COMMUNITY COLLEGES OF SPOKANE

2014 Financial Report

Community Colleges of Spokane
Spokane Community College
Spokane Falls Community College

2014 Financial Report

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Trustees and Administrative Officers

Trustees and Officer list effective as of December 31, 2014

Independent Auditor's Report on Financial Statements

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Community Colleges of Spokane
July 1, 2013 through June 30, 2014

Board of Trustees
Community Colleges of Spokane
Spokane, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the Community Colleges of Spokane, Spokane County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 23, 2015. The College has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Our report includes a reference to other auditors who audited the financial statements of the District 17 Community Colleges Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

The financial statements of the District 17 Community Colleges Foundation was not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the District 17 Community Colleges Foundation.

The financial statements of the Community Colleges of Spokane, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of

Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 23, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Community Colleges of Spokane
July 1, 2013 through June 30, 2014

Board of Trustees
Community Colleges of Spokane
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of the Community Colleges of Spokane, Spokane County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the District 17 Community Colleges Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District 17 Community Colleges Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the

District 17 Community Colleges Foundation were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College'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 College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component unit of the Community Colleges of Spokane, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Community Colleges of Spokane, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 23, 2015

Community Colleges of Spokane
Statement of Net Position

June 30,2014

Assets		
Current assets		
Cash and cash equivalents		$ 45,876,661
Short-term investments		12,127,211
Accounts Receivable		9,829,282
Interest Receivable		207,523
Inventories		1,274,414
Prepaid Expenses		149,672
	Total current assets	$ 69,464,763
Non-Current Assets		
Long-term investments		$ 18,632,665
Capital assets, net of depreciation		164,456,390
	Total non-current assets	$ 183,089,055
	Total assets	**$ 252,553,818**
Liabilities		
Current Liabilities		
Accounts Payable		$ 2,241,583
Accrued Liabilities		6,622,765
Unearned Revenue		3,998,779
Leases and Certificates of Participation Payable		70,000
	Total current liabilities	$ 12,933,127
Noncurrent Liabilities		
Compensated Absences		$ 7,179,175
Long-term liabilities		1,905,000
	Total non-current liabilities	$ 9,084,175
	Total liabilities	**$ 22,017,302**
Net Position		
Net Investment in Capital Assets		162,481,390
Unrestricted		68,055,124
Total Net Position		**$ 230,536,514**
Total Liabilities and Net Position		**$ 252,553,818**

(Please refer to the accompanying notes which are an integral part of these financial statements.)

Community Colleges of Spokane
Statement of Revenues, Expenditures and Changes in Net Position
For the Year Ended June 30, 2014

Operating Revenues		
Student tuition and fees, net	$	38,177,536
Auxiliary enterprise sales		6,142,426
State and local grants and contracts		31,766,886
Federal grants and contracts		13,025,606
Other operating revenues		3,368,272
Interest on loans to students		34,220
Total operating revenue	$	92,514,947
Operating Expenses		
Operating Expenses	$	13,875,430
Salaries and wages		71,000,612
Benefits		23,709,785
Scholarships and fellowships		35,635,924
Supplies and materials		7,784,222
Depreciation		7,530,452
Purchased services		8,080,744
Utilities		3,094,617
Total operating expenses	$	170,711,786
Operating income (loss)	$	(78,196,839)
Non-Operating Revenues		
State appropriations	$	52,629,648
Federal Pell grant revenue		30,213,766
Investment income, gains and losses		459,829
Net non-operating revenues	**$**	**83,303,242**
Non-Operating Expenses		
Building & Innovation Fee	$	5,077,628
Interest on indebtedness		38,825
Net non-operating expenses	**$**	**5,116,453**
Income or (loss) before other revenues, expenses, gains, or losses	$	(10,050)
Capital appropriations		9,408,521
Increase (Decrease) in net position	$	9,398,470
Net Position		
Net position, beginning of year	$	221,138,044
Net position, end of year	$	230,536,514

(Please refer to the accompanying notes which are an integral part of these financial statements.)

Community Colleges of Spokane
Statement of Cash Flows

For the Year Ended June 30, 2014

Cash flow from operating activities		
Student tuition and fees	$	35,146,216
Grants and contracts		45,252,447
Payments to vendors		(28,266,943)
Payments for utilities		(3,085,883)
Payments to employees		(70,343,520)
Payments for benefits		(23,507,551)
Auxiliary enterprise sales		6,137,880
Payments for scholarships and fellowships		(35,663,821)
Loans issued to students and employees		34,220
Other receipts (payments)		4,793,407
Net cash used by operating activities	$	(69,503,547)
Cash flow from noncapital financing activities		
State appropriations	$	48,622,176
Pell grants		30,213,766
Innovation & Building Fees		(2,710,105)
Amounts for other than capital purposes		0
Net cash provided by noncapital financing activities	$	76,125,837
Cash flow from capital and related financing activities		
Capital appropriations	$	9,408,521
Purchases of capital assets		(21,381,331)
Certificate of participations proceeds		2,040,000
Principal paid on capital debt		(285,599)
Interest paid		(38,825)
Net cash used by capital and related financing activities	$	(10,257,234)
Cash flow from investing activities		
Purchase of investments	$	(14,904,299)
Proceeds from sales and maturities of investments		5,637,319
Income of investments		363,360
Net cash provided by investing activities	$	(8,903,619)
Increase in cash and cash equivalents		(12,538,564)
Cash and cash equivalents at the beginning of the year		58,415,225
Cash and cash equivalents at the end of the year	$	45,876,661

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	$	(78,196,839)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense		7,530,452
Changes in assets and liabilities		
Receivables , net		(1,510,001)
Inventories		41,616
Other assets		382,727
Accounts payable		26,239
Accrued liabilities		2,262,557
Deferred revenue		(7,308)
Compensated absences		(16,796)
Deposits payable		(16,193)
Net cash used by operating activities	$	(69,503,547)

(Please refer to the accompanying notes which are an integral part of these financial statements.)

Notes to the Financial Statements

June 30, 2014
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Community Colleges of Spokane (the College) is a comprehensive community college offering open-door academic programs, workforce education, basic skills, and community services. The College confers associates degrees, certificates and high school diplomas. It is governed by a five-member Board of Trustees appointed by the Governor and confirmed by the state Senate.

The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report.

The District 17 Community Colleges Foundation (the Foundation or CCS Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1972 and recognized as a tax exempt 501(c)(3) charity. The Foundation's charitable purpose is to solicit and receive contributions to provide enhancements at the Community Colleges of Spokane and scholarship assistance to the students. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the College or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements and notes are discretely presented at the end of these Notes to the Financial Statements. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2014, the Foundation distributed approximately $1,053,471 to the College for restricted and unrestricted purposes. A copy of the Foundation's complete audited financial statements may be obtained from the Foundation's Administrative Offices at 501 N. Riverpoint Blvd Ste 203, PO Box 6000, Spokane, WA 99217-6000, (509)434-5123 or their web site at www.ccs.spokane.edu/foundation.

Basis of Presentation

The College follows all GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 35, *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities.* For financial reporting purposes, the College is considered a special-purpose government engaged only in Business Type Activities (BTA). In accordance with BTA reporting, the College presents; a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements. The format provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

New Accounting Pronouncements

Beginning in fiscal year 2012-13, the College adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The College has no significant arrangements allowing external parties to operate college capital assets.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after June 15, 2014. The impact of this pronouncement is uncertain at this time.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. GASB 70 is effective for fiscal years beginning after June 15, 2013. The College did not make any changes as a result of this pronouncement.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

During the course of operations, numerous transactions occur between funds for goods provided and services rendered. For the financial statements, interfund receivables and payables have generally been eliminated. However, revenues and expenses from the College's auxiliary enterprises are treated as though the College were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets along with operating funds invested in the LGIP. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value.

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents, certificates of deposit, U.S. Treasuries and U.S. Agency securities (bonds).

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories consist of merchandise for resale in the college's two bookstores and are valued at cost using the first-in first-out (FIFO) method.

Capital Assets

In accordance with state law, capital assets constructed with state funds are owned by the State of Washington. Property titles are shown accordingly. However, responsibility for managing the assets rests with the College. As a result, the assets are included in the financial statements because excluding them would have been misleading to the reader.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. As this is the first institution-level financial statement prepared by the college, GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives range from 15 to 50 years for buildings and improvements, 3 to 50 years for improvements other than buildings, 7 years for library resources and 2 to 10 years for most equipment and 11 to 40 years for heavy duty equipment, aircraft, locomotives and vessels.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2014, no assets had been written down.

Unearned Revenues

Unearned revenues occur when funds have been collected prior to the end of the fiscal year but related to the subsequent fiscal year. The College has recorded 2014 summer quarter tuition and fees, and any 2014 fall quarter tuition and fees, as unearned revenues.

Tax Exemption

The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Position

The College's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of waivers and scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2014 are $14,670,137.

State Appropriations

The state of Washington appropriates funds to the College on both an annual and biennial basis. These revenues are reported as non-operating revenues on the Statements of Revenues, Expenses, and Changes in Net Position, and recognized as such when the related expenses are incurred.

Operating Expenses

Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation. All other revenue and expenses of the College are reported as nonoperating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

2. Cash and Investments

Cash and cash equivalents include bank demand deposits, petty cash held at the College and unit shares in the Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both the market and credit risk. The LGIP is an unrated investment pool.

As of June 30, 2014, the carrying amount of the College's cash and equivalents was $45,876,661 as represented in the table below.

Table 1: Cash and Cash Equivalents	**June 30, 2014**
Petty Cash and Change Funds	$11,830
Bank Demand and Time Deposits	$36,396,167
Local Government Investment Pool	$9,468,664
Total Cash and Cash Equivalents	**$45,876,661**

Investments consist of time certificates of deposit, U.S. Treasury and Agency securities, investments and bond funds. Time certificates of deposit have repurchase agreements with the respective financial institutions.

Table 2: Investment Maturitie	Fair Value	One Year or Less	1 - 5 Years	6 - 10 Years
Time Certificate of Deposits	$ 11,350,611	$ 24,739	$ 11,325,872	$ -
U.S. Government Treasury	3,969,415	-	3,969,415	-
U.S. Agency Obligations	15,439,850	-	11,503,641	3,936,209
Total Investments	**$ 30,759,876**	**$ 24,739**	**$ 26,798,928**	**$3,936,209**

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The majority of the College's demand deposits are with the Bank of America. All cash and equivalents, except for change funds and petty cash held by the College, are insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC).

Interest Rate Risk—Investments

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. The College manages its exposure to fair value losses resulting from changes in interest rates by structuring the entire portfolio time horizon. The College generally will not directly invest in securities maturing more than seven years from the date of purchase.

Concentration of Credit Risk—Investments

State law limits the College's operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2014, none of the College's operating fund investments, held at US Bank, were held in the name of US Bank for the benefit of the College, therefor none of the investments are exposed to custodial credit risk.

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2014 were $0.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2014, accounts receivable were as follows.

Table 3: Accounts Receivable	Amount
Student Tuition and Fees	$ 5,422,508
Due from the Federal Government	96,610
Due from Other State Agencies	1,726,727
Auxiliary Enterprises	148,007
Interest Receivable	-
Other	3,173,358
Subtotal	-
Less Allowance for Uncollectible Accounts	(737,928)
Accounts Receivable, net	**$ 9,829,282**

4. Loans Receivable

As of June 30, 2014 the College has no loans receivable.

5. Inventories

Inventories, stated at cost using first-in first out (FIFO), consisted of the following as of June 30, 2014.

Table 4: Inventories	Amount
Merchandise Inventories	$ 1,274,414
Total Inventories	**$ 1,274,414**

6. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $7,530,452.

Table 5: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 3,792,411	$ -	$ -	$ 3,792,411
Construction in progress	12,014,877	(11,904,261)	0	110,616
Total nondepreciable capital assets	15,807,288	(11,904,261)	0	3,903,027
Depreciable capital assets				
Buildings	217,150,541	24,655,801	(777,253)	241,029,089
Other improvements and infrastructure	2,953,857	36,356	(941,809)	2,048,404
Equipment	18,419,348	1,449,948	(803,260)	19,066,036
Library resources	8,446,205	69,463	0	8,515,668
Subtotal depreciable capital assets	246,969,951	26,211,568	(2,522,322)	270,659,197
Less accumulated depreciation				
Buildings	81,239,505	5,995,790	(605,223)	86,630,072
Other improvements and infrastructure	2,631,559	0	(734,921)	1,896,638
Equipment	12,455,225	1,527,458	(752,578)	13,230,105
Library resources	8,341,815	7,204	0	8,349,019
Total accumulated depreciation	104,668,104	7,530,452	(2,092,722)	110,105,834
Total depreciable capital assets	142,301,847	18,681,116	(429,600)	160,553,363
Capital assets, net of accumulated depreciation	**$ 158,109,135**	**$ 6,776,855**	**$ (429,600)**	**$ 164,456,390**

7. Accounts Payable and Accrued Liabilities

At June 30, 2014, accrued liabilities are the following.

Table 6: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 3,317,647
Accounts Payable	$ 2,241,584
Amounts Held for Others and Retainage	$ 3,305,118
Total	**$ 8,864,349**

8. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Table 7: Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 3,966,926
Housing and Other Deposits	31,853
Total Unearned Revenue	$ 3,998,779

9. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. Employment Security Department (ESD) processes the unemployment claims and The College reimburses ESD quarterly for the actual unemployment costs. The College estimates a liability for unpaid unemployment claims by assessing a monthly payroll expense for unemployment compensation for employees. The assessment for 2013-2014 was .10% of salaries. Payments made for claims from July 1, 2013 through June 30, 2014, were $189,297. Cash reserves for unemployment compensation for all employees at June 30, 2013 and June 30, 2014, were $552,512 and $691,951, respectively, as follows:

Table 9: Unemployment Compensation:

Balance as of June 30, 2012	Liability Additions	Liability Reductions	Balance as of June 30, 2013	Liability Additions	Liability Reductions	Balance as of June 30, 2014
$ 377,660	$ 475,460	$ 300,609	$ 552,512	$ 328,737	$ 189,297	$ 691,951

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 25% of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued vacation leave totaled $2,617,382, and accrued sick leave totaled $4,561,792 at June 30, 2014 (see table at Note 14).

Accrued annual and sick leave are categorized as non-current liabilities. Compensatory time is categorized as a current liability since it must be used before other leave.

11. Leases Payable

The College has leases for office space and equipment with various vendors. These leases are classified as operating leases. The College as of June 30, 2014 did not have any leases which would be classified as a capital lease. As of June 30, 2014, the minimum lease payments under operating leases consist of the following.

Table 10: Leases Payable

Fiscal year	**Operating Leases**
2015	$ 1,515,270
2016	1,297,432
2017	1,302,541
2018	1,097,099
2019	778,716
Total minimum lease payments	5,991,058
Less Amount representing interest	0
Net present value	**$ 5,991,058**

12. Notes Payable

In December 2012, the College obtained financing in order to purchase two airplane airframes for instructional purposes at the Spokane Community College campus through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $434,677. The interest rate charged is 7.61%. This COP was paid in full in June 2014.

In December 2013, the College obtained financing in order to build the Student Services Building (#15) on the Spokane Community College campus through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $2,040,000. The interest rate charged is 4.18%. The principle and interest obligations related to this payable are being paid out of Community Colleges of Spokane local funds.

The College's debt service requirements for these note agreements for the next five years and thereafter are detailed in footnotes #13 and #14 below.

13. Annual Debt Service Requirements

Future debt service requirements at June 30, 2014 are as follows.

Fiscal year	Principal	Interest	Total
2015	$ 70,000	$ 88,581	$ 158,581
2016	70,000	86,481	156,481
2017	70,000	84,381	154,381
2018	75,000	81,581	156,581
2019	80,000	77,831	157,831
2020-2024	460,000	324,905	784,905
2025-2029	580,000	202,255	782,255
2030-2034	570,000	65,314	635,314
2035-2039	-	-	-
2040-2044	-	-	-
Total	**$ 1,975,000**	**$ 1,011,330**	**$ 2,986,330**

14. Schedule of Long Term Liabilities

	Balance outstanding 6/30/13	Additions	Reductions	Balance outstanding 6/30/14	Current portion
Compensated Absences	$ 6,771,206	3,652,137	3,244,168	$ 7,179,175	$ -
Certificates of Participation	220,599	2,040,000	285,599	1,975,000	70,000
Total	**$ 6,991,805**	**$ 5,692,137**	**$ 3,529,767**	**$ 9,154,175**	**$ 70,000**

15. Pension Plans

The College offers three contributory pension plans. The Washington State Public Employees Retirement System (PERS) and Teachers Retirement System (TRS) plans are cost sharing multiple employer defined benefit pension plans administered by the State of Washington Department of Retirement Services. The State Board Retirement Plan (SBRP) is a multiple employer defined contribution plan for the faculty and exempt administrative and professional staff of the state's public community and technical colleges. The plan includes supplemental payment, when required. The plan is administered by the State Board for Community and Technical Colleges (SBCTC).

For FY2013-14, the payroll for the College's employees was $22,798,513 for PERS, $983,498 for TRS, and $39,790,876 for SBRP. Total covered payroll was $63,572,887.

PERS and TRS

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS Plan 3 provides retirement benefits to certain eligible faculty hired on or after October 1, 1977. The plan includes both a defined benefit portion and a defined contribution portion. The defined benefit portion is funded by employer contributions only. Benefits are vested after an employee completes five or ten years of eligible service, depending on the employee's age and service credit, and include an annual cost-of living adjustment. The defined contribution component is fully funded by employee contributions and investment performance.

The college also has 8 faculty members with pre-existing eligibility who continue to participate in TRS 1 or 2.

The authority to establish and amend benefit provisions resides with the legislature. PERS and TRS issue publicly available financial reports that include financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2014, 2013, and 2012 are as follows.

Contribution Rates at June 30

	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.08%	6.00%	7.21%	6.00%	9.21%
Plan 2	4.64%	7.08%	4.64%	7.21%	4.92%	9.21%
Plan 3	5 - 15%	7.08%	5 - 15%	7.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 2	4.69%	8.04%	4.69%	8.05%	4.96%	10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

Required Contributions

	FY2012		FY2013		FY2014	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 66,822	$ 80,075	$ 54,181	$ 65,133	$ 51,678	$ 79,295
Plan 2	788,848	1,226,212	776,417	1,206,311	858,395	1,605,937
Plan 3	281,877	298,250	276,308	289,058	291,621	413,424
TRS						
Plan 1	$ 16,837	$ 22,305	$ 12,596	$ 16,899	$ 10,462	$ 18,012
Plan 2	11,337	19,540	12,100	20,767	13,250	27,497
Plan 3	31,155	34,713	48,755	58,006	51,398	54,319

State Board Retirement Plan

Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher’s Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations. TIAA-CREF benefits are payable upon termination at the member’s option unless the participant is re-employed in another institution which participates in TIAA-CREF.

The Plan has a supplemental payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee’s retirement date. The SBCTC makes direct payments on behalf of the College to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The State Board for Community and Technical Colleges is authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2014 were $3,551,578 and $3,554,829 respectively.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $4,112. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $198,954. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 of the fund balance.

Washington State Deferred Compensation Program

The College, through the state of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The state of Washington administers the plan on behalf of the College's employees. The deferred compensation is not available to employees until termination, retirement or unforeseeable financial emergency. The College does not have access to the funds.

Other Post-Employment Benefits

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of GASB 45 actuarially accrued liability (AAL) is $35,565,013, with an annual required contribution (ARC) of $3,474,720. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $(653,782). The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $2,820,939

The College paid $11,852,244 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

16. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications, such as salaries, benefits, and supplies. The table below summarizes operating expenses by program or function such as instruction, research, and academic support. The following table lists operating expenses by program for the year ending June 30, 2014.

Expenses by Functional Classification		
Instruction	$	53,739,470
Academic Support Services		12,585,693
Student Services		27,375,017
Institutional Support		11,032,271
Operations and Maintenance of Plant		13,379,233
Scholarships and Student Financial Aid		35,635,924
Auxiliary enterprises		9,433,726
Depreciation		7,530,452
Total operating expenses	**$**	**170,711,786**

17. Commitments and Contingencies

There is a class action filed against the State of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

Plaintiff alleged Spokane Community College interfered with its business by issuing a change order forcing the contractor to replace plaintiff as the plumbing contractor with another contractor with a higher bid. Plaintiff claims business interference, defamation and lost profits. Complaint alleges amount to be proven at trial. Court granted State's Motion for Summary Judgment on December 20, 2013, Plaintiff's appealed. Argument on appeal heard January 29, 2015, decision not yet filed.

Claimant alleges daughter was sexually assaulted on at least two occasions by a volunteer at the Big Foot Head Start Daycare at SCC. Tort claim filed April 29, 2013 requesting damages in amount of one million dollars. Claim unresolved at this time.

Former SCC faculty filed a tort lawsuit November 1, 2013 alleging failure to accommodate. She claims lost past earnings, lost sick leave benefits, mitigation earnings, lost future earnings, pain and suffering in amount of $854,821 and also claims medical specials, lost retirement and health care contributions in amount to be determined at trial. Trial scheduled July 27, 2015. Claim unresolved at this time.

Class action lawsuit involved employees who retired under PERS and returned to work full-time at higher education with no reduction in their retirement benefit. An order approving class settlement was filed October 28, 2014.

Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statements.

18. Subsequent Events

Effective July 23, 2013 the College finalized the steps necessary to remove the Institute of Extended Learning (IEL) from all relevant passages in Washington Administrative Code (WAC) 132Q, in preparation for the merger of the IEL with Spokane Community College (SCC). Historically, as in fiscal year 2013-14, the IEL was operated as an independent unit of the College. The credit bearing IEL students were awarded financial aid through Spokane Falls Community College (SFCC), and all revenues and expenses were reported as a division of SFCC. Over the course of the 2013-14 fiscal year preparations were made to change courses, coding and personnel to allow for the merger of the IEL with SCC to occur. Effective July 1, 2014, all students, revenues and expenses of the former IEL were formally merged into the financial accounts of SCC.

The College and Barnes & Noble Booksellers, LLC (B & N College) entered into an agreement in December 2014 to provide college bookstore operation services on SFCC and SCC campuses and online through the College campus websites.

The College announced in February 2015 that SFCC will offer a bachelor of applied science (BAS) in Information Systems and Technology. The Washington State Board of Community and Technical Colleges unanimously adopted the resolution authorizing SFCC to offer the bachelor's degree beginning fall 2015. This will be the first four-year degree offered by the College.

19. Segment Information

For financial statement purposes, balances not specifically identified with a Campus were allocated to the Campuses using the same allocation method employed in the preparation of the College's Integrated Postsecondary Education Data System (IPEDS) report. Allocated amounts were allocated based upon the Campus's share of the operating budget, excluding District activity. Where allocations were applied the following percentages were used: SCC 64% and SFCC 36%.

Community Colleges of Spokane
Segment Statement of Net Position
June 30,2014

	Spokane Community College	Spokane Falls Community College	Total
Assets			
Current assets			
Cash and cash equivalents	$ 29,358,346	$ 16,518,315	$ 45,876,661
Short-term investments	7,761,415	4,365,796	12,127,211
Accounts Receivable	6,290,740	3,538,542	9,829,282
Interest Receivable	132,815	74,708	207,523
Inventories	815,625	458,789	1,274,414
Prepaid Expenses	95,790	53,882	149,672
Total current assets	$ 44,454,732	$ 25,010,032	$ 69,464,764
Non-Current Assets			
Long-term investments	$ 11,924,906	$ 6,707,759	$ 18,632,665
Capital assets, net of depreciation	78,308,093	86,148,297	164,456,390
Total non-current assets	$ 90,232,999	$ 92,856,056	$ 183,089,055
Total assets	**$ 134,687,729**	**$ 117,866,088**	**$ 252,553,818**
Liabilities			
Current Liabilities			
Accounts Payable	$ 1,434,613	$ 806,970	$ 2,241,583
Accrued Liabilities	4,238,570	2,384,196	6,622,765
Unearned Revenue	2,564,634	1,434,145	3,998,779
Leases and Certificates of Participation Payable	44,800	25,200	70,000
Total current liabilities	$ 8,282,617	$ 4,650,510	$ 12,933,127
Noncurrent Liabilities			
Compensated Absences	$ 4,586,539	$ 2,592,635	$ 7,179,175
Long-term liabilities	1,219,200	685,800	1,905,000
Total non-current liabilities	$ 5,805,739	$ 3,278,435	$ 9,084,175
Total liabilities	**$ 14,088,356**	**$ 7,928,946**	**$ 22,017,302**
Net Position			
Net Investment in Capital Assets	77,044,093	85,437,297	162,481,390
Unrestricted	43,555,280	24,499,845	68,055,124
Total Net Position	**$ 120,599,373**	**$ 109,937,142**	**$ 230,536,514**
Total Liabilities and Net Position	**$ 134,687,731**	**$ 117,866,088**	**$ 252,553,818**

Community Colleges of Spokane
Segment Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	Spokane Community College	Spokane Falls Community College	Total
Operating Revenues			
Student tuition and fees, net	$ 18,822,635	$ 19,354,900	$ 38,177,536
Auxiliary enterprise sales	3,158,789	2,983,638	6,142,426
State and local grants and contracts	11,957,042	19,809,844	31,766,886
Federal grants and contracts	6,285,856	6,739,751	13,025,606
Other operating revenues	1,374,945	1,993,327	3,368,272
Interest on loans to students	16,872	17,349	34,220
Total operating revenue	$ 41,616,139	$ 50,898,808	$ 92,514,947
Operating Expenses			
Operating Expenses	$ 6,840,991	$ 7,034,440	$ 13,875,430
Salaries and wages	29,477,066	41,523,546	71,000,612
Benefits	9,729,289	13,980,496	23,709,785
Scholarships and fellowships	17,569,547	18,066,377	35,635,924
Supplies and materials	3,837,848	3,946,374	7,784,222
Depreciation	3,072,454	4,457,998	7,530,452
Purchased services	3,984,042	4,096,702	8,080,744
Utilities	1,256,563	1,838,054	3,094,617
Total operating expenses	$ 75,767,799	$ 94,943,987	$ 170,711,786
Operating income (loss)	$ (34,151,660)	$ (44,045,179)	$ (78,196,839)
Non-Operating Revenues			
State appropriations	$ 28,972,104	$ 23,657,543	$ 52,629,648
Federal Pell grant revenue	14,896,265	15,317,500	30,213,766
Investment income, gains and losses	294,154	165,675	459,829
Net non-operating revenues	**$ 44,162,524**	**$ 39,140,719**	**$ 83,303,242**
Non-Operating Expenses			
Building & Innovation Fee	$ 615,062	$ 4,462,566	$ 5,077,628
Interest on indebtedness	38,825	-	38,825
Net non-operating expenses	**$ 653,888**	**$ 4,462,566**	**$ 5,116,453**
Income or (loss) before other revenues, expenses, gains, or losses	$ 9,356,975	$ (9,367,026)	$ (10,050)
Capital appropriations	1,139,671	8,268,849	9,408,521
Increase (Decrease) in net position	$ 10,496,647	$ (1,098,177)	$ 9,398,470
Net Position			
Net position, beginning of year	$ 110,102,726	$ 111,035,318	$ 221,138,044
Net position, end of year	$ 120,599,373	$ 109,937,142	$ 230,536,514

Presented below are the Foundation's audited financial statements. The Foundation's statements were audited by the firm of Schoedel & Schoedel. As noted in Note 1, a copy of the Foundation's complete audited financial statements may be obtained from the Foundation's Administrative Offices at 501 N. Riverpoint Blvd Ste 203, PO Box 6000, Spokane, WA 99217-6000, (509)434-5123 or their web site at www.ccs.spokane.edu/foundation.

District 17 Community Colleges of Spokane
Foundation Financial Statements

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2014 and 2013

ASSETS

	2014	2013
Assets:		
Cash and cash equivalents	$ 4,566,797	$ 3,639,669
Promises to give, less allowance for uncollectible promises	8,905	74,281
Prepaid expenses	24,942	27,157
Property and equipment, net	9,815,462	10,432,605
Deposit	-	15,000
Construction in progress	-	261,363
Future interests receivable from trusts	145,778	137,377
Other assets, loan costs, net	141,524	201,910
Investments, at fair value	14,709,367	12,593,041
Total assets	$ 29,412,775	$ 27,382,403

LIABILITIES AND NET ASSETS

	2014	2013
Liabilities:		
Accounts payable	$ 127,700	$ 170,429
Deposits held for others	1,542,254	1,846,486
Deferred revenue	-	78,467
Notes and bonds payable	7,200,000	9,386,339
Total liabilities	8,869,954	11,481,721
Net assets:		
Unrestricted	7,830,697	4,356,571
Temporarily restricted	2,268,611	2,093,781
Permanently restricted	10,443,513	9,450,330
Total net assets	20,542,821	15,900,682
Total liabilities and net assets	$ 29,412,775	$ 27,382,403

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF ACTIVITES 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

DISTRICT 17 COMMUNITY COLLEGES FOUNDATION
Spokane, Washington

STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS
For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT:				
Cash contributions	$ 67,959	$ 432,542	$ 261,545	$ 762,046
Noncash contributions	177,743	68,151	-	245,894
Investment income, including gains and losses on investments	503,491	295,082	1,080,597	1,879,170
Gain on sale of property	-	79,462	-	79,462
Grant income	1,500	22,000	-	23,500
Administration fees	109,820	-	-	109,820
Rental income	1,906,522	-	25,264	1,931,786
Net assets released from restrictions	977,642	(860,560)	(117,082)	-
Total revenues, gains, and support	3,744,677	36,677	1,250,324	5,031,678
EXPENSES:				
Program services:				
Program support	368,201	-	-	368,201
Noncash program support	245,894	-	-	245,894
Scholarships	385,244	-	-	385,244
Rental	1,418,372	-	-	1,418,372
Total program services	2,417,711	-	-	2,417,711
General and administrative	388,682	-	-	388,682
Fundraising	42,979	-	-	42,979
Total supporting services	431,661	-	-	431,661
Total expenses	2,849,372	-	-	2,849,372
CHANGE IN NET ASSETS BEFORE TRANSFERS	895,305	36,677	1,250,324	2,182,306
TRANSFERS: Reclassify net assets	161,943	(203,183)	41,240	-
CHANGE IN NET ASSETS	1,057,248	(166,506)	1,291,564	2,182,306
NET ASSETS, BEGINNING OF YEAR	3,299,323	2,260,287	8,158,766	13,718,376
NET ASSETS, END OF YEAR	$ 4,356,571	$ 2,093,781	$ 9,450,330	$ 15,900,682

District 17 Community Colleges Foundation
Notes to Financial Statements
June 30, 2014 and 2013

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

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

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:

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, 2014 and 2013, respectively of $8,905 and $74,281, however, the pledges are from a variety of businesses and individuals operating and residing in Spokane, Washington, and the surrounding Inland Northwest.

At June 30, 2014, the carrying amount of the Foundation's cash and equivalents amounted to $4,566,797, of which $2,208,845 was insured by Federal Deposit Insurance Corporation (FDIC), $560,020 was insured by National Credit Union Administration (NCUA), and $1,797,932 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

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

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 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, 2014 and 2013, the Foundation recorded non-cash contributed equipment and materials totaling $175,589 and $68,151, respectively.

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

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, 2014 and 2013, the Foundation recorded non-cash contributed services and support totaling $197,884 and $177,743, 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).

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, 2014 and 2013 (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, 2014 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2011 through 2013 tax years remain subject to examination by the IRS. The Corporation does not believe that any reasonably possible changes

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

will occur within the next twelve months that will have a material impact on the financial statements.

Derivative financial instruments - The Organization makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert the Organization's floating rate long-term debt to a fixed rate (see also note 9).

Date of Management's Review - Management has evaluated subsequent events through October 6, 2014, (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:

	2014	2013
2014	$ -	$ 84,390
2015	7,143	3,000
2016	3,334	-
Total	10,477	87,390
Allowable for uncollectibles and discount	(1,572)	(13,109)
Net	$ 8,905	$ 74,281

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, 2014 and 2013:

	2014	2013
Equipment	$ 44,793	$ 44,793
Land	3,459,042	3,038,139
Buildings	9,753,931	11,075,787
Building improvements	1,794,060	1,725,737
Total property and equipment	15,051,826	15,884,456
Less: Accumulated depreciation	(5,236,364)	(5,451,851)
Net property and equipment	$ 9,815,462	$ 10,432,605

Gain on the sale of the Hillyard property was as follows:

Sale price	$ 3,650,000
Cost, net of depreciation	(1,019,632)
Legal fees	(536,185)
Net gain on sale	$ 2,094,183

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 $378,637 and $292,626 for the years ended June 30, 2014 and 2013, respectively.

Construction in progress: The Foundation, in conjunction Spokane Community College, annually sponsored the building of a residential house (discontinued after the current year). Construction in process amounted to $-0- and $261,363 as of June 30, 2014 and 2013, 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.

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:

NOTE 6 - FAIR VALUE HIERARCHY (continued):

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, 2014 and 2013, 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.

Investments:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2014				
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	$ 14,709,367	$ -	$ -	$ 14,709,367
Future interests	$ -	$ -	$ 145,778	$ 145,778

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, 2013				
Multi-Strategy equity fund	$ 10,024,653	$ -	$ -	$ 10,024,653
Bond fund	2,568,388	-	-	2,568,388
Totals	$ 12,593,041	$ -	$ -	$ 12,593,041
Future interests	$ -	$ -	$ 137,377	$ 137,377

Summary of Level 3 activity for the year ended June 30, 2014:

	Future interests
July 1, 2013	$ 137,377
Transfers in/out of Level 3	-
Adjustment for present value	8,401
June 30, 2014	$ 145,778

NOTE 7 - INVESTMENTS:

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

Year ended June 30, 2014:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	440,532	-	899,027	1,339,559
Total investment return	$ 660,846	$ 323,194	$ 976,363	$ 1,960,403

Year ended June 30, 2013:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 51,662	$ 1,005	$ 174,911	$ 227,578
Transfer income per spending rule	25,792	294,077	(319,869)	-
Change in trust value	-	-	9,398	9,398
Gains and losses, net	426,037	-	1,216,157	1,642,194
Total investment return	$ 503,491	$ 295,082	$ 1,080,597	$ 1,879,170

NOTE 8 - NOTES AND BONDS PAYABLE:

Notes and bonds payable consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Note payable to USDA, payable in annual installments of $39,129 including interest at 4.75% due November 1, 2040; secured by real property (Newport). The loan balance was paid in full during the current year.	$ -	$ 586,339
Washington State Housing Finance Commission Nonprofit Revenue Bonds, interest rates ranging from 3.85% to 5.20%, varying amounts due July 1, 2000 to 2018; secured by letter of Credit with U.S. Bank Trust National Association. The loan balance was paid in full during the current year.	-	1,410,000
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	4,590,000
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	2,800,000
Totals	$ 7,200,000	$ 9,386,339

Interest expense amounted to $374,177 and $418,541 for the years ending June 30, 2014 and 2013, respectively. Principal payments on the above debt are as follows for the years ended June 30:

2015	190,000
2016	220,000
2017	250,000
2018	250,000
2019	300,000
Thereafter	**5,990,000**
	$ 7,200,000

NOTE 9 - DERIVATIVE TRANSACTIONS:

The Organization has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate long-term debt. At June 30, 2014, the Organization had outstanding two interest rate swap agreements with commercial banks, having a total principal amount of $7,200,000 (see note 8). Those agreements effectively change the Organization's interest rate exposure on its $4,520,000 floating rate note through 9/15/2015 to a fixed 3.89% and its $2,680,000 floating rate notes through 9/15/2015 to a fixed 4.75%. The interest rate swap agreements mature at September 15, 2015. The Organization is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Organization does not anticipate nonperformance by the counterparties.

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).

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, 2014 and 2013, 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, 2014 and 2013:

	2014	2013
Scholarships	$ 5,620,289	$ 5,023,583
Program support	981,035	895,187
Emerging Needs	845,877	760,369
Faculty/Staff Development	2,850,534	2,633,814
Charitable Remainder Trusts	145,778	137,377
Endowment net assets, end of year	$ 10,443,513	$ 9,450,330

Change in Endowment Net Assets for the year ended June 30, 2014 and 2013:

	2014	2013
Endowment net assets, beginning of year	$ 9,450,330	$ 8,158,766
Contributions	114,594	261,545
Investment income, including gains and losses, realized and unrealized	1,326,970	1,400,268
Endowment income transfer	(350,607)	(319,869)
Rental income	25,264	25,264
Uncollectible pledges	7,410	8,266
Investment management fees	(48,457)	(30,865)
Administrative fees	(100,759)	(90,383)
Support services	(3,709)	(3,902)
Transfers	22,477	41,240
Endowment net assets, end of year	$ 10,443,513	$ 9,450,330

NOTE 11 - RECLASSIFICATION OF NET ASSETS:

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

	Unrestricted	Temporarily Restricted	Permanently Restricted
Transfer to annual Mini-Grant Award PS	$ (12,250)	$ 12,250	$ -
Transfer to Alumni Association program support	(500)	500	-
Transfer to Spokane Central Lions Club Scholarship	(2,000)	2,000	-
Transfer Billboard rent to Program Support	(4,000)	4,000	-

Transfer Wine Gala proceeds to unrestricted	68,573	(68,573)	-
Transfer Exceptional Faculty contributions	5,000	-	(5,000)
Transfer to IEL matching funds	(5,000)	5,000	-
Transfers Magnuson pledge to Esmeralda	30,000	(30,000)	-
Transfer from Unrestricted to Placement Testing	(7,000)	7,000	-
Transfer Planetarium Pledge pmts to Unrestricted	2,000	(2,000)	-
Transfer Golf proceeds	7,378	(7,378)	-
Transfer from Unrestricted to Exceptional Faculty	(1,071)	1,071	-
Transfer from Unrestricted to Misc overspent funds	(647)	647	
Transfer from Unrestricted to Chancellor's fund	(7,500)	7,500	
Transfer from Higley scholarship to create Endowment	-	(10,000)	10,000
Transfer from Shields Scholarship to Shields Endowment	-	(13,000)	13,000
Transfer from Painted Hills Scholarship to Endowment	-	(977)	977
Transfer from SVFD scholarship to Sly Endowment	-	(5,500)	5,500
Transfer from Kendall bldg to property reserve	2,000	-	(2,000)
Totals	$ 74,983	$ (97,460)	$ 22,477

The Foundation reclassified and transferred net assets as follows for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Transfer to annual Mini-Grant Award PS	$ (13,300)	$ 13,300	$ -
Transfer to Alumni Association program support	(1,000)	1,000	-
Transfer to Spokane Central Lions Club Scholarship	(2,000)	2,000	-
Transfer from UR to PR Government Sec	(30,740)	-	30,740
Transfer from 2011-2013 Touch the Future House	47,537	(47,537)	-
Transfer Billboard rent to Program Support	(12,000)	12,000	-
Transfer Wine Gala proceeds to unrestricted	36,017	(36,017)	-
Transfer Exceptional Faculty contributions	5,000	-	(5,000)
Transfer to IEL matching funds	(5,000)	5,000	-
Transfers Magnuson pledge to Esmeralda	123,000	(123,000)	-
Transfer from Unrestricted to Bowl for Literacy	(300)	300	-
Overspent funds	(246)	246	-
Transfer from Unrestricted to Placement Testing	(7,000)	7,000	-
Transfer Planetarium Pledge payments to Unrest'd	7,728	(7,728)	-

NOTE 11 - RECLASSIFICATION OF NET ASSETS (continued):

	Permanently Unrestricted	Temporarily Restricted	Restricted
Transfer Golf proceeds	$ 12,247	$ (12,247)	$ -
Transfer from SVFD scholarship to create Endowment	-	(17,500)	17,500
Transfer from Kendall bldg to property reserve	2,000	-	(2,000)
Totals	$ 161,943	$ (203,183)	$ 41,240

NOTE 12 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

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

	2014	2013
Gifts and other unexpended revenues, gains, and support restricted to:		
Scholarships	$ 1,083,213	$ 1,013,490
Program support	1,185,398	1,080,291
	$ 2,268,611	$ 2,093,781

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

	2014	2013
Endowment Funds with investment income restricted to:		
Scholarships	$ 5,620,289	$ 5,023,583
Program support	981,035	895,187
Emerging Needs	845,877	760,369
Faculty/Staff Development	2,850,534	2,633,814
Charitable Remainder Trusts	145,778	137,377
	$ 10,443,513	$ 9,450,330

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 15). The following is a schedule by years of future minimum rentals receivable under the leases at June 30, 2014.

Years ending June 30,	2015	$ 1,702,479
	2016	1,233,057
	2017	867,988
	2018	804,621
	2019	200,244

NOTE 14 - FUNCTIONAL EXPENSES:

Expenses by major functional category were as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Program services	$ 2,558,731	$ 2,417,711
Supporting services	536,392	431,661
Totals	$ 3,095,123	$ 2,849,372

NOTE 15 - OPTION TO PURCHASE RIVERPOINT ONE BUILDING:

The "Agreement – Option to Purchase Riverpoint One Property" 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" 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."

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.

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.

Deposits held for others as of June 30, 2014 and 2013, are as follows:

	Contingency Reserve	Excess Income Reserve	Total Deposits
Liability as of June 30, 2012	$ 511,391	$ 1,221,392	$ 1,732,783
Increase (decrease) for the year ended 6/30/2013	104	113,599	113,703
Liability as of June 30, 2013	511,495	1,334,991	1,846,486
Increase (decrease) for the year ended 6/30/2014	102	(304,334)	(304,232)
Liability as of June 30, 2014	$ 511,597	$ 1,030,657	$ 1,542,254

NOTE 16 - 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 15 "Option to purchase Riverpoint One building." Services and support donated by CCS are described in Note 2 "Donated services and support".

NOTE 17 - RECLASSIFICATIONS:

Certain items in the financial statements for 2013 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.