

October 18, 2016

To the Board of Directors and Management
The Market Foundation
Seattle, Washington

In planning and performing our audit of the financial statements of The Market Foundation ("the Foundation") as of and for the year ended March 31, 2016, in accordance with auditing standards generally accepted in the United States, we considered the Foundation's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

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SIGNIFICANT DEFICIENCIES

We consider the following deficiencies in the Foundation's internal control to be significant deficiencies:

Review of Revenue Transactions Prior to Recognition

During our audit, we identified three separate circumstances in which revenue was recognized either prior to the terms and conditions of the grant or agreement, or restricted in a manner that was inconsistent with the donor's wishes.

- A bequest was restricted by the Board for the MarketFront; however, there was no indication of such restriction in the donor's will. The contribution was recorded in Board-designated net assets as part of our audit adjustments.
- An agreement was made with the City of Seattle that provided support on a cost reimbursement basis. No expenditures were made during the year ended March 31, 2016; however, the full balance of the contract was recorded as revenue. The revenue was removed as part of our audit adjustments, to be recognized when related expenditures are made.
- A donor made a promise to give to the MarketFront project, contingent upon certain criteria being met. These criteria were not met as of March 31, 2016, and, therefore no revenue should have been recorded. This revenue was removed as part of our audit adjustments, but may be recognized when the related conditions are met.

We recommend the Foundation review restrictions and conditions of pledges and other revenue agreements to ensure they are properly recorded.

Capitalization of Art Projects

During our audit, we noted that art installations related to the MarketFront were improperly expensed despite meeting the threshold to be capitalized based on the Foundation's capitalization policy.

We recommend the Foundation assess new assets and capitalize items to meet the Foundation's capitalization policy.

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This communication is intended solely for the information and use of management, the Board of Directors, and others within the Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us by all of your employees. We would be pleased to discuss these matters with you in more detail and to provide any assistance you may desire in their implementation.

Peterson Sullivan LLP.