

THE MARKET FOUNDATION

FINANCIAL REPORT

MARCH 31, 2016

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENT OF FUNCTIONAL EXPENSES - 2016.....	4
STATEMENT OF FUNCTIONAL EXPENSES - 2015.....	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 16

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Market Foundation
Seattle, Washington

We have audited the accompanying financial statements of The Market Foundation, which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Market Foundation as of March 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

October 18, 2016

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 **MAIN**
(206) 382-7700 **FAX**

psepa.com

THE MARKET FOUNDATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2016 and 2015

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 358,723	\$ 563,363
Designated cash and cash equivalents - MarketFront	168,945	602,998
Investments, unrestricted	2,416,175	2,491,126
Pledges receivable - MarketFront	483,485	877,029
Pledge receivable - use of facilities	22,624	22,624
Pledges receivable - other	148,084	93,970
Prepaid expenses and other current assets	8,991	6,235
Total current assets	3,607,027	4,657,345
Long-Term Assets		
Pledges Receivable - MarketFront, net of current portion	42,986	85,222
Pledge Receivable - use of facilities, net of current portion	16,968	39,592
Endowment Investments	1,317,515	1,340,129
Investments, held as collateral	496,000	496,000
Equipment, net of accumulated depreciation of \$50,702 and \$54,087, respectively	155,847	7,144
Total long-term assets	2,029,316	1,968,087
Total assets	\$ 5,636,343	\$ 6,625,432
LIABILITIES AND NET ASSETS		
Current Liabilities		
Grants payable to agencies	\$ 827,500	\$ 820,000
Accounts payable - Pike Market Preservation and Development Authority	44,881	45,050
Accounts payable - other	60,080	58,205
Unearned special event revenue	8,850	25,000
Total current liabilities	941,311	948,255
Net Assets		
Unrestricted		
Undesignated	2,192,959	2,304,165
Board designated	840,566	385,797
Total unrestricted	3,033,525	2,689,962
Temporarily restricted	822,078	2,147,786
Permanently restricted	839,429	839,429
Total net assets	4,695,032	5,677,177
Total liabilities and net assets	\$ 5,636,343	\$ 6,625,432

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended March 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue								
Contributions	\$ 555,031	\$ 193,276	\$ -	\$ 748,307	\$ 636,037	\$ 226,416	\$ 50,000	\$ 912,453
Bequests	450,000			450,000	45,552			45,552
Special events - revenue (including in-kind of \$135,214 and \$131,067)	697,443	90,407		787,850	855,332	18,491		873,823
Special events - direct benefit to donors (including in-kind of \$78,000 and \$70,000)	(115,485)			(115,485)	(219,631)			(219,631)
In-kind services and contributions	216,614	136,306		352,920	206,553	414,393		620,946
	1,803,603	419,989		2,223,592	1,523,843	659,300	50,000	2,233,143
Net assets released from restrictions	346,497	(346,497)			275,966	(275,966)		
Total support and revenue	2,150,100	73,492		2,223,592	1,799,809	383,334	50,000	2,233,143
Expenses								
Programs supported	3,602,225			3,602,225	1,185,048			1,185,048
Fundraising	1,004,884			1,004,884	1,280,925			1,280,925
Administrative	157,343			157,343	147,114			147,114
Total expenses	4,764,452			4,764,452	2,613,087			2,613,087
Change in net assets before net investment income and MarketFront activity	(2,614,352)	73,492		(2,540,860)	(813,278)	383,334	50,000	(379,944)
Net investment income (loss) (net of fees of \$31,583 and \$25,795)	(74,068)	(47,080)		(121,148)	182,935	78,218		261,153
Change in net assets before MarketFront activity	(2,688,420)	26,412		(2,662,008)	(630,343)	461,552	50,000	(118,791)
MarketFront contributions		1,679,863		1,679,863		1,754,689		1,754,689
Net assets released from restrictions	3,031,983	(3,031,983)			787,218	(787,218)		
Change in net assets	343,563	(1,325,708)		(982,145)	156,875	1,429,023	50,000	1,635,898
Net assets, beginning of year	2,689,962	2,147,786	839,429	5,677,177	2,533,087	718,763	789,429	4,041,279
Net assets, end of year	\$ 3,033,525	\$ 822,078	\$ 839,429	\$ 4,695,032	\$ 2,689,962	\$ 2,147,786	\$ 839,429	\$ 5,677,177

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2016

	Programs Supported			Fundraising			Administrative	Total
	Grants for MarketFront	Other Programs	Total	Special Events	Other Fundraising	Total		
Salaries, benefits, and payroll taxes	\$ -	\$ 28,451	\$ 28,451	\$ 77,222	\$ 200,455	\$ 277,677	\$ 34,203	\$ 340,331
Grants to agencies	2,400,000	1,069,131	3,469,131					3,469,131
Campaign expenses					143,320	143,320		143,320
Uncollectible pledges				1,500	75,100	76,600		76,600
Supplies		3,391	3,391	28,014	15,137	43,151	7,161	53,703
Purchased services		6,508	6,508	31,515	15,462	46,977		53,485
Printing and design		2,266	2,266	5,203	39,373	44,576	6,284	53,126
Event rental and food		8,837	8,837	40,152	118	40,270	3,383	52,490
Taxes, licenses, and fees		327	327	7,678	12,765	20,443	17,629	38,399
Accounting					3,000	3,000	26,566	29,566
Technology					861	861	13,497	14,358
Postage and shipping				745	8,422	9,167	2,222	11,389
Volunteer appreciation		1,287	1,287	749	1,034	1,783	2,429	5,499
Insurance							4,158	4,158
Public relations							85	85
Other		16,877	16,877	30	2,769	2,799	3,863	23,539
Total expenses before in-kind expenses	2,400,000	1,137,075	3,537,075	192,808	517,816	710,624	121,480	4,369,179
In-kind expenses		65,150	65,150	255,878	153,867	409,745	35,863	510,758
Total expenses	2,400,000	1,202,225	3,602,225	448,686	671,683	1,120,369	157,343	4,879,937
Less: direct benefit to donor				115,485		115,485		115,485
Total expenses included in expense section on the statements of activities	\$ 2,400,000	\$ 1,202,225	\$ 3,602,225	\$ 333,201	\$ 671,683	\$ 1,004,884	\$ 157,343	\$ 4,764,452

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2015

	Programs Supported		Fundraising			
	Other Programs	Special Events	Other Fundraising	Total	Administrative	Total
Salaries, benefits, and payroll taxes	\$ 27,606	\$ 87,282	\$ 169,924	\$ 257,206	\$ 27,317	\$ 569,335
Grants to agencies	1,030,111					1,030,111
Campaign expenses		1,047	11,140	12,187	1,337	25,711
Uncollectible pledges					3,847	3,847
Supplies			1,014	1,014	21,759	23,787
Purchased services	562	8,135	43,340	51,475	1,047	104,559
Printing and design	36,388		122,727	122,727		281,842
Event rental and food	2,420	129,215	154,842	284,057		570,534
Taxes, licenses, and fees					25,084	25,084
Accounting		5,617	926	6,543	19,949	33,035
Technology	3,766	11,764	2,455	14,219	7,165	39,369
Postage and shipping		187	4,080	4,267		8,534
Volunteer appreciation	50	3,030	2,129	5,159	3,487	13,855
Insurance			2,430	2,430	16	4,876
Public relations	6,742	59,299	1,787	61,086	608	129,522
Other	13,548	40	2,446	2,486	416	18,936
Total expenses before in-kind expenses	1,121,193	305,616	519,240	824,856	112,032	2,882,937
In-kind expenses	63,855	249,132	426,568	675,700	35,082	1,450,337
Total expenses	1,185,048	554,748	945,808	1,500,556	147,114	4,333,274
Less: direct benefit to donor		219,631		219,631		439,262
Total expenses included in expense section on the statements of activities	\$ 1,185,048	\$ 335,117	\$ 945,808	\$ 1,280,925	\$ 147,114	\$ 2,613,087

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (982,145)	\$ 1,635,898
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Realized and unrealized losses (gains) on investments	240,915	(156,814)
Depreciation	2,381	
Change in operating assets and liabilities		
Pledges receivable	404,290	(914,559)
Prepaid expenses and other current assets	(2,756)	4,722
Grants payable to agencies	7,500	85,000
Accounts payable - Pike Market Preservation and Development Authority	(169)	15,785
Accounts payable - other	1,875	31,407
Unearned special event revenue	(16,150)	13,500
	(344,259)	714,939
Net cash flows from operating activities	(344,259)	714,939
Cash Flows from Investing Activities		
Purchases of investments, net	(143,350)	(156,039)
Purchases of equipment	(151,084)	(7,144)
Decrease (increase) in designated cash and cash equivalents - MarketFront	434,053	(386,564)
	139,619	(549,747)
Net cash flows from investing activities	139,619	(549,747)
	(204,640)	165,192
Net change in cash and cash equivalents		
Cash and Cash Equivalents, beginning of year	563,363	398,171
Cash and Cash Equivalents, end of year	\$ 358,723	\$ 563,363

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The Market Foundation ("the Foundation") is a nonprofit organization that raises funds from private sources through solicitation and other means for the sustained support of human service agencies and providers based in the Pike Place Market ("the Market") in Seattle, Washington. While the Foundation supports a variety of organizations, the primary agencies currently served by the Foundation are as follows:

- Pike Market Medical Clinic ("the Clinic")
- Pike Market Senior Center ("the Senior Center")
- Pike Market Food Bank
- Pike Market Child Care and Preschool ("the Preschool")

The Foundation also supports three food-related programs (Market Fresh Coupons, Food Access, and Foodlink). In addition, the Foundation develops new programs to serve low-income and senior downtown residents, including an organization called Heritage House at the Market. Support for the various organizations discussed above is generally, but not always, in the form of grants to these entities, with the exception of Food Access, which is run by the Foundation; its program expenses are included in these financial statements.

The Foundation also supports historic preservation projects in the Market area and improvements for the Market's historic buildings, including the Pike Place Market Preservation and Development Authority ("the PDA") and its current campaign, the MarketFront Project ("MarketFront"). The primary goal of the MarketFront is to renovate the west side of the Market. The Foundation raised significant funds for the MarketFront, and made related grants accordingly.

The Market Community Safety Net Fund ("Safety Net") is intended to assist clients of the Market's human service agencies, residents of buildings owned by the PDA, and members of the merchant, daystall, and farmer community who have experienced extraordinary hardship and are in need of assistance to regain their stability. Costs related to the Safety Net program are included with program expenses in these financial statements.

Use of Estimates

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

Board Designated Net Assets

Board designated net assets consist of funds that are designated either for a specific program or purpose or to be included as part of the endowment by the Board of Directors. Funds included in the endowment are held separately from the Foundation's operating funds and are invested in accordance with the endowment as discussed in Note 6. Board designated net assets consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
MarketFront campaign	\$ 549,102	\$ 149,102
Quasi-endowment	142,214	112,445
Food Access Program	121,000	96,000
Safety Net	28,250	28,250
	<u>840,566</u>	<u>385,797</u>
Total board designated net assets	<u>\$ 840,566</u>	<u>\$ 385,797</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions and investment income restricted for particular programs or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted programs or as time restrictions are met. Temporarily restricted net assets consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
Unappropriated endowment earnings	\$ 335,872	\$ 388,255
MarketFront campaign	184,643	1,420,259
Capital reserves	183,476	183,542
Time restricted	59,240	
Donated use of facilities	39,592	62,216
Safety Net	12,358	5,278
Food Access Program	6,897	88,236
	<u>822,078</u>	<u>2,147,786</u>
Total temporarily restricted net assets	<u>\$ 822,078</u>	<u>\$ 2,147,786</u>

A portion of net assets restricted for the MarketFront are also restricted for time, as the balances at March 31, 2016 and 2015, represent pledges receivable that are designated by the donor to be collected in a future year.

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions, the principal of which is restricted in perpetuity and the income from which is utilized for the general operations of the Foundation. Any income from permanently restricted net assets that has not been designated for specific operational purposes at March 31, 2016 and 2015, is classified as unappropriated endowment earnings in temporarily restricted net assets. Permanently restricted net assets have a balance of \$839,429 at March 31, 2016 and 2015. Of the permanently restricted net assets, \$85,564 at March 31, 2016 and 2015, represent restricted contributions to the Preschool, which are held by the Foundation. Withdrawals are made annually to disburse the income from these investments to the Preschool. See further discussion in Note 6.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds with original maturities of three months or less. Designated cash and cash equivalents represents cash and cash equivalents collected that are expected to be transferred to the PDA for the MarketFront or used for the Foundation's expenditures. On occasion, the Foundation has amounts deposited with financial institutions in excess of federally insured limits.

Pledges Receivable

Pledges receivable consist of unconditional promises to give and are recognized when the pledge is made. Management periodically reviews receivables and establishes an allowance for accounts that may not be collectible. Any amounts written off are charged against the allowance. Management considers all receivables to be collectible at March 31, 2016 and 2015, and, therefore, has not established an allowance. Pledges receivable (excluding pledges restricted for the MarketFront campaign and the pledge for the use of facilities) are all expected to be collected within a year. One donor's pledge represented 34% and two donors' pledges represented 64% of pledges receivable at March 31, 2016 and 2015, respectively.

Pledges Receivable – MarketFront

Pledges receivable – MarketFront represent pledges raised by the Foundation for this project that have not been collected. Like other pledges receivable, these pledges represent unconditional promises to give and are recognized when the pledge is made. Long-term pledges are recognized at fair value (at the time of the donation) and are measured at the present value of the estimated cash flows. In arriving at fair value, the promises to give are discounted using an estimated market rate which includes a present value discount rate and an estimated rate for an allowance for doubtful accounts. At March 31, 2016 and 2015, no discount was recorded, as management determined that the discount would be immaterial to these financial statements. Pledges receivable – MarketFront consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
Pledges receivable in less than one year	\$ 483,485	\$ 877,029
Pledges receivable in one to five years	<u>42,986</u>	<u>85,222</u>
	<u>\$ 526,471</u>	<u>\$ 962,251</u>

Two donors' pledges represented 25% and 62%, respectively, of pledges receivable – MarketFront at March 31, 2016 and 2015, respectively.

Pledge Receivable – Use of Facilities

As discussed in the in-kind contributions section below, the pledge for the use of facilities in future years is from the PDA.

Equipment

Equipment purchases greater than \$5,000 are capitalized and are recorded at cost or, in the case of donated equipment, at estimated fair value at the time of donation. Depreciation of equipment is provided for over the estimated useful lives of the assets (generally three to five years) on a straight-line basis. Depreciation expense for the year ended March 31, 2016, was \$2,381. In March 2015, the Foundation purchased computer equipment; the Foundation began depreciating these assets in fiscal year 2016. In fiscal year 2016, the Foundation began funding art installations for the MarketFront, which are expected to be installed in Spring 2017. Costs incurred were \$151,084 through March 31, 2016. These assets are considered work in process until installation is complete. Once installed, the Foundation will recognize depreciation and will retain ownership of these assets. Other than these assets, all equipment owned by the Foundation was fully depreciated for the years ended March 31, 2016 and 2015.

Contribution Revenue

The Foundation receives its contributions from a variety of contributors, including some grants from private and family foundations. Revenue is recognized when the pledge is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Excluding contributions from the PDA disclosed at Note 5, one company represented 25% of contribution revenue for the year ended March 31, 2015. There were no such concentrations for the year ended March 31, 2016.

On occasion, the Foundation may receive a conditional promise to give contingent on certain criteria being met. Upon completion of such criteria, the Foundation will recognize the pledge in the financial statements.

Bequest Revenue

The Foundation has been named as a beneficiary in certain individuals' wills. The policy of the Foundation is to record bequest revenue at the time that notice is given to the Foundation from the estate that it is listed as a beneficiary, and that such funds are available for distribution. This policy is due to the uncertainty of collection before such notice, as the individual may change the beneficiaries of the will, as well as the possibility that there may be insufficient funds to fulfill the other requirements of the will prior to the distribution to the beneficiaries. Bequests from one estate represented all bequest revenue for the year ended March 31, 2016. Bequests from two estates represented all bequest revenue for the year ended March 31, 2015.

Special Event Revenue

Throughout the year, the Foundation hosts many fundraising events. Funds collected in advance of events taking place are deferred until the event occurs.

In-Kind Contributions

The Foundation has a service agreement with the PDA. Under the terms of the service agreement, the PDA, which manages the Market activities, lets the Foundation occupy, without charge, certain premises located in the Market. In addition, the PDA pays a portion of the Foundation's salary and benefit expenses, and provides certain administrative services either at reduced rates or at no charge to the Foundation. The salary and benefit expenses are allocated among fundraising and administrative costs. The PDA has agreed to donate facilities for future years, and the donated use of facilities for future years is recognized as a receivable and as a temporarily restricted net asset. The receivable is amortized over lease terms (see next paragraph). The total amount of in-kind contributions the Foundation received from the PDA for salaries and benefits was \$286,647 and \$267,539 for years ended March 31, 2016 and 2015, respectively.

A 2013 agreement with the PDA provides for the use of certain facilities by the Foundation within the Market free of charge through December 31, 2017. In 2013, this in-kind contribution was recognized at its fair value of \$113,120. The receivable balance is \$39,592 and \$62,216 at March 31, 2016 and 2015, respectively, and will be amortized on the straight-line basis over the remaining period of the agreement. At March 31, 2016, the current and noncurrent amounts are \$22,624 and \$16,968, respectively. For 2015, the amounts were \$22,624 and \$39,592, respectively. Fair value was determined based on comparable prices per square foot of commercial space leased by the PDA. In-kind rent expense for both years ended March 31, 2016 and 2015, was \$22,624.

The Foundation receives other in-kind contributions, such as items used in fundraising activities, printing services, and advertising. The estimated fair value of these items is allocated among fundraising and administrative expenses in the period in which they are used.

The value of in-kind contributions included in the financial statements and the corresponding expenses are as follows for the years ended March 31:

	2016	2015
Salaries and benefits	\$ 286,647	\$ 267,539
Services and goods (including use of facilities)	5,462	8,485
In-kind services and contributions for Foundation operations	292,109	276,024
In-kind contributions for the MarketFront	60,811	344,922
Total in-kind revenue (excluding special event contributions)	352,920	620,946
In-kind special event contributions	135,214	131,067
Net assets released from restrictions for occupancy expense	22,624	22,624
Total in-kind expenses	\$ 510,758	\$ 774,637

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Foundation's programs, principally in membership and fundraising events. The value of this contributed time is not reflected in these statements, as it does not meet the reporting requirements for accounting purposes.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is exempt from income taxes to the extent provided under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Subsequent Events

The Foundation has evaluated all subsequent events through the date these financial statements were available to be issued, which was October 18, 2016.

Subsequent to year-end, through October 18, 2016, the Foundation disbursed \$600,000 to the PDA for the MarketFront.

Note 2. Investments

Investments are reported at their fair value using Level 1 inputs (quoted prices in active markets for identical assets) in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Investments consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
Money market	\$ 12,297	\$ 10,245
Government and agency securities	183,195	281,380
Corporate bonds	228,517	164,060
Municipal bonds	111,746	72,301
Mutual funds		
Foreign	1,002,253	1,005,289
Large cap	921,324	945,360
Mid cap	589,226	624,642
Small/Micro cap	495,061	526,693
Bond	424,035	426,428
Emerging markets	262,036	270,857
Total investments	<u>\$ 4,229,690</u>	<u>\$ 4,327,255</u>

Investments are reported in the statements of financial position as:

	2016	2015
Investments, unrestricted	\$ 2,416,175	\$ 2,491,126
Endowment investments	1,317,515	1,340,129
Investments, held as collateral	496,000	496,000
Total investments	\$ 4,229,690	\$ 4,327,255

Investments held as collateral and endowment investments are described in further detail in Note 3 and Note 6, respectively.

The net investment income consists of the following for the years ended March 31:

	2016	2015
Interest and dividends	\$ 151,350	\$ 130,134
Fees	(31,583)	(25,795)
Interest and dividends, net	119,767	104,339
Net realized and unrealized gains (losses)	(240,915)	156,814
Net investment income (loss)	\$ (121,148)	\$ 261,153

Note 3. Investments Held as Collateral

During 2012, the Preschool (a nonprofit organization) received a loan from the City of Seattle ("the City") in the amount of \$451,000 with the understanding that the Preschool will continue to serve low-income families and provide education services to children from such families. As part of the loan agreement, if the Preschool ceases to provide such services, the funds are to be returned to the City. The terms of this loan continue until the loan is due in 2027, at which point it is expected that the City will forgive the loan. In addition to the terms of the agreement, collateral is required to be provided, and \$496,000 has been set aside by the Foundation to meet the collateral requirement. At the expiration of the agreement, such funds will be released and will be unrestricted investments.

The Foundation considers the likelihood that the Preschool will default on the loan to the City to be remote and, therefore, has not recognized an obligation under this collateral agreement.

Note 4. Grants Payable to Agencies

The Foundation makes periodic disbursements to agencies within the Market. At times, these amounts are determined to be payable in the current fiscal year, but are paid subsequent to year-end. The amounts to be disbursed consist of the following on March 31:

	2016	2015
Pike Market Medical Clinic	\$ 305,000	\$ 305,000
Pike Market Senior Center	200,000	200,000
Pike Market Child Care and Preschool	200,000	200,000
Downtown Food Bank	80,000	80,000
Heritage House	22,500	25,000
Chief Seattle Club	20,000	10,000
Total grants payable to agencies	<u>\$ 827,500</u>	<u>\$ 820,000</u>

Note 5. Related Parties

The Foundation occasionally receives funds from the PDA that are unrelated to the in-kind contributions as discussed in Note 1. During 2016 and 2015, the PDA contributed \$181,634 and \$142,696, respectively, to the Foundation for various Foundation programs, and the funds were distributed to other Market agencies.

Note 6. Endowment

The Foundation's endowment consists of two individual funds: a fund established for a donor-restricted endowment fund and a fund designated by the Board of Directors ("the quasi-endowment"). As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Finance Committee of the Foundation has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift, as of the date of the gift of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation's Finance Committee considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net assets consisted of the following at:

	March 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 335,872	\$ 839,429	\$ 1,175,301
Board-designated quasi-endowment funds	142,214			142,214
Total funds	<u>\$ 142,214</u>	<u>\$ 335,872</u>	<u>\$ 839,429</u>	<u>\$ 1,317,515</u>

	March 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 388,255	\$ 839,429	\$ 1,227,684
Board-designated quasi-endowment funds	112,445			112,445
Total funds	<u>\$ 112,445</u>	<u>\$ 388,255</u>	<u>\$ 839,429</u>	<u>\$ 1,340,129</u>

Changes to endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, March 31, 2014	\$ 100,000	\$ 315,473	\$ 789,429	\$ 1,204,902
Interest and dividends, net of fees	2,407	26,524		28,931
Net realized and unrealized gains	4,672	51,624		56,296
Transfers in/contributions			50,000	50,000
Appropriations	5,366	(5,366)		
Endowment net assets, March 31, 2015	112,445	388,255	839,429	1,340,129
Interest and dividends, net of fees	2,810	32,316		35,126
Net realized and unrealized gains and losses	(7,123)	(79,396)		(86,519)
Transfers in/contributions	39,379			39,379
Appropriations	5,303	(5,303)		
Withdrawals	(10,600)			(10,600)
Endowment net assets, March 31, 2016	<u>\$ 142,214</u>	<u>\$ 335,872</u>	<u>\$ 839,429</u>	<u>\$ 1,317,515</u>

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Under this policy, as approved by the Finance Committee, the endowment assets are invested in a manner that is intended to produce over time an average rate of return of approximately 9.3% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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 constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a discretionary policy of appropriating funds for distribution. In establishing this policy, the Foundation has considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current discretionary spending policy to allow its endowment to grow annually, as the Foundation has historically determined not to spend any of the endowment funds, as there has been no additional need for such funding. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain in perpetuity. No deficiencies of this nature were incurred, and none are reported in these financial statements.