DISTRICT 17
COMMUNITY COLLEGES
FOUNDATION

(A Washington Non-Profit Organization)
Spokane, Washington

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

June 30, 2017 and 2016

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

FINANCIAL STATEMENTS
WITH INDEPENDENT
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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, 2017 and 2016, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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, 2017 and 2016, 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.

Schoedel & Schoedel CPAs PLLC

Spokane, WA
September 11, 2017

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2017 and 2016

ASSETS

	2017	2016
Assets:		
Cash and cash equivalents	$ 1,661,239	$ 1,596,849
Promises to give / pledges receivable	86,360	126,820
Prepaid expenses	23,283	21,202
Property and equipment, net	9,632,989	9,804,516
Future interests receivable from trusts	119,910	114,315
Investments, at fair value	16,559,568	15,260,573
Total assets	$ 28,083,349	$ 26,924,275

LIABILITIES AND NET ASSETS

	2017	2016
Liabilities:		
Accounts payable	$ 14,808	$ 54,571
Accrued compensated absences	23,016	44,424
Deferred rent	25,128	21,800
Deposit held for others - at refinance (CCS)	1,528,867	1,528,867
Deposits held for others - after refinance (CCS)	292,044	236,567
Notes and bonds payable	5,276,528	5,275,185
Total liabilities	7,160,391	7,161,414
Net assets:		
Unrestricted	8,232,827	7,913,080
Temporarily restricted	2,729,230	2,757,933
Permanently restricted	9,960,901	9,091,848
Total net assets	20,922,958	19,762,861
Total liabilities and net assets	$ 28,083,349	$ 26,924,275

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT:				
Cash contributions	$ 32,375	$ 703,158	$ 38,963	$ 774,496
Noncash contributions	106,651	187,846	-	294,497
Investment income, including gains and losses on investments	349,570	(10,140)	1,294,686	1,634,116
Income transfer per spending rule	31,714	348,393	(380,107)	-
Grant income	-	62,311	-	62,311
Administration fees	123,359	-	-	123,359
Rental income	1,632,025	-	25,264	1,657,289
Net assets released from restrictions	1,429,441	(1,288,331)	(141,110)	-
Total revenues, gains, and support	3,705,135	3,237	837,696	4,546,068
EXPENSES:				
Program services:				
Student support	1,311,526	-	-	1,311,526
Rental	1,193,033	-	-	1,193,033
Total program services	2,504,559	-	-	2,504,559
General and administrative	814,204	-	-	814,204
Fundraising	67,208	-	-	67,208
Total supporting services	881,412	-	-	881,412
Total expenses	3,385,971	-	-	3,385,971
CHANGE IN NET ASSETS BEFORE TRANSFERS	319,164	3,237	837,696	1,160,097
TRANSFERS: Reclassify net assets	583	(31,940)	31,357	-
CHANGE IN NET ASSETS	319,747	(28,703)	869,053	1,160,097
NET ASSETS, BEGINNING OF YEAR	7,913,080	2,757,933	9,091,848	19,762,861
NET ASSETS, END OF YEAR	$ 8,232,827	$ 2,729,230	$ 9,960,901	$ 20,922,958

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	3,059,380	229,983	(693,913)	2,595,450
EXPENSES:				
Program services:				
Student support	1,155,622	-	-	1,155,622
Rental	1,317,181	-	-	1,317,181
Total program services	2,472,803	-	-	2,472,803
General and administrative	735,428	-	-	735,428
Fundraising	74,037	-	-	74,037
Total supporting services	809,465	-	-	809,465
Total expenses	3,282,268	-	-	3,282,268
CHANGE IN NET ASSETS BEFORE TRANSFERS	(222,888)	229,983	(693,913)	(686,818)
TRANSFERS: Reclassify net assets	(23,787)	(15,145)	38,932	-
CHANGE IN NET ASSETS	(246,675)	214,838	(654,981)	(686,818)
NET ASSETS, BEGINNING OF YEAR	8,159,755	2,543,095	9,746,829	20,449,679
NET ASSETS, END OF YEAR	$ 7,913,080	$ 2,757,933	$ 9,091,848	$ 19,762,861

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

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017

	Program Services			Supportive Services		
	Student Support	Rental	Total	General & Administrative	Fund Raising	Total
Program support	$ 456,098	$ -	$ 456,098	$ -	$ -	$ 456,098
Noncash program support	294,497	-	294,497	-	-	294,497
Scholarships	560,931	-	560,931	-	-	560,931
Meetings	-	-	-	2,332	3,572	5,904
Other fundraising expense	-	-	-	-	56,771	56,771
Planned giving	-	-	-	-	6,865	6,865
Audit	-	-	-	14,175	-	14,175
Awards	-	-	-	448	-	448
Bank service charges	-	-	-	811	-	811
Bank credit card service charges	-	-	-	6,162	-	6,162
Donor recognition	-	-	-	14,624	-	14,624
Dues & subscriptions	-	-	-	4,005	-	4,005
Fees	-	334	334	123,434	-	123,768
Gifts	-	-	-	3,815	-	3,815
Insurance	-	18,523	18,523	2,911	-	21,434
Investment management fees	-	-	-	70,958	-	70,958
Licenses & permits	-	-	-	515	-	515
Marketing	-	-	-	8,981	-	8,981
Postage and shipping	-	-	-	36	-	36
Printing & brochures	-	-	-	14,882	-	14,882
Repairs & maintenance	-	214,662	214,662	-	-	214,662
Salaries	-	-	-	459,346	-	459,346
Software support	-	-	-	82,009	-	82,009
Supplies	-	-	-	1,711	-	1,711
Training	-	-	-	6,503	-	6,503
Travel	-	-	-	1,986	-	1,986
Uncollectible pledges	-	-	-	(5,440)	-	(5,440)
Contracted services	-	38,100	38,100	-	-	38,100
Depreciation	-	435,362	435,362	-	-	435,362
Interest	-	257,323	257,323	-	-	257,323
Taxes - real estate	-	81,255	81,255	-	-	81,255
Utilities	-	147,474	147,474	-	-	147,474
Total functional expenses	$ 1,311,526	$ 1,193,033	$ 2,504,559	$ 814,204	$ 67,208	$ 3,385,971

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

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Program Services			Supportive Services		
	Student Support	Rental	Total	General & Administrative	Fund Raising	Total
Program support	$ 320,562	$ -	$ 320,562	$ -	$ -	$ 320,562
Noncash program support	303,239	-	303,239	-	-	303,239
Scholarships	531,821	-	531,821	-	-	531,821
Meetings	-	-	-	-	4,186	4,186
Other fundraising expense	-	-	-	-	58,548	58,548
Planned giving	-	-	-	-	11,303	11,303
Audit	-	-	-	12,800	-	12,800
Awards	-	-	-	335	-	335
Bank service charges	-	-	-	647	-	647
Bank credit card service charges	-	-	-	6,990	-	6,990
Donor recognition	-	-	-	7,854	-	7,854
Dues & subscriptions	-	-	-	2,719	-	2,719
Fees	-	29,693	29,693	114,983	-	144,676
Gifts	-	-	-	3,767	-	3,767
Insurance	-	17,642	17,642	4,972	-	22,614
Investment management fees	-	-	-	76,023	-	76,023
Licenses & permits	-	-	-	408	-	408
Marketing	-	-	-	4,199	-	4,199
Postage and shipping	-	-	-	12,207	-	12,207
Printing & brochures	-	-	-	7,927	-	7,927
Repairs & maintenance	-	319,202	319,202	150	-	319,352
Salaries	-	-	-	430,970	-	430,970
Software support	-	-	-	31,204	-	31,204
Supplies	-	-	-	980	-	980
Training	-	-	-	1,920	-	1,920
Travel	-	-	-	5,142	-	5,142
Uncollectible pledges	-	-	-	9,231	-	9,231
Contracted services	-	38,100	38,100	-	-	38,100
Depreciation	-	415,776	415,776	-	-	415,776
Interest	-	269,907	269,907	-	-	269,907
Taxes - real estate	-	82,353	82,353	-	-	82,353
Utilities	-	144,508	144,508	-	-	144,508
	$ 1,155,622	$ 1,317,181	$ 2,472,803	$ 735,428	$ 74,037	$ 3,282,268

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,160,097	$ (686,818)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	435,362	415,776
(Gain) loss on investments - unrealized	(801,764)	153,039
(Gain) loss on investments - realized	(226,831)	924,422
(Gain) loss on future interests - unrealized	(5,595)	15,543
Contributions restricted for endowments	(38,963)	(71,475)
Net (increase) decrease in:		
Promises to give	40,460	(45,876)
Prepaid expenses	(2,081)	1,948
Net increase (decrease) in:		
Accounts payable	(39,763)	(82,097)
Accrued expenses	(21,408)	44,424
Deferred rent	3,328	21,800
Deposits held for others-after refinance	55,477	128,480
Net cash from operating activities	558,319	819,166
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for buildings, improvements, and equipment	(263,835)	(164,953)
Purchase of investments	(12,857,578)	(8,390,913)
Sale of investments	12,587,178	7,917,078
Net cash from (used by) investing activities	(534,235)	(638,788)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowments	38,963	71,475
Additional debt incurred	173,920	-
Payment on long-term debt - current	(172,577)	(145,815)
Net cash from (used by) financing activities	40,306	(74,340)
NET CHANGE IN CASH AND CASH EQUIVALENTS	64,390	106,038
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,596,849	1,490,811
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,661,239	$ 1,596,849
Supplemental Disclosure of Cash Flow Information:		
Interest paid in cash	$ 257,323	$ 269,907

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:

Fund Group	Net Asset Class
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:

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, 2017 and 2016, respectively of $86,360 and $126,820. The pledges are from a variety of businesses and individuals operating and residing in Spokane, Washington, and the surrounding Inland Northwest.

At June 30, 2017, the carrying amount of the Foundation's cash and equivalents amounted to $1,661,239, of which $742,078 was insured by Federal Deposit Insurance Corporation (FDIC), $560,020 was insured by National Credit Union Administration (NCUA), and $359,141 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

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, 2017 and 2016, the Foundation recorded non-cash contributed equipment and materials totaling $187,846 and $200,895, 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, 2017 and 2016, the Foundation recorded non-cash contributed services and support totaling $106,651 and $102,344, 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).

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, 2017 and 2016 (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.

Date of Management's Review - Management has evaluated subsequent events through September 11, 2017, (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, 2017 and 2016. Maturities of long-term promises to give are as follows for the years ended June 30:

Amounts due in:	2017	2016
Less than one year	$ -	$ -
One to two years	53,600	70,200
Two to three years	41,000	41,000
Three to four years	6,000	31,000
Four to five years	1,000	7,000
Total	101,600	149,200
Allowable for uncollectibles and discount	(15,240)	(22,380)
Net	$ 86,360	$ 126,820

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, 2017 and 2016:

	2017	2016
Equipment	$ 44,793	$ 44,793
Land	3,459,042	3,459,042
Buildings	9,753,931	9,753,931
Building improvements	2,801,674	2,537,839
Total property and equipment	16,059,440	15,795,605
Less: Accumulated depreciation	(6,426,451)	(5,991,089)
Net property and equipment	$ 9,632,989	$ 9,804,516

NOTE 4 - PROPERTY AND EQUIPMENT (continued):

During the year ended June 30, 2017, the Foundation completed its refinancing of the Riverpoint One building, and executed a revised agreement with the Community Colleges of Spokane. See also Notes 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 $435,362 and $415,776 for the years ended June 30, 2017 and 2016, 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).

	2017	2016
Future interests receivable consisted of the following for the years ended June 30, 2017 and 2016:	$ 119,910	$ 114,315

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

NOTE 6 - FAIR VALUE HIERARCHY (continued):

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, 2017 and 2016, the following financial assets of the Foundation were measured at fair value on a recurring basis consistent with the fair value hierarchy provisions.

Investments:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2017				
Equity mutual funds	$ 5,028,284	$ -	$ -	$ 5,028,284
Bond mutual funds	1,230,217	-	-	1,230,217
Equity ETFs	6,779,474	-	-	6,779,474
Bond ETFs	2,012,418	-	-	2,012,418
MLPs	1,509,175	-	-	1,509,175
Totals	$ 16,559,568	$ -	$ -	$ 16,559,568
Future interests	$ -	$ -	$ 119,910	$ 119,910

Investments:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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 fund	769,682	-	-	769,682
Totals	$ 15,260,573	$ -	$ -	$ 15,260,573
Future interests	$ -	$ -	$ 114,315	$ 114,315

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - FAIR VALUE HIERARCHY (continued):

Summary of Level 3 activity for the years ended June 30, 2017 and 2016:

	Future interests
July 1, 2015	$ 129,858
Transfers in/out of Level 3	-
Adjustment for present value	(15,543)
June 30, 2016	114,315
Transfers in/out of Level 3	-
Adjustment for present value	5,595
June 30, 2017	$ 119,910

NOTE 7 - INVESTMENTS:

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

Year ended June 30, 2017:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 28,261	$ 1,288	$ 570,377	$ 599,926
Change in trust value	-	-	5,595	5,595
Gains and losses, net	321,309	(11,428)	718,714	1,028,595
Total investment return	$ 349,570	$ (10,140)	$ 1,294,686	$ 1,634,116
Transfer income per spending rule	$ 31,714	$ 348,393	$ (380,107)	$ -

Year ended June 30, 2016:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$ (216,827)	$ 1,237	$ (263,223)	$ (478,813)
Transfer income per spending rule	$ 32,103	$ 356,193	$ (388,296)	$ -

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 $23,016 and $44,424 for the years ending June 30, 2017 and 2016, respectively.

NOTE 9 - NOTES AND BONDS PAYABLE:

Notes and bonds payable consisted of the following as of June 30, 2017 and 2016:

	2017	2016
Note payable to Banner Bank, payable in monthly installments of \$36,450 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. The current loan requires the Organization to maintain a debt service ratio equal to or in excess of 1.25 to 1. At June 30, 2017, the debt service coverage ratio is 2.10 to 1.00.	$ 5,276,528	$ 5,275,185

Interest expense amounted to \$257,323 and \$269,907 for the years ending June 30, 2017 and 2016, respectively. Principal payments on the above debt are as follows for the years ended June 30:

2018	$ 186,953
2019	196,198
2020	205,263
2021	216,050
2022	226,733
Thereafter	4,245,331
	$ 5,276,528

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.

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).

NOTE 10 - 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 predicable 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, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Scholarships	$ 5,432,875	$ 4,935,902
Program support	918,817	836,784
Emerging Needs	831,554	743,217
Faculty/Staff Development	2,657,745	2,461,630
Charitable Remainder Trusts	119,910	114,315
Endowment net assets, end of year	$ 9,960,901	$ 9,091,848

NOTE 10 - FUNDS HELD FOR ENDOWMENT (continued):

Change in Endowment Net Assets for the year ended June 30, 2017 and 2016:

	2017	2016
Endowment net assets, beginning of year	$ 9,091,848	$ 9,746,829
Contributions	38,963	71,475
Investment income, including gains and losses, realized and unrealized	1,294,686	(263,223)
Endowment income transfer	(380,107)	(388,296)
Rental income	25,264	25,264
Uncollectible pledges	750	(2,894)
Investment management fees	(40,207)	(43,065)
Administrative fees	(95,802)	(87,236)
Support services	(5,851)	(5,938)
Transfers	31,357	38,932
Endowment net assets, end of year	$ 9,960,901	$ 9,091,848

NOTE 11 - RECLASSIFICATION OF NET ASSETS:

The Foundation reclassified and transferred net assets as follows for the year ended June 30, 2017:

Transfers:	Unrestricted	Temporarily Restricted	Permanently Restricted
Annual Mini-Grant Award PS	$ (14,500)	$ 14,500	$ -
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 Classified Staff Scholarship (match)	(438)	438	-
Billboard rent to Program Support	(4,000)	4,000	-
Wine Gala proceeds to unrestricted	97,570	(97,570)	-
Adult Basic Education matching funds	(5,000)	5,000	-
Golf proceeds to unrestricted	7,187	(7,187)	-
Unrestricted to Chancellor's fund	(7,256)	7,256	-
Unrestricted to Focus Awards FY 16/17	(4,000)	4,000	-
Kendall scholarship to endowment	-	(25,000)	25,000
Unrestricted to Mobile Food Bank fund	(3,500)	3,500	-
Unrestricted to Gerontology	(1,000)	1,000	-
Dr. Johnson's employee donor match	(33,980)	27,623	6,357
Totals	$ 583	$ (31,940)	$ 31,357

NOTE 11 - RECLASSIFICATION OF NET ASSETS (continued):

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

Transfers:	Unrestricted	Temporarily Restricted	Permanently Restricted
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 Education 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 FY15/16	(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
Dr. Johnson's employee donor match	(4,791)	3,859	932
Unrestricted to Classified Staff Sch. (fundraising match)	(370)	370	-
Kendall building to property reserve	2,000	-	(2,000)
Totals	$ (23,787)	$ (15,145)	$ 38,932

NOTE 12 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

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

Gifts and other unexpended revenues,	2017	2016
Gains, and support restricted to:		
Scholarships	$ 1,229,740	$ 1,221,812
Program support	1,499,490	1,536,121
Totals	$ 2,729,230	$ 2,757,933

NOTE 12 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (continued):

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

	2017	2016
Endowment Funds with investment income restricted to:		
Scholarships	$ 5,432,875	$ 4,935,902
Program support	918,817	836,784
Emerging Needs	831,554	743,217
Faculty/Staff Development	2,657,745	2,461,630
Charitable Remainder Trusts	119,910	114,315
Totals	$ 9,960,901	$ 9,091,848

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, 2017.

Years ending June 30,	2018	$ 1,855,975
	2019	1,535,702
	2020	1,301,064
	2021	693,386
	2022	555,591

NOTE 14 - FUNCTIONAL EXPENSES:

Expenses by major functional category were as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Program services	$ 2,504,559	$ 2,472,803
Supporting services	881,412	809,465
Totals	$ 3,385,971	$ 3,282,268

NOTE 15 - 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 13. An option for CCS to purchase the Riverpoint One building is described in Note 16. Deposits held for CCS are described in Note 17. Services and support donated by CCS are described in Note 2 “Donated services and support”.

NOTE 16 - OPTION TO PURCHASE RIVERPOINT ONE BUILDING:

At June 30, 2017, the Foundation had completed the refinance of 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 17), 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 Riverpointe 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, 2017:

Riverpoint One cost basis, net of depreciation	$ 6,829,407
Less: mortgage payable at 6/30/2017	(5,276,528)
Potential transfer of building to CCS	$ 1,552,879
Offsetting transaction upon option exercise: Deposit held for others (refinance) will transfer to Foundation net assets	$ (1,528,867)
Net book value effect	$ 24,012

In addition, the Foundation will transfer reserve cash accounts to CCS (which are $100,002 and $32,893 and are equally offset by liability accounts at June 30, 2017, see Note 17).

NOTE 17 - DEPOSITS HELD FOR OTHERS - RIVERPOINT ONE BUILDING:

Deposits held for others as of June 30, 2017 and 2016, are as follows:

Up to the refinance date:	CCS paid To close	Contingency Reserve	Excess Income Reserve	Total Deposit Liability
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 and 2017, funds used in refinance	$ 500,000	$ 511,696	$ 517,171	$ 1,528,867

In the event the option to purchase is exercised, the total deposit liability would not be paid to CCS and would instead be reclassified to net assets of the Foundation.

After the refinance date:	Owed to CCS	Emergency Reserve	Excess Income Reserve	Total Deposit Liability
Liability as of June 30, 2016	$ 153,673	$ 50,001	$ 32,893	$ 236,567
Check to CCS November 30, 2016	(153,673)	-	-	(153,673)
RP1 increase for June 30, 2017	259,150	-	-	259,150
Less: earned by the Foundation	(50,000)	-	-	(50,000)
Less: owed to Emergency Reserve	(50,001)	50,001	-	-
Liability as of June 30, 2017, funds accumulated after refinance	$ 159,149	$ 100,002	$ 32,893	$ 292,044

The $159,149 owed to CCS will be paid October, 2017. The Emergency Reserve and Excess Income Reserve would be paid to CCS in the event the option to purchase is exercised.

NOTE 18 - RECLASSIFICATIONS:

Certain items in the 2016 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.