

THE MARKET FOUNDATION

FINANCIAL REPORT

MARCH 31, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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.

August 17, 2017

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THE MARKET FOUNDATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 577,048	\$ 358,723
Designated cash and cash equivalents - MarketFront	2,169,504	168,945
Investments, unrestricted	2,576,502	2,416,175
Pledges receivable - MarketFront	452,201	483,485
Pledge receivable - use of facilities	16,968	22,624
Pledges receivable - other	85,663	148,084
Prepaid expenses and other current assets	1,615	8,991
Total current assets	5,879,501	3,607,027
Long-Term Assets		
Pledges receivable - MarketFront, net of current portion	30,211	42,986
Pledge receivable - use of facilities, net of current portion		16,968
Endowment investments	1,523,360	1,317,515
Investments, held as collateral	496,000	496,000
Property and equipment, net	419,928	155,847
Total long-term assets	2,469,499	2,029,316
Total assets	\$ 8,349,000	\$ 5,636,343
LIABILITIES AND NET ASSETS		
Current Liabilities		
Grants payable - Pike Market Preservation and Development Authority	\$ 2,890,000	\$ -
Accounts payable - Pike Market Preservation and Development Authority	69,686	44,881
Grants payable to agencies	861,000	827,500
Accounts payable - other	13,223	60,080
Unearned special event revenue	25,850	8,850
Total current liabilities	3,859,759	941,311
Net Assets		
Unrestricted		
Undesignated	1,867,967	2,192,959
Board-designated	957,708	840,566
Total unrestricted	2,825,675	3,033,525
Temporarily restricted	824,137	822,078
Permanently restricted	839,429	839,429
Total net assets	4,489,241	4,695,032
Total liabilities and net assets	\$ 8,349,000	\$ 5,636,343

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended March 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Contributions	\$ 994,700	\$ 248,691	\$ -	\$ 1,243,391	\$ 555,171	\$ 183,672	\$ -	\$ 738,843
Bequests	69,922			69,922	450,000			450,000
Special events - revenue (including in-kind of \$189,159 and \$137,529)	761,381	45,438		806,819	699,618	90,407		790,025
Special events - direct benefit to donors (including in-kind of \$122,560 and \$78,000)	(144,000)			(144,000)	(115,485)			(115,485)
In-kind services and contributions	212,241	39,962		252,203	214,299	29,406		243,705
	<u>1,894,244</u>	<u>334,091</u>		<u>2,228,335</u>	<u>1,803,603</u>	<u>303,485</u>		<u>2,107,088</u>
Net Assets Released from Restrictions	307,685	(307,685)			346,497	(346,497)		
Total support and revenue	<u>2,201,929</u>	<u>26,406</u>		<u>2,228,335</u>	<u>2,150,100</u>	<u>(43,012)</u>		<u>2,107,088</u>
Expenses								
Programs supported	1,273,424			1,273,424	1,202,225			1,202,225
Special events	279,139			279,139	333,201			333,201
Fundraising	237,936			237,936	190,784			190,784
Administrative	215,439			215,439	157,343			157,343
Total expenses	<u>2,005,938</u>			<u>2,005,938</u>	<u>1,883,553</u>			<u>1,883,553</u>
Change in net assets before net investment income and MarketFront activity	195,991	26,406		222,397	266,547	(43,012)		223,535
Net Investment Income (Loss)	318,802	183,625		502,427	(74,068)	(47,080)		(121,148)
Change in net assets before MarketFront activity	514,793	210,031		724,824	192,479	(90,092)		102,387
MarketFront Contributions (including in-kind of \$352,502 and \$106,900)		3,172,034		3,172,034		1,796,367		1,796,367
Net Assets Released from Restrictions	3,380,006	(3,380,006)			3,031,983	(3,031,983)		
MarketFront Expenses	(4,102,649)			(4,102,649)	(2,880,899)			(2,880,899)
Change in net assets	(207,850)	2,059		(205,791)	343,563	(1,325,708)		(982,145)
Net Assets, beginning of year	3,033,525	822,078	839,429	4,695,032	2,689,962	2,147,786	839,429	5,677,177
Net Assets, end of year	<u>\$ 2,825,675</u>	<u>\$ 824,137</u>	<u>\$ 839,429</u>	<u>\$ 4,489,241</u>	<u>\$ 3,033,525</u>	<u>\$ 822,078</u>	<u>\$ 839,429</u>	<u>\$ 4,695,032</u>

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2017

	<u>Programs</u>	<u>MarketFront</u>	<u>Special Events</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Salaries, benefits, and payroll taxes	\$ 58,302	\$ 118,586	\$ 99,236	\$ 112,594	\$ 15,854	\$ 404,572
Grants to agencies and individuals	1,114,192	3,490,000				4,604,192
Campaign expenses		74,600				74,600
Printing and design		23,660	10,520	32,533	5,506	72,219
Purchased services	2,500	822	35,997	2,947	12,912	55,178
Taxes, licenses, and fees	2,250	20,817	5,543	776	22,782	52,168
Accounting		5,000			29,410	34,410
Supplies	90	380	23,840	5,188	1,021	30,519
Technology		2,662	120	7,716	15,649	26,147
Event rental and food	165		15,478	2,882	1,619	20,144
Postage and shipping	72	9,964	520	4,617	1,868	17,041
Public relations		100		4,110		4,210
Uncollectible pledges		1,253	1,825	918		3,996
Insurance					3,690	3,690
Volunteer appreciation		528	352		1,069	1,949
Other	18,835	1,775	54	63	10,337	31,064
	<u>1,196,406</u>	<u>3,750,147</u>	<u>193,485</u>	<u>174,344</u>	<u>121,717</u>	<u>5,436,099</u>
In-kind expenses	<u>77,018</u>	<u>352,502</u>	<u>229,654</u>	<u>63,592</u>	<u>93,722</u>	<u>816,488</u>
Total expenses	<u>1,273,424</u>	<u>4,102,649</u>	<u>423,139</u>	<u>237,936</u>	<u>215,439</u>	<u>6,252,587</u>
Less: direct benefit to donor			144,000			144,000
Less: MarketFront expenses		<u>4,102,649</u>				<u>4,102,649</u>
Total expenses included in expense section on the statements of activities	<u>\$ 1,273,424</u>	<u>\$ -</u>	<u>\$ 279,139</u>	<u>\$ 237,936</u>	<u>\$ 215,439</u>	<u>\$ 2,005,938</u>

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2016

	<u>Programs</u>	<u>MarketFront</u>	<u>Special Events</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Salaries, benefits, and payroll taxes	\$ 28,451	\$ 102,480	\$ 77,222	\$ 97,975	\$ 34,203	\$ 340,331
Grants to agencies and individuals	1,069,131	2,400,000				3,469,131
Campaign expenses		143,320				143,320
Printing and design	2,266	22,250	5,203	17,123	6,284	53,126
Purchased services	6,508		31,515	15,462		53,485
Taxes, licenses, and fees	327	9,750	7,678	3,015	17,629	38,399
Accounting		3,000			26,566	29,566
Supplies	3,391	8,841	28,014	6,296	7,161	53,703
Technology		861			13,497	14,358
Event rental and food	8,837	48	40,152	70	3,383	52,490
Postage and shipping		4,685	745	3,737	2,222	11,389
Public relations					85	85
Uncollectible pledges		75,000	1,500	100		76,600
Insurance					4,158	4,158
Volunteer appreciation	1,287	995	749	39	2,429	5,499
Other	16,877	2,769	30		3,863	23,539
	<u>1,137,075</u>	<u>2,773,999</u>	<u>192,808</u>	<u>143,817</u>	<u>121,480</u>	<u>4,369,179</u>
In-kind expenses	65,150	106,900	255,878	46,967	35,863	510,758
	<u>1,202,225</u>	<u>2,880,899</u>	<u>448,686</u>	<u>190,784</u>	<u>157,343</u>	<u>4,879,937</u>
Less: direct benefit to donor			115,485			115,485
Less: MarketFront expenses		<u>2,880,899</u>				<u>2,880,899</u>
Total expenses included in expense section on the statements of activities	<u>\$ 1,202,225</u>	<u>\$ -</u>	<u>\$ 333,201</u>	<u>\$ 190,784</u>	<u>\$ 157,343</u>	<u>\$ 1,883,553</u>

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (205,791)	\$ (982,145)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Realized and unrealized losses (gains) on investments	(405,488)	240,915
Depreciation	8,352	2,381
Changes in operating assets and liabilities		
Decrease (increase) in designated cash and cash equivalents - MarketFront	(2,000,559)	434,053
Pledges receivable	129,104	404,290
Prepaid expenses and other current assets	7,376	(2,756)
Grants payable to agencies	33,500	7,500
Grants payable - Pike Market Preservation and Development Authority	2,890,000	
Accounts payable - Pike Market Preservation and Development Authority	24,805	(169)
Accounts payable - other	(46,857)	1,875
Unearned special event revenue	17,000	(16,150)
	451,442	89,794
Net cash flows from operating activities	451,442	89,794
Cash Flows from Investing Activities		
Sales (purchases) of investments, net	39,316	(143,350)
Purchases of property and equipment	(272,433)	(151,084)
	(233,117)	(294,434)
Net cash flows from investing activities	(233,117)	(294,434)
Net change in cash and cash equivalents	218,325	(204,640)
Cash and Cash Equivalents, beginning of year	358,723	563,363
Cash and Cash Equivalents, end of year	\$ 577,048	\$ 358,723

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 ("the 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. At March 31, 2017, the Foundation had a grant payable to the PDA for the MarketFront totaling \$2,890,000, and was paid on July 1, 2017.

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.

Beginning in mid to late 2017, the Foundation will operate the Market Commons ("the Commons"), located in the renovated portion of the Market. The Commons is a welcoming and inclusive neighborhood center that will provide community resources as well as programs and activities to those in the Market. The Commons will expand delivery of social services – both in the scope of services currently offered and in the number of people served by partner agencies.

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>2017</u>	<u>2016</u>
MarketFront campaign	\$ 619,024	\$ 549,102
Quasi-endowment	164,434	142,214
Food Access Program	146,000	121,000
Safety Net	28,250	28,250
Total board-designated net assets	<u>\$ 957,708</u>	<u>\$ 840,566</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>2017</u>	<u>2016</u>
Unappropriated endowment earnings	\$ 519,497	\$ 335,872
Capital reserves	183,476	183,476
Market Commons	100,000	
Donated use of facilities	16,968	39,592
Safety Net	3,878	12,358
Food Access Program	318	6,897
MarketFront campaign		184,643
Time restricted		59,240
Total temporarily restricted net assets	<u>\$ 824,137</u>	<u>\$ 822,078</u>

A portion of net assets restricted for the MarketFront were also restricted for time as of March 31, 2016, which represented pledges receivable that were 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, 2017 and 2016, is classified as unappropriated endowment earnings in temporarily restricted net assets. Permanently restricted net assets have a balance of \$839,429 at March 31, 2017 and 2016. Of the permanently restricted net assets, \$85,564 at March 31, 2017 and 2016, 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 related to the MarketFront. 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 at the amount expected to be collected. 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, 2017 and 2016, 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.

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 at the amount expected to be collected. 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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Pledges receivable in less than one year	\$ 452,201	\$ 483,485
Pledges receivable in one to five years	30,211	42,986
	<u>\$ 482,412</u>	<u>\$ 526,471</u>

Three donors' pledges represented 39% of pledges receivable – MarketFront and two donors' pledges represented 25% of pledges receivable – MarketFront at March 31, 2017 and 2016, 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, 2017, was \$8,352 (\$2,381 in 2016). In fiscal year 2016, the Foundation began funding the art installations for the MarketFront, which were installed in late Spring 2017, as well as beginning construction on the Commons. These assets are considered work in process until work is complete. Once installed, the Foundation will recognize depreciation and will retain ownership of these assets.

	2017	2016
Furniture and fixtures	\$ 23,582	\$ 23,582
Equipment	26,818	29,834
Website	31,900	
Leasehold improvements	7,816	7,816
	90,116	61,232
Less: accumulated depreciation	(59,053)	(56,469)
Construction in progress - Market Commons	22,615	
Art installations in the MarketFront	366,250	151,084
Total property and equipment, net	<u>\$ 419,928</u>	<u>\$ 155,847</u>

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. Related party contributions from the PDA are disclosed at Note 5.

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 years ended March 31, 2017 and 2016.

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 \$262,500 and \$286,647 for the years ended March 31, 2017 and 2016, 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 \$16,968 and \$39,592 at March 31, 2017 and 2016, respectively, and is being amortized on the straight-line basis over the remaining period of the agreement. At March 31, 2017, the total receivable balance is current. At March 31, 2016, the current and noncurrent amounts were \$22,624 and \$16,968, 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, 2017 and 2016, 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:

	<u>2017</u>	<u>2016</u>
Salaries and benefits	\$ 262,500	\$ 286,647
Services and goods (including use of facilities)	<u>23,585</u>	<u>3,147</u>
In-kind services and contributions for Foundation operations	286,085	289,794
In-kind contributions for the MarketFront (excluding salaries)	<u>318,620</u>	<u>60,811</u>
Total in-kind revenue (excluding special event contributions)	604,705	350,605
In-kind special event contributions	189,159	137,529
Net assets released from restrictions for occupancy expense	<u>22,624</u>	<u>22,624</u>
Total in-kind expenses	<u><u>\$ 816,488</u></u>	<u><u>\$ 510,758</u></u>

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Foundation's programs 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 amounts in the prior year financial statements 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 August 17, 2017.

Subsequent to year-end, the Foundation signed a 10-year lease with the PDA for the Commons space. Base rent is at below market value, and can be further discounted by rent credits earned from monthly community service performed by members of the community. In the event that the minimum rent credits are not earned, the maximum amount of rent charged will be \$1,250 per month, subject to annual inflation. Given the uncertainty of future rents due, management has elected not to disclose the future minimum rental payments, or record a contribution for the discounted rent until such time that such information can be reasonably determined.

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>2017</u>	<u>2016</u>
Money market	\$ 1,978	\$ 12,297
Government and agency securities	203,186	183,195
Corporate bonds	209,235	228,517
Municipal bonds	110,011	111,746
Mutual funds		
Large cap	984,130	921,324
Foreign	880,183	1,002,253
Mid cap	632,253	589,226
Small/Micro cap	557,423	495,061
Bond	441,096	424,035
Emerging markets	344,244	262,036
Global real estate	232,123	
	<u> </u>	<u> </u>
Total investments	<u>\$ 4,595,862</u>	<u>\$ 4,229,690</u>

Investments are reported in the statements of financial position as:

	<u>2017</u>	<u>2016</u>
Investments, unrestricted	\$ 2,576,502	\$ 2,416,175
Endowment investments	1,523,360	1,317,515
Investments, held as collateral	496,000	496,000
	<u> </u>	<u> </u>
Total investments	<u>\$ 4,595,862</u>	<u>\$ 4,229,690</u>

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

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 130,678	\$ 151,350
Fees	(33,739)	(31,583)
	<u> </u>	<u> </u>
Interest and dividends, net	96,939	119,767
Net realized and unrealized gains (losses)	405,488	(240,915)
	<u> </u>	<u> </u>
Net investment income (loss)	<u>\$ 502,427</u>	<u>\$ (121,148)</u>

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, as well as individuals (through the Food Access and Safety Net programs). At times, the disbursements to agencies are determined to be payable in the current fiscal year, but are paid subsequent to year-end. The amounts to be disbursed to agencies consist of the following on March 31:

	2017	2016
Pike Market Medical Clinic	\$ 315,000	\$ 305,000
Pike Market Senior Center	205,000	200,000
Pike Market Child Care and Preschool	205,000	200,000
Downtown Food Bank	85,000	80,000
Heritage House	26,000	22,500
Chief Seattle Club	25,000	20,000
Total grants payable to agencies	<u>\$ 861,000</u>	<u>\$ 827,500</u>

The amounts granted to agencies in the Market, and individuals supported by Foundation programs, and included in the statements of functional expenses during the fiscal years ended March 31 were:

	2017	2016
Pike Market Medical Clinic	\$ 370,000	\$ 371,675
Pike Market Senior Center	258,310	262,772
Pike Market Child Care and Preschool	205,000	206,395
Downtown Food Bank	85,000	80,000
Heritage House	26,000	22,500
Chief Seattle Club	25,000	20,000
Food Access	91,780	71,666
Safety Net	53,102	34,123
Total grants paid to agencies and individuals	<u>\$ 1,114,192</u>	<u>\$ 1,069,131</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 2017 and 2016, the PDA contributed \$116,719 and \$181,634, 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, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 519,497	\$ 839,429	\$ 1,358,926
Board-designated quasi-endowment funds	164,434			164,434
Total funds	<u>\$ 164,434</u>	<u>\$ 519,497</u>	<u>\$ 839,429</u>	<u>\$ 1,523,360</u>

	March 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>

Changes to endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 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	142,214	335,872	839,429	1,317,515
Interest and dividends, net of fees	3,518	29,075		32,593
Net realized and unrealized gains	18,702	154,550		173,252
Endowment net assets, March 31, 2017	<u>\$ 164,434</u>	<u>\$ 519,497</u>	<u>\$ 839,429</u>	<u>\$ 1,523,360</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.