets, beginning of year	\$ 10,443,513	\$ 9,450,330
Contributions	69,655	114,594
Investment income, including gains and losses, realized and unrealized	(271,481)	1,326,970
Endowment income transfer	(374,140)	(350,607)
Rental income	25,264	25,264
Uncollectible pledges	(2)	7,410
Investment management fees	(47,179)	(48,457)
Administrative fees	(93,841)	(100,759)
Support services	(7,960)	(3,709)
Transfers	<u>3,000</u>	<u>22,477</u>
Endowment net assets, end of year	<u>\$ 9,746,829</u>	<u>\$ 10,443,513</u>

NOTE 11 - RECLASSIFICATION OF NET ASSETS:

The Foundation reclassified and transferred net assets as follows for the year ended June 30, 2015:

<u>Transfer:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Annual Mini-Grant Award PS	\$ (22,000)	\$ 22,000	\$ -
Alumni Association program support	(500)	500	-
Spokane Central Lions Club Scholarship	(2,000)	2,000	-
Billboard rent to Program Support	(4,000)	4,000	-
Wine Gala proceeds to unrestricted	72,404	(72,404)	-
Exceptional Faculty contributions	5,000	-	(5,000)
IEL matching funds	(5,000)	5,000	-
Unrestricted to Placement Testing	(10,000)	10,000	-
Planetarium Pledge payments to unrestricted	2,000	(2,000)	-
Golf proceeds	9,965	(9,965)	-

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 11 - RECLASSIFICATION OF NET ASSETS:

<u>Transfer:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Unrestricted to Exceptional Faculty	(12,000)	12,000	-
Unrestricted to Klau fund	(10,000)	10,000	-
Unrestricted to Chancellor's fund	(10,000)	10,000	-
SVFD scholarship to Sly Endowment	-	(10,000)	10,000
Auto Show Proceeds	3,538	(3,538)	-
Unrestricted to STCU sponsor match	(5,000)	5,000	-
Unrestricted to Johnson/Griffin sponsor match	(10,000)	10,000	-
Unrestricted to Basic Skills (fundraising match)	(353)	353	-
Kendall building to property reserve	2,000	-	(2,000)
Totals	<u>\$ 4,054</u>	<u>\$ (7,054)</u>	<u>\$ 3,000</u>

The Foundation reclassified and transferred net assets as follows for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Annual Mini-Grant Award PS	\$ (12,250)	\$ 12,250	\$ -
Alumni Association program support	(500)	500	-
Spokane Central Lions Club Scholarship	(2,000)	2,000	-
Billboard rent to Program Support	(4,000)	4,000	-
Wine Gala proceeds to unrestricted	68,573	(68,573)	-
Exceptional Faculty contributions	5,000	-	(5,000)
IEL matching funds	(5,000)	5,000	-
Magnuson pledge to Esmeralda	30,000	(30,000)	-
Unrestricted to Placement Testing	(7,000)	7,000	-
Planetarium Pledge payments to unrestricted	2,000	(2,000)	-
Golf proceeds	7,378	(7,378)	-
Unrestricted to Exceptional Faculty	(1,071)	1,071	-
Unrestricted to misc. overspent funds	(647)	647	-
Unrestricted to Chancellor's fund	(7,500)	7,500	-
Higley scholarship to create Endowment	-	(10,000)	10,000
Shields Scholarship to Shields Endowment	-	(13,000)	13,000
Painted Hills Scholarship to Endowment	-	(977)	977
SVFD scholarship to Sly Endowment	-	(5,500)	5,500
Kendall building to property reserve	2,000	-	(2,000)
Totals	<u>\$ 74,983</u>	<u>\$ (97,460)</u>	<u>\$ 22,477</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 12 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

Temporarily restricted net assets consisted of the following for the years ended June 30:

	2015	2014
Gifts and other unexpended revenues, gains, and support restricted to:		
Scholarships	\$ 1,103,277	\$ 1,083,213
Program support	1,439,818	1,185,398
	\$ 2,543,095	\$ 2,268,611

Permanently restricted net assets consisted of the following for the years ended June 30:

	2015	2014
Endowment Funds with investment income restricted to:		
Scholarships	\$ 5,256,780	\$ 5,620,289
Program support	909,082	981,035
Emerging Needs	797,002	845,877
Faculty/Staff Development	2,654,107	2,850,534
Charitable Remainder Trusts	129,858	145,778
	\$ 9,746,829	\$ 10,443,513

NOTE 13 - OPERATING LEASE COMMITMENTS RECEIVABLE:

The Foundation leases building space to tenants under non-cancelable operating leases with terms of one to ten years. The Foundation leases all properties to the Community Colleges of Spokane, with the exception of Riverpoint One, a portion of which is leased to other tenants. The Foundation has entered into an option agreement with the Community Colleges of Spokane, which grants CCS an option to purchase the Riverpoint One property (see also Note 16). The following is a schedule by years of future minimum rentals receivable under the leases at June 30, 2015.

Years ending June 30,	2016	\$	1,833,372
	2017		1,848,046
	2018		1,872,796
	2019		1,551,995
	2020		1,316,825

NOTE 14 - FUNCTIONAL EXPENSES:

Expenses by major functional category were as follows for the years ended June 30, 2015 and 2014:

	2015	2014
Program services	\$ 2,701,011	\$ 2,558,731
Supporting services	696,420	536,392
Totals	\$ 3,397,431	\$ 3,095,123

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 15 - RELATED PARTY:

The Foundation is organized to provide benefits to Washington State Community College District 17 (Community Colleges of Spokane) and the students of Spokane Community College and Spokane Falls Community College. As such, the Foundation is a related party to Washington State Community College District 17. Operating leases with CCS are described in Note 13 “Operating lease commitments.” An option for CCS to purchase the Riverpoint One building is described in Note 16 “Option to purchase Riverpoint One building.” Services and support donated by CCS are described in Note 2 “Donated services and support”.

NOTE 16 - OPTION TO PURCHASE RIVERPOINT ONE BUILDING:

With the refinance of the debt at June 30, 2015, the Community Colleges Foundation and the Community Colleges of Spokane are in the process of rewriting the Memo of Understanding to incorporate the changes that have occurred (Also see Notes 4, 8, and 17). In the meantime, the following is still in effect:

Existing Agreements:

The “Agreement - Option to Purchase Riverpoint One Property”, dated July 28, 2000, grants Community Colleges of Spokane (CCS) an option to purchase the Riverpoint One property. The option period extends for as long as the Foundation owns the Riverpoint One Property. A subsequent Memo of Understanding between the Foundation and CCS limits the price to the “unpaid bond debt at the time of the sale plus any sales expenses and fees.”

Also, an “Agreement - Financial Obligations - Riverpoint One Property”, dated August 1, 2000, addresses the reserves to be maintained for the property, including the Foundation’s reserve into which the net cash flow from Riverpoint One is deposited. This agreement documents “that in the event CCS is able to acquire the property, the Foundation is to retain in its separate sub-account \$50,000 for each year, partial years prorated, that Foundation owned and operated the property. Any funds in the sub-account in excess of this amount will be remitted to CCS.” The existing reserves are:

Excess Income Reserve: Management believes that CCS possesses the intent and the ability to exercise the option. Further, management believes that such exercise is, and has been, probable and estimable since the initiation of the CCS lease. As such, management has determined that an “excess income reserve” liability should be accrued to CCS for the reserve funds in excess of \$50,000 per year, as calculated per the criteria above.

Contingency Reserve: In addition, a “contingency reserve” is held by the Foundation as a property reserve for Riverpoint One contingencies. This reserve is funded by CCS at \$50,000 per year plus earned interest income until a balance of \$500,000 has been reached (which occurred as of June 30, 2009). This reserve is refundable to CCS when the underlying Riverpoint One bonds are fully paid.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 16 - OPTION TO PURCHASE RIVERPOINT ONE BUILDING (continued):

Transaction in process:

At June 30, 2015, the Foundation has refinanced the Riverpoint One building, and there is a pending change to the Memorandum of Understanding (MOU) with the Community Colleges of Spokane to reflect the new arrangement (See also Notes 4, 8, and 17). The transaction in process is made up of:

Funds provided through deposits held for others	\$ 1,028,867
Funds provided by the Community Colleges of Spokane	<u>500,000</u>
Total funds affecting the building refinance	<u>\$ 1,528,867</u>

Deposits held for others as of June 30, 2015 and 2014, are as follows:

	<u>CCS paid To close</u>	<u>Contingency Reserve</u>	<u>Excess Income Reserve</u>	<u>Total Deposits</u>
Liability as of June 30, 2013	\$ -	\$ 511,495	\$ 1,334,991	\$ 1,846,486
Increase (decrease) for the year ended 6/30/2014, net RP1	<u>-</u>	<u>102</u>	<u>(304,334)</u>	<u>(304,232)</u>
Liability as of June 30, 2014		511,597	1,030,657	1,542,254
Increase (decrease) for the year ended 6/30/2015, interest	-	99	1,179	1,278
Increase (decrease) for the year ended 6/30/2015, net RP1	-	-	(177,985)	(177,985)
Reserve used for capital expenditures 6/30/2015	-	-	(228,593)	(228,593)
Contributed by CCS	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Liability as of June 30, 2015	<u>\$ 500,000</u>	<u>\$ 511,696</u>	<u>\$ 625,258</u>	<u>\$ 1,636,954</u>

NOTE 17 - CONTINGENCIES/ SUBSEQUENT EVENTS:

At June 30, 2015, the Organization refinanced the long term debt. The Foundation is negotiating with CCS to modify the existing agreements related to the Riverpoint One building. The parties are collaborating on a new Memorandum of Understanding as of the date of the audit report.

NOTE 18 - RECLASSIFICATIONS:

Certain items in the 2014 financial statements have been reclassified to conform to the current year presentation. Such reclassification had no effect on the financial position or the change in net assets.