

DISTRICT 17
COMMUNITY COLLEGES
FOUNDATION
(A Washington Non-Profit Organization)
Spokane, Washington
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
June 30, 2016 and 2015

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

FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT

June 30, 2016 and 2015

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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, 2016 and 2015, which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

Arbuckle & Arbuckle CPAs PLLC

Spokane, WA
October 10, 2016

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2016 and 2015

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 1,596,849	\$ 1,490,811
Promises to give / pledges receivable	126,820	80,944
Prepaid expenses	21,202	23,150
Property and equipment, net	9,804,516	10,055,339
Future interests receivable from trusts	114,315	129,858
Investments, at fair value	15,260,573	15,864,199
Total assets	<u>\$ 26,924,275</u>	<u>\$ 27,644,301</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Liabilities:		
Accounts payable	\$ 54,571	\$ 136,668
Accrued compensated absences	44,424	-
Deferred rent	21,800	-
Deposit held for others - at refinance (CCS)	1,528,867	1,528,867
Deposits held for others - after refinance (CCS)	236,567	108,087
Notes and bonds payable	5,275,185	5,421,000
Total liabilities	<u>7,161,414</u>	<u>7,194,622</u>
Net assets:		
Unrestricted	7,913,080	8,159,755
Temporarily restricted	2,757,933	2,543,095
Permanently restricted	9,091,848	9,746,829
Total net assets	<u>19,762,861</u>	<u>20,449,679</u>
Total liabilities and net assets	<u>\$ 26,924,275</u>	<u>\$ 27,644,301</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND SUPPORT:				
Cash contributions	\$ 72,261	\$ 681,499	\$ 71,475	\$ 825,235
Noncash contributions	102,344	200,895	-	303,239
Investment income, including gains and losses on investments	(216,827)	1,237	(263,223)	(478,813)
Income transfer per spending rule	32,103	356,193	(388,296)	-
Grant income	-	122,600	-	122,600
Administration fees	121,853	-	-	121,853
Rental income	1,676,072	-	25,264	1,701,336
Net assets released from restrictions	1,271,574	(1,132,441)	(139,133)	-
Total revenues, gains, and support	<u>3,059,380</u>	<u>229,983</u>	<u>(693,913)</u>	<u>2,595,450</u>
EXPENSES:				
Program services:				
Program support	320,562	-	-	320,562
Noncash program support	303,239	-	-	303,239
Scholarships	531,821	-	-	531,821
Rental	1,317,181	-	-	1,317,181
Total program services	<u>2,472,803</u>	<u>-</u>	<u>-</u>	<u>2,472,803</u>
General and administrative	735,428	-	-	735,428
Fundraising	74,037	-	-	74,037
Total supporting services	<u>809,465</u>	<u>-</u>	<u>-</u>	<u>809,465</u>
Total expenses	<u>3,282,268</u>	<u>-</u>	<u>-</u>	<u>3,282,268</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	(222,888)	229,983	(693,913)	(686,818)
TRANSFERS: Reclassify net assets	<u>(23,787)</u>	<u>(15,145)</u>	<u>38,932</u>	<u>-</u>
CHANGE IN NET ASSETS	(246,675)	214,838	(654,981)	(686,818)
NET ASSETS, BEGINNING OF YEAR	<u>8,159,755</u>	<u>2,543,095</u>	<u>9,746,829</u>	<u>20,449,679</u>
NET ASSETS, END OF YEAR	<u>\$ 7,913,080</u>	<u>\$ 2,757,933</u>	<u>\$ 9,091,848</u>	<u>\$ 19,762,861</u>

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

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF ACTIVITES 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	(170,263)	1,114	(271,482)	(440,631)
Income transfer per spending rule	30,888	343,252	(374,140)	-
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

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (686,818)	\$ (93,142)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	415,776	338,949
Amortization	-	141,524
(Gain) loss on investments - unrealized	153,039	1,148,657
(Gain) loss on investments - realized	924,422	(57,304)
(Gain) loss on future interests - unrealized	15,543	15,920
Contributions restricted for endowments	(71,475)	(69,656)
Net (increase) decrease in:		
Promises to give	(45,876)	(72,039)
Prepaid expenses	1,948	1,792
Net increase (decrease) in:		
Accounts payable	(82,097)	8,968
Accrued expenses	44,424	-
Deferred rent	21,800	-
Deposits held for others-after refinance	128,480	1,278
Deposits held for others-before refinance	-	(406,578)
Net cash from operating activities	<u>819,166</u>	<u>958,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for buildings, improvements, and equipment	(164,953)	(578,826)
Purchase of investments	(8,390,913)	(3,336,254)
Sale of investments	<u>7,917,078</u>	<u>1,090,069</u>
Net cash from (used by) investing activities	<u>(638,788)</u>	<u>(2,825,011)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowments	71,475	69,656
Refinance of long-term debt	-	5,421,000
Contributions by CCS for refinance of long-term debt	-	500,000
Payment on long-term debt - current	(145,815)	-
Payment on long-term debt upon refinance	<u>-</u>	<u>(7,200,000)</u>
Net cash from (used by) financing activities	<u>(74,340)</u>	<u>(1,209,344)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	106,038	(3,075,986)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,490,811</u>	<u>4,566,797</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,596,849</u></u>	<u><u>\$ 1,490,811</u></u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid in cash	<u><u>\$ 269,907</u></u>	<u><u>\$ 284,655</u></u>

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

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015, respectively of \$126,820 and \$80,944. The pledges are from a variety of businesses and individuals operating and residing in Spokane, Washington, and the surrounding Inland Northwest.

At June 30, 2016, the carrying amount of the Foundation's cash and equivalents amounted to \$1,596,849, of which \$932,152 was insured by Federal Deposit Insurance Corporation (FDIC), \$560,020 was insured by National Credit Union Administration (NCUA), and \$104,677 was uninsured.

Fair Valuation of Financial Instruments - The carrying amount of financial instruments, including prepaid expenses, loan costs, accounts payable, accrued compensated absences, deferred rent, and deposits held for others 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).

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, 2016 and 2015

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, 2016 and 2015, the Foundation recorded non-cash contributed equipment and materials totaling \$200,895 and \$152,499, 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, 2016 and 2015, the Foundation recorded non-cash contributed services and support totaling \$102,344 and \$133,065, 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 11, Funds Held for Endowment).

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015 (see also note 11).

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, 2016 revealed no uncertain tax positions that would have a material impact on the financial statements.

Date of Management's Review - Management has evaluated subsequent events through October 10, 2016, (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, 2016 and 2015. Maturities of long-term promises to give are as follows for the years ended June 30:

Amounts due in:	2016	2015
Less than one year	\$ -	\$ -
One to two years	70,200	50,228
Two to three years	41,000	15,000
Three to four years	31,000	15,000
Four to five years	7,000	15,000
Total	149,200	95,228
Allowable for uncollectibles and discount	(22,380)	(14,284)
Net	\$ 126,820	\$ 80,944

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 44,793	\$ 44,793
Land	3,459,042	3,459,042
Buildings	9,753,931	9,753,931
Building improvements	<u>2,537,839</u>	<u>2,372,886</u>
Total property and equipment	15,795,605	15,630,652
Less: Accumulated depreciation	<u>(5,991,089)</u>	<u>(5,575,313)</u>
Net property and equipment	<u>\$ 9,804,516</u>	<u>\$ 10,055,339</u>

During the year ended June 30, 2016, the Foundation has completed its refinancing of the Riverpoint One building, and executed a revised agreement with the Community Colleges of Spokane. See also Notes 16, 17 and 18.

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 \$415,776 and \$338,949 for the years ended June 30, 2016 and 2015, 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 (See also Note 6).

	<u>2016</u>	<u>2015</u>
Future interests receivable consisted of the following for the years ended June 30, 2016 and 2015:	<u>\$ 114,315</u>	<u>\$ 129,858</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015, the following financial assets of the Foundation were measured at fair value on a recurring basis consistent with the fair value hierarchy provisions.

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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:				
June 30, 2016				
Equity mutual funds	\$ 9,335,889	\$ -	\$ -	\$ 9,335,889
Bond mutual funds	2,328,345	-	-	2,328,345
Equity ETFs	2,826,657	-	-	2,826,657
Bond ETFs	769,682	-	-	769,682
Totals	<u>\$ 15,260,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,260,573</u>
Future interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,315</u>	<u>\$ 114,315</u>

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
June 30, 2015				
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>

Summary of Level 3 activity for the years ended June 30, 2016 and 2015:

	<u>Future interests</u>
July 1, 2014	\$ 145,778
Transfers in/out of Level 3	-
Adjustment for present value	<u>(15,920)</u>
June 30, 2015	129,858
Transfers in/out of Level 3	-
Adjustment for present value	<u>(15,543)</u>
June 30, 2016	<u>\$ 114,315</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7 - INVESTMENTS:

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

		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Year ended June 30, 2016:				
Interest and dividends	\$ 221,475	\$ 1,237	\$ 391,479	\$ 614,191
Change in trust value	-	-	(15,543)	(15,543)
Gains and losses, net	(438,302)	-	(639,159)	(1,077,461)
Total investment return	<u>\$ (216,827)</u>	<u>\$ 1,237</u>	<u>\$ (263,223)</u>	<u>\$ (478,813)</u>
Transfer income per spending rule	<u>\$ 32,103</u>	<u>\$ 356,193</u>	<u>\$ (388,296)</u>	<u>\$ -</u>
Year ended June 30, 2015:				
Interest and dividends	\$ 242,120	\$ 1,114	\$ 423,408	\$ 666,642
Change in trust value	-	-	(15,920)	(15,920)
Gains and losses, net	(412,383)	-	(678,970)	(1,091,353)
Total investment return	<u>\$ (170,263)</u>	<u>\$ 1,114</u>	<u>\$ (271,482)</u>	<u>\$ (440,631)</u>
Transfer income per spending rule	<u>\$ 30,888</u>	<u>\$ 343,252</u>	<u>\$ (374,140)</u>	<u>\$ -</u>

NOTE 8 - ACCOUNTING FOR COMPENSATED ABSENCES:

Employees of the Organization are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. The estimated amount of compensation for future absences is \$44,424 for the year ending June 30, 2016.

NOTE 9 - NOTES AND BONDS PAYABLE:

Notes and bonds payable consisted of the following as of June 30, 2016 and 2015:

	2016	2015
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, 2016, the debt service coverage ratio is 1.80 to 1.	<u>\$ 5,275,185</u>	<u>\$5,421,000</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9 - NOTES AND BONDS PAYABLE (continued):

Interest expense amounted to \$269,907 and \$284,655 for the years ending June 30, 2016 and 2015, respectively. Principal payments on the above debt are as follows for the years ended June 30:

2017	170,874
2018	179,323
2019	188,191
2020	196,878
2021	207,232
Thereafter	<u>4,332,687</u>
	<u>\$ 5,275,185</u>

NOTE 10 - DERIVATIVE TRANSACTIONS:

With the Riverpoint One refinance in the year ending June 30, 2015, 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).

NOTE 11 - 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.

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).

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 11 - FUNDS HELD FOR ENDOWMENT (continued):

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, 2016 and 2015, 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.

Endowment Net Asset Composition by type of fund for the year ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 4,935,902	\$ 5,256,780
Program support	836,784	909,082
Emerging Needs	743,217	797,002
Faculty/Staff Development	2,461,630	2,654,107
Charitable Remainder Trusts	<u>114,315</u>	<u>129,858</u>
Endowment net assets, end of year	<u>\$ 9,091,848</u>	<u>\$ 9,746,829</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 11 - FUNDS HELD FOR ENDOWMENT (continued):

Change in Endowment Net Assets for the year ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 9,746,829	\$ 10,443,513
Contributions	71,475	69,655
Investment income, including gains and losses, realized and unrealized	(263,223)	(271,481)
Endowment income transfer	(388,296)	(374,140)
Rental income	25,264	25,264
Uncollectible pledges	(2,894)	(2)
Investment management fees	(43,065)	(47,179)
Administrative fees	(87,236)	(93,841)
Support services	(5,938)	(7,960)
Transfers	<u>38,932</u>	<u>3,000</u>
Endowment net assets, end of year	<u>\$ 9,091,848</u>	<u>\$ 9,746,829</u>

NOTE 12 - RECLASSIFICATION OF NET ASSETS:

The Foundation reclassified and transferred net assets as follows for the year ended June 30, 2016:

<u>Transfers:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Annual Mini-Grant Award PS	\$ (21,239)	\$ 21,239	\$ -
Alumni Association program support	(500)	500	-
Unrestricted to Placement Testing	(10,000)	10,000	-
Unrestricted to Emergency funds	(10,000)	10,000	-
Unrestricted to Exceptional Faculty	(10,000)	10,000	-
Unrestricted to Global Ed Scholarship fund	(50,000)	50,000	-
Billboard rent to Program Support	(4,000)	4,000	-
Wine Gala proceeds to unrestricted	97,140	(97,140)	-
Adult Basic Edu matching funds	(5,000)	5,000	-
Golf proceeds to unrestricted	16,780	(16,780)	-
Unrestricted to Chancellor's fund	(4,307)	4,307	-
Trustee's scholarship to Trustee's Endowment	-	(10,000)	10,000
Walter Johnson scholarship to endowment	-	(10,000)	10,000
Unrestricted to Focus Awards FY 14/15	(4,000)	4,000	-
Unrestricted to Focus Awards FY 15/16	(4,000)	4,000	-
Unrestricted to Emergency funds (sponsor match)	(10,000)	10,000	-
Mary Ann Sanger scholarship to endowment	-	(10,000)	10,000
Unrestricted to Wagstaff scholarship	(250)	250	-
Unrestricted to Dennis Dunham scholarship	(1,000)	1,000	-
Unrestricted to Susan Stannard scholarship	(250)	250	-
Scherler scholarship to Scherler endowment	-	(10,000)	10,000

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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12 - RECLASSIFICATION OF NET ASSETS (continued):

<u>Transfers, continued:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Dr. Johnson's employee donor match	\$ (5,000)	\$ 3,859	\$ 932
Dr. Johnson's employee donor match	209	-	-
Unrestricted to Classified Staff Sch. (fundraising match)	(370)	370	-
Kendall building to property reserve	2,000	-	(2,000)
Totals	<u>\$ (23,787)</u>	<u>\$ (15,145)</u>	<u>\$ 38,932</u>

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

<u>Transfers:</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)	-
Unrestricted to Exceptional Faculty	(12,000)	12,000	-
Unrestricted to Klaue 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>

NOTE 13 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

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

	<u>2016</u>	<u>2015</u>
Gifts and other unexpended revenues,		
Gains, and support restricted to:		
Scholarships	\$ 1,221,812	\$ 1,103,277
Program support	<u>1,536,121</u>	<u>1,439,818</u>
	<u>\$ 2,757,933</u>	<u>\$ 2,543,095</u>

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 13 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (continued):

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

	<u>2016</u>	<u>2015</u>
Endowment Funds with investment income restricted to:		
Scholarships	\$ 4,935,902	\$ 5,256,780
Program support	836,784	909,082
Emerging Needs	743,217	797,002
Faculty/Staff Development	2,461,630	2,654,107
Charitable Remainder Trusts	<u>114,315</u>	<u>129,858</u>
	<u>\$ 9,091,848</u>	<u>\$ 9,746,829</u>

NOTE 14 - 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 17). The following is a schedule by years of future minimum rentals receivable under the leases at June 30, 2016.

Years ending June 30,	2017	\$ 1,830,715
	2018	1,855,975
	2019	1,535,702
	2020	1,301,064
	2021	693,386

NOTE 15 - FUNCTIONAL EXPENSES:

Expenses by major functional category were as follows for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Program services	\$ 2,472,803	\$ 2,701,011
Supporting services	<u>809,465</u>	<u>696,420</u>
Totals	<u>\$ 3,282,268</u>	<u>\$ 3,397,431</u>

NOTE 16 - RELATED PARTY:

The Foundation is organized to provide benefits to Washington State Community College District 17 (CCS) and the students of Spokane Community College and Spokane Falls Community College. As such, Washington State Community College District 17 is a related party. Operating leases with CCS are described in Note 14. An option for CCS to purchase the Riverpoint One building is described in Note 17. Deposits held for CCS are described in Note 18. Services and support donated by CCS are described in Note 2 "Donated services and support".

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 17 - OPTION TO PURCHASE RIVERPOINT ONE BUILDING:

At June 30, 2015, the Foundation had refinanced the Riverpoint One building. With the refinance of the debt, the Community Colleges Foundation and the Community Colleges of Spokane have updated their agreement to incorporate the changes that have occurred.

Agreements:

In September, 2016, the parties executed the "Option to Purchase and Agreement Regarding Financial Operations of Riverpoint One Property between Community Colleges of Spokane and Community Colleges of Spokane Foundation" which replaces the agreement dated April 12, 2016, and the original option and operation agreements of July, 2000. The agreement grants Community Colleges of Spokane (CCS) an option to purchase the Riverpoint One property for a cash payment equal to the current outstanding debt obligation, if any, at the time of purchase. The Foundation may not sell the property to any other party unless CCS is in default on the agreement on the Riverpoint One property. The option period extends for as long as the Foundation owns the Riverpoint One Property. If CCS does not exercise the option, the Foundation will repay to CCS \$1,528,867 of reserve and advance funds (listed in detail in Note 18), which amount is reported as the liability "Deposits held for others – at refinance (CCS)."

The agreement states that in normal operations, the building should produce positive cash flows, defined as equal to the net cash flow after expenditures, capital improvements, and debt service. Such positive cash flow will be distributed first at \$50,000 per year to the Foundation. Secondly, \$50,001 will be set aside each year into the emergency reserve account until \$600,000 is maintained. Any remaining positive cash flow will be distributed to CCS. The emergency reserve will be used for maintenance and temporary cash flow deficits, and will transfer to CCS in the event that CCS acquires the property. This reserve and the excess cash owed to CCS are included in the liability "Deposits held for others – after refinance (CCS)."

CCS will also set up its own separate internal reserve fund and will deposit \$25,000 per year until \$300,000 is maintained. The parties agree that in the event insufficient funds are available in the Foundation emergency reserve account for the Riverpoint One property, CCS will reimburse the Foundation for operating losses up to the amount in the CCS internal reserve.

Financial effect of transaction, if option to purchase is exercised:

The exercise of the option transaction would have the following financial effect (at book value), as if exercised at June 30, 2016:

Riverpoint One cost basis, net of depreciation	\$ 6,921,093
Less: mortgage payable at 6/30/2016	<u>(5,275,185)</u>
Potential transfer of building to CCS	<u>\$ 1,645,908</u>
Offsetting transaction upon option exercise: Less: Deposit held for others (refinance) transfer to Foundation equity	<u>\$ (1,528,867)</u>
Net book value effect	<u>\$ 117,041</u>

In addition, the Foundation will donate existing reserve cash accounts to CCS (which are \$32,893 and \$50,001 as if exercised June 30, 2016).

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 18 - DEPOSITS HELD FOR OTHERS - RIVERPOINT ONE BUILDING:

Deposits held for others as of June 30, 2016 and 2015, are as follows:

	CCS paid To close	Contingency Reserve	Excess Income Reserve	Total Deposits
<u>Up to the refinance date:</u>				
Liability as of June 30, 2014	\$ -	\$ 511,597	\$ 1,030,657	\$ 1,542,254
Interest for the year 6/30/2015	-	99	1,179	1,278
RP1 (decrease) for 6/30/2015	-	-	(177,985)	(177,985)
Reserve used for capital expenditures 6/30/2015	-	-	(228,593)	(228,593)
Contributed by CCS	500,000	-	-	500,000
Liability as of June 30, 2015	500,000	511,696	625,258	1,636,954
Less: deposits carried over	-	-	(108,087)	(108,087)
Liability as of June 30, 2016, funds used in refinancing	<u>\$ 500,000</u>	<u>\$ 511,696</u>	<u>\$ 517,171</u>	<u>\$ 1,528,867</u>
<u>After the refinance date:</u>	<u>Owed to CCS</u>	<u>Emergency Reserve</u>	<u>Excess Income Reserve</u>	<u>Total Deposits</u>
Reserve deposits carried over	\$ -	\$ -	\$ 108,087	\$ 108,087
RP1 increase for 6/30/2016	178,480	-	-	178,480
Reserve transferred for CCS capital improvements	75,194	-	(75,194)	-
Less: earned by the Foundation	(50,000)	-	-	(50,000)
Less: owed to Emergency Reserve	(50,001)	50,001	-	-
Liability as of June 30, 2016, funds accumulated after refinancing	<u>\$ 153,673</u>	<u>\$ 50,001</u>	<u>\$ 32,893</u>	<u>\$ 236,567</u>

The \$153,673 owed to CCS was paid in October, 2016, and the \$50,001 due to the Emergency Reserve was funded in October, 2016.

NOTE 19 - RECLASSIFICATIONS:

Certain items in the 2015 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.