



marguerite **casey** foundation
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Financial Statements With Independent Auditors' Report

December 31, 2006 and 2005

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CLARK NUBER

Independent Auditors' Report

*To the Board of Directors
Marguerite Casey Foundation
Seattle, Washington*

**Certified Public Accountants
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We have audited the accompanying statement of financial position of the Marguerite Casey Foundation (the Foundation) as of December 31, 2006, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Foundation as of December 31, 2005, before reclassification, were audited by other auditors whose report dated March 21, 2006, expressed an unqualified opinion on those statements. We have audited the reclassifications described in Note 1 that were applied to the December 31, 2005 financial statements. In our opinion such reclassifications are appropriate and have been properly applied.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Marguerite Casey Foundation as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants
February 13, 2007

MARGUERITE CASEY FOUNDATION

Statements Of Financial Position

Years Ended December 31, 2006 And 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash	\$ 1,679,065	\$ 686,541
Dividends and interest receivable	2,271,340	538,059
Other assets	40,797	93,563
Investments	715,727,393	661,577,458
Furniture and equipment, net	<u>255,386</u>	<u>288,323</u>
Total Assets	<u>\$ 719,973,981</u>	<u>\$ 663,183,944</u>
Liabilities and Unrestricted Net Assets		
Liabilities:		
Accounts payable	\$ 402,428	\$ 333,932
Accrued expenses and other liabilities	231,096	244,908
Grants payable, net	12,858,086	18,061,770
Deferred compensation	<u>476,642</u>	<u>334,679</u>
Total Liabilities	13,968,252	18,975,289
Net Assets:		
Unrestricted net assets	<u>706,005,729</u>	<u>644,208,655</u>
Total Net Assets	<u>706,005,729</u>	<u>644,208,655</u>
Total Liabilities and Unrestricted Net Assets	<u>\$ 719,973,981</u>	<u>\$ 663,183,944</u>

The accompanying notes are an integral part of the financial statements

MARGUERITE CASEY FOUNDATION

**Statements Of Activities And Changes In Net Assets
For The Years Ended December 31, 2006 And 2005**

	<u>2006</u>	<u>2005</u>
Revenues and Gains:		
Dividends and interest	\$ 14,619,125	\$ 17,236,863
Net realized and unrealized gains on investments	<u>78,660,752</u>	<u>28,300,926</u>
Total Revenues and Gains	93,279,877	45,537,789
Expenses:		
Grants	23,601,966	28,528,579
Other program expenses	<u>218,063</u>	<u>87,609</u>
Total Grant and Program Expenses	23,820,029	28,616,188
Management and general expenses:		
Salaries and related costs	1,932,717	1,643,105
Professional services	792,828	1,277,762
General and administrative	1,088,942	1,013,205
Investment expense	1,478,287	1,020,359
Federal excise tax	<u>2,370,000</u>	<u>433,188</u>
Total Management and General Expenses	7,662,774	5,387,619
Total Expenses	31,482,803	34,003,807
Change in Unrestricted Net Assets	61,797,074	11,533,982
Unrestricted Net Assets:		
Beginning of year	<u>644,208,655</u>	<u>632,674,673</u>
End of Year	<u>\$ 706,005,729</u>	<u>\$ 644,208,655</u>

The accompanying notes are an integral part of the financial statements

MARGUERITE CASEY FOUNDATION

Statements Of Cash Flows

For The Years Ended December 31, 2006 And 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Change in unrestricted net assets	\$ 61,797,074	\$ 11,533,982
Adjustments to reconcile change in unrestricted net assets to		
Net cash used by operating activities:		
Realized gain on investments	(104,903,443)	(26,176,592)
Unrealized loss (gain) on investments	26,242,691	(2,124,334)
Loss from sale of furniture and equipment	5,098	20,188
Depreciation	78,869	81,215
Changes in assets and liabilities:		
Increase in interest receivable	(1,733,281)	(148,536)
Decrease (increase) in other assets	52,766	(44,279)
Increase (decrease) in accounts payable and other liabilities	196,647	(288,747)
(Decrease) increase in grant commitments	(5,203,684)	73,715
Net Cash Used by Operating Activities	<u>(23,467,263)</u>	<u>(17,073,388)</u>
Cash Flows from Investing Activities:		
Purchase of furniture and equipment	(52,243)	(125,059)
Proceeds from sale of furniture and equipment	1,213	21,888
Purchase of investments	(1,067,129,837)	(423,752,782)
Proceeds from sale of investments	1,091,640,654	440,323,935
Net Cash Provided by Investing Activities	<u>24,459,787</u>	<u>16,467,982</u>
Net Change in Cash	992,524	(605,406)
Cash:		
Beginning of year	686,541	1,291,947
End of Year	<u>\$ 1,679,065</u>	<u>\$ 686,541</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for excise taxes	\$ 2,370,000	\$ 433,188

The accompanying notes are an integral part of the financial statements

MARGUERITE CASEY FOUNDATION

Notes To Financial Statements

Note 1 - Nature Of Activities And Significant Accounting Policies

Nature of Activities - The Marguerite Casey Foundation (the Foundation), is an independent private foundation dedicated to improving the lives of families, youth, and children. Based in Seattle, Washington, the Foundation was created by Casey Family Programs (CFP) to help expand CFP's outreach and further enhance CFP's record of leadership in child welfare. The Foundation's goal is to strengthen communities across the United States through strategic grant making, and helping families become more resilient and less dependent on public systems. The Foundation seeks to accomplish this by supporting community-based leadership and promoting grassroots activism among families, parents, caregivers, and youth. The Foundation and CFP, though distinct and separate organizations, share a common mission and common goals. The President and Chief Executive Officer of CFP and two CFP trustees serve on the Board of Directors of the Foundation.

Basis of Presentation - The Foundation has presented its financial statements in accordance with accounting principles generally accepted in the United States. The Foundation has presented an unclassified balance sheet which sequences assets according to their nearness of conversion to cash and sequences liabilities according to the nearness of their maturity and resulting use of cash.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to externally imposed restrictions.

Temporarily restricted net assets - Net assets subject to externally imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time. There were no temporarily restricted net assets as of December 31, 2006 and 2005.

Permanently restricted net assets - Permanently restricted net assets include all Foundation net assets received by donations wherein the donors imposed a permanent restriction on the use of the gift. There were no permanently restricted net assets as of December 31, 2006 and 2005.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as transfers between the applicable classes of net assets.

Program Support - Assets contributed to the Foundation are recognized as assets of the Foundation upon transfer of ownership. Unconditional promises to give (pledges), are recognized as revenue in the period received.

Dividend income less foreign taxes withheld (if any) is recorded on the ex-dividend date. Interest income is recorded on an accrual basis. Earnings of interest and dividends on investments currently provide the major sources of revenue and support for the Foundation and are expected to be the major source for continuation of the Foundation into the future.

MARGUERITE CASEY FOUNDATION

Notes To Financial Statements

Note 1 - Continued

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments purchased with an original maturity of three months or less, other than those held in the Foundation's investment portfolio, to be cash equivalents. The carrying amount reported in the balance sheets approximates its fair value.

Investments - Investments are stated at fair value, with both realized and unrealized gains and losses recorded in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor restrictions or law. Fair value of investments with readily determinable market values is based on quoted market prices. Private equities, which are not readily marketable, are carried at estimated fair value as provided by investment managers. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. The Foundation uses the specific-identification method to determine gains and losses on investment sales.

Concentration of Credit Risk - Financial instruments that potentially subject the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. While cash and cash equivalents held by financial institutions at times exceed federally insured limits, due to the high quality of financial institutions used by the Foundation, management does not believe any significant exposure exists. Investments are managed by professional investment managers within the guidelines established by the Board of Directors.

Property and Equipment - Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives ranging from five to seven years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the term of the related lease. The Foundation capitalizes purchases of property and equipment whose acquisition costs are over \$1,000. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Grant Commitments - The Foundation makes multiyear grants. The minimum amount for which the Foundation is obligated is recorded upon the grant's approval. Grants payable beyond one year are reported at the present value of their estimated future cash flows using discount rates of 4.70% and 4.29% at December 31, 2006 and 2005, respectively. The discount rate is based on the ten-year U.S. Treasury Notes.

Financial Instruments - The carrying amount reported in the financial statements of financial instruments, including cash and cash equivalents, receivables, investments, payables, accrued expenses, and other liabilities, approximated fair value as of December 31, 2006 and 2005.

Reclassifications - Certain reclassifications were made to the December 31, 2005 financial statements to conform to the current year presentation. The reclassifications have no effect on the change in net assets.

MARGUERITE CASEY FOUNDATION

Notes To Financial Statements

Note 3 - Continued

Net realized and unrealized gains and losses on investments for the years ended December 31 consist of the following:

	<u>2006</u>	<u>2005</u>
Gains (losses) on investments:		
Realized	\$ 104,903,443	\$ 26,176,592
Unrealized	<u>(26,242,691)</u>	<u>2,124,334</u>
Net realized and unrealized gains on investments	<u>\$ 78,660,752</u>	<u>\$ 28,300,926</u>

Note 4 - Furniture And Equipment

Furniture and equipment are as follows at December 31:

	<u>2006</u>	<u>2005</u>
Construction in progress	\$ -	\$ 92,383
Leasehold improvements	211,622	117,155
Furniture	165,148	165,282
Equipment	<u>202,368</u>	<u>177,382</u>
Total Cost	579,138	552,202
Less accumulated depreciation	<u>(323,752)</u>	<u>(263,879)</u>
Furniture and Equipment, Net	<u>\$ 255,386</u>	<u>\$ 288,323</u>

Note 5 - Grants Payable

Grants authorized but unpaid at year-end are reported as liabilities. Grants to be paid over more than one year are discounted at 4.7%. Grants authorized for future years ending December 31 are payable as follows:

2007	\$ 10,813,833
2008	<u>2,140,333</u>
Total	12,954,166
Less discounts on long-term grants	<u>(96,080)</u>
Grants Payable, Net	<u>\$ 12,858,086</u>

MARGUERITE CASEY FOUNDATION

Notes To Financial Statements

Note 6 - Deferred Compensation Plans

The Foundation has a nonqualified 457(e) compensation plan that allows eligible members of its Board of Directors to defer a portion of their compensation. The deferred compensation, together with accumulated earnings, is accrued but unfunded. Such deferred compensation is distributable in cash and amounted to \$335,137 and \$264,258 at December 31, 2006 and 2005, respectively. A participant may elect to receive such deferred amount in one payment or 20 substantially equal quarterly installments within 60 days following termination of service. Participant accounts are 100% vested upon a participant's election to the Foundation's Board of Directors.

The Foundation has a nonqualified 457(b) compensation plan that allows eligible members of its staff to defer a portion of their compensation. The deferred compensation, together with earnings, is accrued but unfunded. Such deferred compensation is distributable in cash and amounted to \$80,116 and \$47,078 at December 31, 2006 and 2005, respectively. A participant may elect to receive such deferred amounts in a single payment or in up to 20 quarterly installments within 60 days following termination of service. Participant accounts are 100% vested upon a participant's contribution.

The Foundation also has a non-qualified 457(f) compensation plan for its CEO/President. The deferred compensation, together with earnings, is accrued but unfunded. Such deferred compensation is distributable in cash and amounted to \$61,389 and \$23,343 at December 31, 2006 and 2005, respectively. The CEO/President may elect to receive such deferred amounts in a single payment or in up to 20 quarterly installments within 60 days following termination of service. Participant accounts are subject to forfeiture should the amounts not vest by the date of the CEO/President's separation from service. Vesting dates are at least 24 months after the first day of the plan year to which the deferral election applies.

Note 7 - Employee Benefit Program

Through October 2006, the Foundation participated in the defined contribution plan sponsored by CFP. Benefits were provided by the Foundation for employees age 21 or older who completed one year of service, except for those specifically excluded by the terms of the plan document. Benefits were fully vested upon the employee's first day of participation. Plan contributions were determined at 9% of each covered employee's compensation. Employee benefit plan expenditures for the plan for 2006 and 2005 were \$67,164 and \$68,668, respectively.

Effective November 2006, the Foundation established its own employee benefit program, a SEP IRA plan, and terminated participation in the defined contribution plan sponsored by CFP. At the election of employees, benefits totaling \$254,170 were transferred into the Foundation's plan. Benefits are generally provided by the Foundation for employees age 21 or older who have completed one year of service. Benefits fully vest upon the employee's first day of participation. Plan contributions are determined at 12% of each covered employee's base compensation. Employee benefit plan expenditures for the plan for 2006 were \$20,586.

Additionally, the Foundation established a 403(b)(7) account that receives contributions from employees. Participants may contribute from 0% up to 100% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. In the current year the Foundation chose not to make an employer matching or discretionary contribution to this plan.

MARGUERITE CASEY FOUNDATION

Notes To Financial Statements

Note 8 - Related Party Transactions

The Foundation had a business services agreement with CFP wherein the Foundation received various business services, including, but not limited to, financial planning, accounting, payroll, and human resources support for its operations, along with development of personnel policies, recruiting, and information technology services. In July 2005 this agreement was amended to reduce the scope of services to the provision of information technology services. Based upon the agreement terms, the Foundation was assessed \$100,000 and \$225,000 for the years ended December 31, 2006 and 2005, respectively, for the services that CFP provided.

The members of the Board of Directors each have the authority to approve discretionary and matching grants up to \$70,000 annually. During 2006, the Foundation, at the discretion of the Board of Directors, made such discretionary and matching grant distributions in the amount of \$360,850. Of this amount, \$45,000 was granted to related parties of certain Board members. During 2005, discretionary and matching grant distributions totaled \$445,070 of which \$25,000 was granted to related parties of certain Board members.

Note 9 - Commitments

The Foundation leases office space. Lease expense, which is included in operations and support services, was \$171,167 and \$133,490, in 2006 and 2005, respectively. Additionally, the Foundation leases various office machines under operating leases.

At December 31, 2006, future minimum lease payments under all non-cancelable operating leases consisted of the following:

Years ending December 31:

2007	\$ 179,994
2008	184,455
2009	184,087
2010	184,970
2011	<u>302</u>
Total Minimum Future Rentals	<u>\$ 733,808</u>