COMMUNITY COLLEGES OF SPOKANE FOUNDATION

Investment Policy

I. Statement of Purpose

The purpose of this Investment Policy Guideline Statement is to assist the Board of Directors (Directors) of The Community Colleges of Spokane Foundation (Foundation) in effectively supervising and monitoring its investment activities; and to provide guidance to investment managers employed to manage its invested assets on behalf of the Directors. This Statement represents the current consensus of the Foundation's philosophy and shall be reviewed from time to time to ensure that it continues to reflect the appropriate expectations, goals and objectives for the Foundation.

II. Investment Objectives

The purpose of the Foundation is to support the Community Colleges of Spokane (CCS) and its mission over the long-term. Accordingly, the primary investment objectives of the Foundation are to:

(1) Preserve the real purchasing power of the principal, and

(2) Provide a stable source of perpetual financial support to Foundation beneficiaries in accordance with the Foundation's spending policy.

In order to preserve the purchasing power of both principal and of withdrawals made available for spending, the long-term annualized total rate of return objective for the Foundation Investment portfolio (portfolio) is inflation plus 5 percent (a minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the Endowment, one percent for administration fee, and 4 percent to provide for transfer to scholarship or program support). To satisfy its long-term rate of return objective, the

Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). Asset allocation guidelines and the investment manager structure should ensure adequate diversification in order to reduce the volatility of investment returns.

III. Target Asset Allocation

To achieve its investment objectives, the portfolio shall be allocated among a number of asset classes. These asset classes may include: domestic equity, domestic fixed income, international equity, international fixed income, real estate, and private capital. The purpose of allocating among asset classes is to ensure the proper level of diversification within the portfolio.

The following Target Asset Mix Table defines the Foundation's target asset allocation, and the minimum and maximum allocation limits of each asset class:

		Min	Target	Max
GLOBAL EQUITY		***40%***	***60%***	***75%***
Long Equities		*30%*	***50%***	*70%*
US Equities		*15%*	***25%***	*40%*
Substyles may include:	*Large/ Mid Cap Equities*	*10%*	*17%*	*40%*
	Small Cap Equities	*0%*	*8%*	*20%*
International Equities Developed		*5%*	***15%***	*30%*
	Large/ Mid Cap Equities	*5%*	*10%*	*30%*
	Small Cap Equities	*0%*	*5%*	*15%*
Emerging Markets		*0%*	***10%***	*20%*
	Large/ Mid Cap Equities	*0%*	*6%*	*20%*
	Small Cap Equities	*0%*	*4%*	*10%*
Hedged Equity		*0%*	***10%***	*20%*
GLOBAL FIXED INCOME/CREDIT		***10%***	***20%***	***40%***
Interest Rate Sensitive		*5%*	***11%***	*40%*
Substyles may include:	*Core (Investment Grade)*	*5%*	*8%*	*40%*
	Treasury Inflation Protected Securities	*0%*	*3%*	*20%*
Credit Sensitive		*0%*	***9%***	*20%*
REAL ASSETS		***0%***	***10%***	***30%***
Real Estate (REITS)		*0%*	***3%***	*10%*
Natural Resources		*0%*	***7%***	*20%*
Substyles may include:	*Commodities*	*0%*	*4%*	*10%*
	Energy (MLPs)	*0%*	*3%*	*10%*
DIVERSIFYING STRATEGIES		*0%*	***10%***	*20%*
CASH AND CASH EQUIVALENTS		*0%*	***0%***	*10%*
Total Portfolio			***100%***	

The general policy shall be to diversify investments to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Within the equity and fixed income asset classes, managers with different investment styles will be employed. Diversification by investment style is also an important step in reducing the risk of the Foundation portfolio.

Provisions for Periodic Rebalancing

To achieve these investment objectives, the foundation requires review of investment allocation and possible rebalancing at the following points:

- When some asset class has appreciated or declined by more than 5%.
- When a significant new contribution (in excess of $20,000) or disbursement is made.
- Review the portfolio for rebalancing every six months if the previous two points have not triggered rebalancing.
- Reserve the right of the Finance Committee to request a rebalancing if there has been some extraordinary event in the capital markets such as a large increase or decline in some asset class.

Foundation staff will review and have the authority to initiate rebalancing according to this policy unless instructed otherwise by the Foundation Finance committee.

Equity Securities

The purpose of equity investments, both domestic and international, in the portfolio is to provide capital appreciation, growth of income, and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased risk of loss. The Investment Manager(s) should maintain the equity portion of the portfolio at a risk level roughly equivalent to that of the equity market as a whole, over an annualized moving three and five year time period.

Investment styles within the equity asset class are defined as follows:

Global Equity - Intended to be the primary source of long-term growth for the portfolio, as equities historically have produced high real rates of return. While having higher expected returns, they also have higher volatilities. Includes both long-only and liquid hedged equity mandates.

Large Cap Equities – Domestic stocks with market capitalization typically greater than $10 billion.

Mid Cap Equities – Domestic stocks with market capitalization typically between $3 and $10 billion.

Small Cap Equities – Domestic stocks with market capitalization typically less than $3 billion.

International Equities Developed – Large/Mid Cap or Small Cap – Companies which are headquartered outside the United States with market capitalization larger than $3 billion for large cap; have market capitalizations between about $3 billion and $10 billion for mid-cap and have market capitalization typically less than $3 billion for small cap.

Emerging Markets – Companies located in countries which have less developed economies which are just beginning to grow. They are part of a society transitioning into a free-market-oriented economy in the process of rapid growth and industrialization.

Hedged Equity - Hedged equity (also known as long/short hedge funds) is the name used to describe the long standing hedge fund strategy of investing in equities, both long and short, with some amount of leverage. It is a form of active equity investing that reduces and/or eliminates many of the constraints imposed on traditional long-only equity managers.

Equity holdings shall generally be restricted to high quality, readily marketable securities of corporations that are actively traded on the major stock exchanges. International equity investments of similar quality and marketability will be permitted up to 15% of the total equity portfolio.

Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion, subject to the standards of fiduciary prudence. However, no single major industry shall represent more than 20% of the total market value of the portfolio, and no single security shall represent more than 5% of the total market value of the portfolio.

The Investment Manager(s) is prohibited from buying securities on margin, borrowing money or pledging assets, or trading uncovered Options, commodities or currencies without the advance written approval of the Foundation. The Manager(s) is also restricted from investing in private placements and restricted stock unless otherwise permitted in writing by the Foundation. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of equity securities.

Global Fixed Income/Credit

Investments intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities, and can be further categorized as interest rate sensitive and credit sensitive. It is expected that fixed income investments will not be totally dedicated to the long term bond market, but will be flexibly allocated among maturities of different lengths according to interest rate prospects. Fixed instruments should reduce the overall volatility of the Fund's assets, and provide a deflation hedge.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums, with the objective of meeting or exceeding the results of the fixed income market as represented by the annualized returns of the Lehman Aggregate Bond Index, over an annualized moving three and five year time period.

The Investment Manager(s) may select from appropriately liquid preferred stocks, corporate debt securities, and obligations of the U.S. Government and its agencies. These investments will be subject to the following limitations:

- No issues may be purchased with more than 30 years to maturity;
- Investments of a single issuer, with the exception of the U.S. Government and its agencies, (including GNMA, FNMA and FHLMC) may not exceed 5% of the total market value of the Endowment;
- No more than 15% of the corporate debt securities in the fixed income portfolio may be rated below-investment grade.
- Within the fixed income component, the Investment Manager(s) is prohibited from investing in private placements, and fixed income or interest rate futures, without the prior written approval of the Foundation.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income securities.

Real Assets

Investments intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes real estate investment trusts (REITs), natural resources (e.g., Energy Master Limited Partnerships), and commodities.

Real Estate Investment Trust (REIT) – A company that owns and usually operates income-producing real estate. The shares of many REITs are traded on major stock exchanges. The company must have most of its assets and income tied to a real estate investment and must distribute at least 90% of its taxable income to shareholders annually in the form of dividends.

Commodities – defined as the basic production inputs in an economy. They often have complex distribution and storage costs. Commodities do not have earnings or pay dividends; price movements are a function of supply/demand imbalances. Investors benefit from an allocation to commodities due to their potential as an inflation hedge and research showing diversification benefits. Commodity futures provide direct exposure to changes in commodity prices.

Master Limited Partnerships (MLPs) - MLPs are publicly traded entities that hold energy infrastructure assets, such as pipelines, storage facilities and refineries. These businesses comprise what is often referred to as the mid-stream energy sector. While less directly tied to commodity prices, MLPs offer a number of attractive investment characteristics including stable cash flows tied to mature assets, high distribution yields and growth rates, and potential for increased investment by institutional investors. MLPs allow investors to access more liquid securities that offer exposure to energy infrastructure and benefit from increased demand for energy in the U.S. MLPs have historically shown a low correlation with traditional asset classes.

Diversifying Strategies

Intended to provide diversification from systematic market risk, as the primary determinant of returns are typically from manager skill (alpha) rather than market return (beta). The category includes liquid non-directional strategies that seek low correlations to the public equity and fixed income markets. Strategies may include funds which produce consistent positive returns in low/steady volatility environments, strategies that tend to perform well in periods of distress as volatility spikes or strategies that are opportunistic allocators of capital including multi-strategy, opportunistic and global tactical asset allocation.

Cash and Equivalents

The Investment Manager may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the portfolio principal value.

Commercial paper assets must be rated at least A1 of P-I (by Moody's or S&P). No more than 5% of the total market value of the portfolio assets may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Uninvested cash reserves shall be kept to a minimum; short term, cash equivalent securities are usually not considered an appropriate investment vehicle foundation's assets. However, such vehicles are appropriate as depository for income distributions from longer-term foundation investments, or as needed for temporary placement of funds directed for future investment to the longer-term capital markets. Also, such investments are the standard for contributions for current operating cash.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of cash equivalent securities.

Derivatives and Derivative Securities – In general, the use of derivative securities by the Investment Manager shall be discouraged, unless such an opportunity presents itself that the use of these sophisticated securities would provide substantial opportunity to increase investment returns at an appropriately equivalent level of risk to the remainder of the total portfolio. The approval and use of derivative securities will not be allowed unless the Foundation is confident that the Investment Manager(s) thoroughly understands the risks being taken, has demonstrated expertise in their usage of such securities, and has guidelines in place for the use and monitoring of derivatives.

IV. Spending

Permanently Restricted Funds

These funds, commonly known as endowment funds, are usually contributed for the purpose of investing for perpetuity. Net investment income shall be allocated to individual endowment accounts based on the average quarterly endowment fund balance.

It is the Foundation's policy to distribute annually 4% of a trailing three-year average of the Endowment's total asset value, with the understanding that this spending rate plus inflation and administration fees will not normally exceed total return from investment. However, it is understood that this total return basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), under which guidelines the Foundation is permitted to spend an amount in excess of the current yield (interest and dividends earned), including realized or unrealized appreciation, up to an amount deemed prudent by the Board. A minimum of $10,000 is required to establish an endowment fund.

Temporarily Restricted Funds

Contributions from donors restricted for a specific period of time or for a specific purpose are considered to be temporarily restricted. These funds are invested according to the foundation's investment policy. The net investment income or loss from these investments will be allocated to the unrestricted fund unless donors have specified that the income, as well as the gift, be restricted. A minimum of $1,000 is required to establish a temporarily restricted fund. The Executive Director may approve the establishment of a fund for less than this amount in extenuating circumstances.

Unrestricted Funds

Net investment income or loss of unrestricted funds will be allocated to the unrestricted funds.

Administrative Fee

Endowment fund accounts shall be assessed an annual administrative fee of one percent of the average quarterly endowment fund balances. Temporarily restricted accounts shall be assessed an annual administrative fee of one percent (minimum of $5.00) on the balance of the fund at the end of each fiscal year.

Inactive Fund Rule

The balance of any fund that has had no activity for a period of no less than five years shall be transferred to the unrestricted fund if efforts have been made to spend the funds according to the original intent of the donor(s).

V. Donor Gifts

Occasional gifts are offered to the Foundation whereupon the donor wishes to place certain restrictions on the form of investment to which these amounts may be applied. Such funds will be invested according to the donor's requirement only to the extent such requirement is a condition of the gift, and these monies will be excluded from the total pool of available funds for the purposes of establishing asset allocation percentages as directed in the policy. As a normal course, donors will be encouraged to entrust endowed gifts to the institution without restriction of the investment of these funds, and the Foundation may, from time to time, determine that the refusal of such restrictions, and the gift, is more prudent than acquiescence.

Donations of art, culturally valuable items, precious metals and gems, vehicles, equipment, or other non-cash items will be transferred to the ownership of the Community Colleges of Spokane unless retention or other disposition is more appropriate as determined by the Board of Directors.

Donations of stock will be recorded at the fair market value at the time of the gift. Stock gifts are to be sold immediately upon receipt.

VI. Manager(s) Reporting and Evaluation

It is expected that the Finance committee responsible for the investment of Foundation assets shall report at least quarterly on the performance of the portfolio to the Board of Directors, including comparative returns for the funds and their respective benchmarks; also included will be a complete accounting of all transactions involving the portfolio during the quarter, together with a statement of beginning market value, fees, capital appreciation, income and ending market value, for each account. In addition, Investment Manager(s) should meet with the Investment Committee at least annually; and will be supplemented by other meetings as necessary for proper review.

The Foundation recognizes that market conditions may greatly influence the ability of a manager to meet year to year investment goals and objectives. Further, the Foundation realizes that significant cash flow may also affect the ability of a manager to meet a specific short term objective. Accordingly, the Foundation expects to monitor performance through absolute, relative, and comparative terms over an annualized time period. Absolute results will determine the rate of fund growth, while relative results will provide the Foundation with a view of investment performance compared to the securities markets and comparative results will present performance as compared to other Investment Managers.

Review of portfolio results in absolute terms shall be made with consideration towards meeting and/or exceeding the expressed minimum real rate of return over a moving five and ten year time period.

Review of portfolio results in relative terms shall be accomplished primarily by comparing results, over a moving annualized three and five year time period, to assigned market indices.

Review of portfolio results in comparative terms shall be accomplished primarily through universe comparisons over moving annualized one, three and/or five year time periods.

Money Manager Selection

The Foundation Finance Committee will consider a change of Money Managers every five to ten years. At that time, the Finance Committee will issue a Request for Proposal.

- Manager will be registered as an Investment Advisor with the Securities and Exchange Commission under the Investment Advisors Act of 1940.
- Selection of the manager must be made after a review of proposals from three or more managers. This can be done by the Finance Committee or by hiring a consultant.
- Selection criteria will include but not be limited to the following:
    - Style of management
    - Adherence to style
    - Past performance in absolute and relative numbers

- Buy and sell discipline
- Volatility
- Size and depth of firm
- Personnel qualifications
- Performance in up and down markets
- Execution of trades
- Firm capital
- Non-profit Foundation experience (including higher education)
- Performance of each asset class
- Reporting structure and methods

The Finance Committee (or selected consultant) will establish specific criteria, issue the Request for Proposal, review proposals and make a recommendation to the Foundation Board of Directors.

VII. Execution of Policies and Procedures

Responsibility for execution of the policies and procedures outlined in this statement shall be delegated by the Board of Directors to the Finance Committee.