

THE MARKET FOUNDATION

FINANCIAL REPORT

MARCH 31, 2018

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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, 2018 and 2017, 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, 2018 and 2017, 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.

September 18, 2018

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THE MARKET FOUNDATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2018 and 2017

| ASSETS | 2018 | 2017 |
|---|--------------|--------------|
| | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 541,330 | \$ 577,048 |
| Designated cash and cash equivalents - MarketFront | | 2,169,504 |
| Investments, unrestricted | 1,028,993 | 2,576,502 |
| Pledges receivable - MarketFront | 110,890 | 452,201 |
| Pledge receivable - use of facilities | 57,401 | 16,968 |
| Pledges receivable - other | 184,953 | 85,663 |
| Prepaid expenses and other current assets | 34,457 | 1,615 |
| Total current assets | 1,958,024 | 5,879,501 |
| Long-Term Assets | | |
| Pledges receivable - MarketFront, net of current portion | | 30,211 |
| Pledge receivable - use of facilities, net of current portion | 365,573 | |
| Pledges receivable - other, net of current portion | 17,917 | |
| Endowment investments | 3,439,489 | 1,523,360 |
| Investments, held as collateral | 496,000 | 496,000 |
| Property and equipment, net | 669,092 | 419,928 |
| Total long-term assets | 4,988,071 | 2,469,499 |
| Total assets | \$ 6,946,095 | \$ 8,349,000 |
| 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 | 29,357 | 69,686 |
| Grants payable to agencies | 847,000 | 861,000 |
| Accounts payable - other | 49,061 | 13,223 |
| Unearned special event revenue | 96,400 | 25,850 |
| Total current liabilities | 1,021,818 | 3,859,759 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 1,636,716 | 1,867,967 |
| Board-designated | 2,161,574 | 957,708 |
| Total unrestricted | 3,798,290 | 2,825,675 |
| Temporarily restricted | 1,286,558 | 824,137 |
| Permanently restricted | 839,429 | 839,429 |
| Total net assets | 5,924,277 | 4,489,241 |
| Total liabilities and net assets | \$ 6,946,095 | \$ 8,349,000 |

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended March 31, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|--|----------------|------------------------|------------------------|------------------|------------------|------------------------|------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and Revenue | | | | | | | | |
| Contributions | \$ 818,967 | \$ 997,511 | \$ - | \$ 1,816,478 | \$ 994,700 | \$ 248,691 | \$ - | \$ 1,243,391 |
| Bequests | | | | | 69,922 | | | 69,922 |
| Special events - revenue (including in-kind of \$275,050 and \$189,159) | 795,377 | 53,322 | | 848,699 | 761,381 | 45,438 | | 806,819 |
| Special events - direct benefit to donors (including in-kind of \$125,100 and \$122,560) | (139,000) | | | (139,000) | (144,000) | | | (144,000) |
| In-kind services and contributions | 115,508 | 456,127 | | 571,635 | 212,241 | 39,962 | | 252,203 |
| | 1,590,852 | 1,506,960 | | 3,097,812 | 1,894,244 | 334,091 | | 2,228,335 |
| Net Assets Released from Restrictions | 1,192,355 | (1,192,355) | | | 307,685 | (307,685) | | |
| Total support and revenue | 2,783,207 | 314,605 | | 3,097,812 | 2,201,929 | 26,406 | | 2,228,335 |
| Expenses | | | | | | | | |
| Programs supported | 1,399,502 | | | 1,399,502 | 1,273,424 | | | 1,273,424 |
| Special events | 402,549 | | | 402,549 | 279,139 | | | 279,139 |
| Fundraising | 294,137 | | | 294,137 | 237,936 | | | 237,936 |
| Administrative | 207,011 | | | 207,011 | 215,439 | | | 215,439 |
| Total expenses | 2,303,199 | | | 2,303,199 | 2,005,938 | | | 2,005,938 |
| Change in net assets before net investment income and MarketFront activity | 480,008 | 314,605 | | 794,613 | 195,991 | 26,406 | | 222,397 |
| Net Investment Income | 270,023 | 147,816 | | 417,839 | 318,802 | 183,625 | | 502,427 |
| Change in net assets before MarketFront activity | 750,031 | 462,421 | | 1,212,452 | 514,793 | 210,031 | | 724,824 |
| MarketFront Contributions (including in-kind of \$200,201 and \$352,502) | | 1,221,977 | | 1,221,977 | | 3,172,034 | | 3,172,034 |
| Net Assets Released from Restrictions | 1,221,977 | (1,221,977) | | | 3,380,006 | (3,380,006) | | |
| MarketFront Expenses | (999,393) | | | (999,393) | (4,102,649) | | | (4,102,649) |
| Change in net assets | 972,615 | 462,421 | | 1,435,036 | (207,850) | 2,059 | | (205,791) |
| Net Assets, beginning of year | 2,825,675 | 824,137 | 839,429 | 4,489,241 | 3,033,525 | 822,078 | 839,429 | 4,695,032 |
| Net Assets, end of year | \$ 3,798,290 | \$ 1,286,558 | \$ 839,429 | \$ 5,924,277 | \$ 2,825,675 | \$ 824,137 | \$ 839,429 | \$ 4,489,241 |

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2018

| | <u>Programs</u> | <u>MarketFront</u> | <u>Special Events</u> | <u>Fundraising</u> | <u>Administrative</u> | <u>Total</u> |
|--|---------------------|--------------------|-----------------------|--------------------|-----------------------|---------------------|
| Grants to agencies and individuals | \$ 1,013,328 | \$ 75,000 | \$ - | \$ - | \$ - | \$ 1,088,328 |
| Salaries, benefits, and payroll taxes | 97,231 | 112,636 | 193,769 | 163,558 | 20,026 | 587,220 |
| Artwork transferred to PDA | | 526,844 | | | | 526,844 |
| Supplies | 135,498 | 584 | 18,873 | 3,305 | 2,213 | 160,473 |
| Campaign expenses | 315 | 78,500 | | 2,228 | | 81,043 |
| Purchased services | 13,302 | 4,600 | 14,660 | 15,326 | 27,690 | 75,578 |
| Printing and design | 9,688 | 3,780 | 13,125 | 30,140 | 4,400 | 61,133 |
| Taxes, licenses, and fees | 656 | 12,281 | 7,558 | 2,860 | 14,517 | 37,872 |
| Accounting | | 5,000 | | | 31,745 | 36,745 |
| Technology | | 737 | 190 | 4,867 | 17,023 | 22,817 |
| Event rental and food | 2,161 | | 15,972 | 1,435 | 1,840 | 21,408 |
| Postage and shipping | 118 | 6,681 | 1,459 | 5,794 | 751 | 14,803 |
| Public relations | | 532 | | 9,600 | | 10,132 |
| Insurance | 606 | | | | 4,595 | 5,201 |
| Uncollectible pledges | | 3,949 | 317 | 150 | | 4,416 |
| Volunteer appreciation | 236 | 1,460 | 576 | | 2,005 | 4,277 |
| Other | 28,055 | 13,823 | | 32 | 20,513 | 62,423 |
| | <u>1,301,194</u> | <u>846,407</u> | <u>266,499</u> | <u>239,295</u> | <u>147,318</u> | <u>2,800,713</u> |
| Total expenses before in-kind expenses | | | | | | |
| In-kind expenses | 98,308 | 152,986 | 275,050 | 54,842 | 59,693 | 640,879 |
| | <u>1,399,502</u> | <u>999,393</u> | <u>541,549</u> | <u>294,137</u> | <u>207,011</u> | <u>3,441,592</u> |
| Total expenses | | | | | | |
| Less: direct benefit to donor | | | 139,000 | | | 139,000 |
| Less: MarketFront expenses | | 999,393 | | | | 999,393 |
| | <u>\$ 1,399,502</u> | <u>\$ -</u> | <u>\$ 402,549</u> | <u>\$ 294,137</u> | <u>\$ 207,011</u> | <u>\$ 2,303,199</u> |
| Total expenses included in expense section on the statements of activities | | | | | | |

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> |
|--|---------------------|--------------------|-----------------------|--------------------|-----------------------|---------------------|
| Grants to agencies and individuals | \$ 1,114,192 | \$ 3,490,000 | \$ - | \$ - | \$ - | \$ 4,604,192 |
| Salaries, benefits, and payroll taxes | 58,302 | 118,586 | 99,236 | 112,594 | 15,854 | 404,572 |
| Supplies | 90 | 380 | 23,840 | 5,188 | 1,021 | 30,519 |
| Campaign expenses | | 74,600 | | | | 74,600 |
| Purchased services | 2,500 | 822 | 35,997 | 2,947 | 12,912 | 55,178 |
| Printing and design | | 23,660 | 10,520 | 32,533 | 5,506 | 72,219 |
| Taxes, licenses, and fees | 2,250 | 20,817 | 5,543 | 776 | 22,782 | 52,168 |
| Accounting | | 5,000 | | | 29,410 | 34,410 |
| 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 |
| Insurance | | | | | 3,690 | 3,690 |
| Uncollectible pledges | | 1,253 | 1,825 | 918 | | 3,996 |
| 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 | 1,273,424 | 4,102,649 | 423,139 | 237,936 | 215,439 | 6,252,587 |
| 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

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2018 and 2017

| | 2018 | 2017 |
|---|-----------------|----------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 1,435,036 | \$ (205,791) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Realized and unrealized gains on investments | (303,926) | (405,488) |
| Depreciation | 55,044 | 8,352 |
| Transfer of artwork to PDA | 526,844 | |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in designated cash and cash equivalents - MarketFront | 2,169,504 | (2,000,559) |
| Pledges receivable | (151,691) | 129,104 |
| Prepaid expenses and other current assets | (32,842) | 7,376 |
| Grants payable to agencies | (14,000) | 33,500 |
| Grants payable - Pike Market Preservation and Development Authority | (2,890,000) | 2,890,000 |
| Accounts payable - Pike Market Preservation and Development Authority | (40,329) | 24,805 |
| Accounts payable - other | 35,838 | (46,857) |
| Unearned special event revenue | 70,550 | 17,000 |
| | 860,028 | 451,442 |
| Net cash flows from operating activities | | |
| Cash Flows from Investing Activities | | |
| Sales (purchases) of investments, net | (64,694) | 39,316 |
| Purchases of property and equipment | (831,052) | (272,433) |
| | (895,746) | (233,117) |
| Net cash flows from investing activities | | |
| | (35,718) | 218,325 |
| Net change in cash and cash equivalents | | |
| Cash and Cash Equivalents, beginning of year | 577,048 | 358,723 |
| Cash and Cash Equivalents, end of year | \$ 541,330 | \$ 577,048 |

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 capital 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. In July 2017, the Foundation paid the final grant payment due to the PDA for the MarketFront, and the entire grant is paid in full as of March 31, 2018.

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.

In late 2017, the Foundation opened the Market Commons ("the Commons"), located in the new MarketFront. The Commons is a welcoming and inclusive neighborhood center that provides community resources as well as programs and activities in the Market. The Commons expands delivery of social services – both in the scope of services currently offered and in the number of people served by partner agencies. Costs related to the Commons 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>2018</u> | <u>2017</u> |
|-----------------------------------|---------------------|-------------------|
| Quasi-endowment | \$ 2,013,273 | \$ 164,434 |
| MarketFront campaign | | 619,024 |
| Food Access Program | 120,051 | 146,000 |
| Safety Net | <u>28,250</u> | <u>28,250</u> |
| Total board-designated net assets | <u>\$ 2,161,574</u> | <u>\$ 957,708</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>2018</u> | <u>2017</u> |
|---|---------------------|-------------------|
| Unappropriated endowment earnings | \$ 586,787 | \$ 519,497 |
| Donated use of facilities | 422,974 | 16,968 |
| Market Commons - Special Projects | 111,086 | |
| Market Commons - Community Impact | 100,000 | 100,000 |
| Market Commons - Construction | 52,081 | |
| Safety Net | 11,071 | 3,878 |
| Secret Garden | 2,559 | |
| Food Access Program | | 318 |
| Capital reserves | | <u>183,476</u> |
| Total temporarily restricted net assets | <u>\$ 1,286,558</u> | <u>\$ 824,137</u> |

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 operations of the Foundation. Any income from permanently restricted net assets that has not been designated for specific operational purposes at March 31, 2018 and 2017, is classified as unappropriated endowment earnings in temporarily restricted net assets. Permanently restricted net assets have a balance of \$839,429 at March 31, 2018 and 2017. Of the permanently restricted net assets, \$85,564 at March 31, 2018 and 2017, 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 were 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. Long-term pledges are recognized at fair value (at the time of 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, 2018 and 2017, no discount was recorded, as management determined that the discount would be immaterial to these financial statements.

One donor's pledge represented 13% of total pledges receivable and pledges receivable – MarketFront at March 31, 2017. There were no such concentrations at March 31, 2018.

Pledges receivable (excluding pledges restricted for the MarketFront campaign and the pledge for the use of facilities) consist of the following at March 31:

| | 2018 | 2017 |
|--|-------------------|------------------|
| Pledges receivable in less than one year | \$ 184,953 | \$ 85,663 |
| Pledges receivable in one to five years | 17,917 | |
| | <u>\$ 202,870</u> | <u>\$ 85,663</u> |

Pledges Receivable – MarketFront

Pledges receivable – MarketFront represent pledges raised by the Foundation for the MarketFront 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, 2018 and 2017, 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>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Pledges receivable in less than one year | \$ 110,890 | \$ 452,201 |
| Pledges receivable in one to five years | | 30,211 |
| | <u>\$ 110,890</u> | <u>\$ 482,412</u> |

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.

Property and 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 years ended March 31, 2018 and 2017, was \$55,044 and \$8,352, respectively. During the year ended March 31, 2016, the Foundation began funding art installations for the MarketFront, which were installed in late spring 2017. The art installations related to the MarketFront were completed during 2018. Upon completion of the artwork, the pieces were contributed to the PDA at a value of \$526,844, and are included in grant expense on the statement of functional expenses for the year ended March 31, 2018. Property and equipment owned by the Foundation is as follows at March 31:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|-------------------|-------------------|
| Furniture and fixtures | \$ 73,722 | \$ 23,582 |
| Equipment | 32,338 | 26,818 |
| Website | 31,900 | 31,900 |
| Leasehold improvements | 7,816 | 7,816 |
| Market Commons | 455,274 | 22,615 |
| MarketFront charms/hoofprints | 182,139 | |
| | <u>783,189</u> | <u>112,731</u> |
| Less: accumulated depreciation | (114,097) | (59,053) |
| Art installations in the MarketFront | | <u>366,250</u> |
| Total property and equipment, net | <u>\$ 669,092</u> | <u>\$ 419,928</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 year ended March 31, 2017. There were no bequests recognized during the year ended March 31, 2018.

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 (through December 31, 2017), 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 \$160,496 and \$262,500 for the years ended March 31, 2018 and 2017, respectively.

A 2013 agreement with the PDA provided for the use of certain facilities by the Foundation within the Market free of charge through December 31, 2017. This agreement was renewed in January 2018 and extended the use of these facilities within the Market through December 31, 2022. In 2018, this in-kind contribution was recognized at its fair value of \$125,933. The receivable balance is \$119,636 and \$16,968 at March 31, 2018 and 2017, respectively, and is being amortized on the straight-line basis over the remaining period of the agreement. At March 31, 2018, the current and noncurrent amounts were \$25,187 and \$94,449, respectively. At March 31, 2017, the total receivable balance was current entirely related to the pre-existing 2013 agreement. Fair value was determined based on comparable prices per square foot of commercial space leased by the PDA. In-kind rent expense for the years ended March 31, 2018 and 2017, was \$23,265 and \$22,624, respectively.

In April 2017, the Foundation signed a lease for the Market Commons space with the PDA through April 30, 2027. Monthly minimum rent is \$1,250 per month (which is below the determined fair market value); however, the Foundation is able to receive rent credits up to the amount of minimum rent based on the volume of community or neighborhood meetings and activities held. As the Foundation met the minimum amount of community and neighborhood activities required to fulfill its minimum rent commitment, no rent was paid during the year ended March 31, 2018. Management anticipates no payments for rent will be made throughout the duration of the lease based on the levels of activities at the Market Commons that are expected to take place throughout the lease term. As such, an in-kind contribution was recognized at the full amount of the space's fair value of \$330,194 during the year ended March 31, 2018. The receivable balance is \$303,338 at March 31, 2018, and is being amortized on the straight-line basis over the remaining period of the lease. At March 31, 2018, the current and noncurrent amounts were \$32,214 and \$271,124, respectively. Fair value was determined based on comparable prices per square foot of commercial space leased by the PDA. In-kind rent expense for the year ended March 31, 2018, was \$26,856.

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 (received from the PDA and other organizations) included in the financial statements and the corresponding expenses are as follows for the years ended March 31:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Salaries and benefits | \$ 160,496 | \$ 262,500 |
| Services and goods (including use of facilities) | <u>462,354</u> | <u>23,585</u> |
| In-kind services and contributions for Foundation operations | 622,850 | 286,085 |
| In-kind contributions for the MarketFront (excluding salaries) | <u>148,986</u> | <u>318,620</u> |
| Total in-kind revenue (excluding special event contributions) | 771,836 | 604,705 |
| In-kind special event contributions | 275,050 | 189,159 |
| Net assets released from restrictions for occupancy expense | 50,120 | 22,624 |
| Less: contributed use of facilities | <u>(456,127)</u> | <u></u> |
| Total in-kind expenses | <u>\$ 640,879</u> | <u>\$ 816,488</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 September 18, 2018.

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>2018</u> | <u>2017</u> |
|----------------------------------|---------------------|---------------------|
| Money market | \$ 37,314 | \$ 1,978 |
| Government and agency securities | | 203,186 |
| Corporate bonds | | 209,235 |
| Municipal bonds | | 110,011 |
| Mutual funds | | |
| Large cap | 1,136,584 | 984,130 |
| Foreign | 990,840 | 880,183 |
| Mid cap | 843,691 | 632,253 |
| Small/Micro cap | 671,040 | 557,423 |
| Bond | 636,262 | 441,096 |
| Emerging markets | 407,929 | 344,244 |
| Global real estate | 240,822 | 232,123 |
| Total investments | <u>\$ 4,964,482</u> | <u>\$ 4,595,862</u> |

Investments are reported in the statements of financial position as:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------------|---------------------|
| Investments, unrestricted | \$ 1,028,993 | \$ 2,576,502 |
| Endowment investments | 3,439,489 | 1,523,360 |
| Investments, held as collateral | 496,000 | 496,000 |
| Total investments | <u>\$ 4,964,482</u> | <u>\$ 4,595,862</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:

| | 2018 | 2017 |
|-----------------------------------|-------------------|-------------------|
| Interest and dividends | \$ 149,018 | \$ 130,678 |
| Fees | (35,105) | (33,739) |
| Interest and dividends, net | 113,913 | 96,939 |
| Net realized and unrealized gains | 303,926 | 405,488 |
| Net investment income | <u>\$ 417,839</u> | <u>\$ 502,427</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:

| | 2018 | 2017 |
|--------------------------------------|-------------------|-------------------|
| Pike Market Medical Clinic | \$ 315,000 | \$ 315,000 |
| Pike Market Senior Center | 205,000 | 205,000 |
| Pike Market Child Care and Preschool | 205,000 | 205,000 |
| Downtown Food Bank | 92,000 | 85,000 |
| Heritage House | 30,000 | 26,000 |
| Chief Seattle Club | | 25,000 |
| Total grants payable to agencies | <u>\$ 847,000</u> | <u>\$ 861,000</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:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Pike Market Medical Clinic | \$ 315,000 | \$ 370,000 |
| Pike Market Child Care and Preschool | 214,608 | 205,000 |
| Pike Market Senior Center | 205,000 | 258,310 |
| Food Access | 103,143 | 91,780 |
| Downtown Food Bank | 92,000 | 85,000 |
| Safety Net | 53,577 | 53,102 |
| Heritage House | 30,000 | 26,000 |
| Chief Seattle Club | | 25,000 |
| | <u>\$ 1,013,328</u> | <u>\$ 1,114,192</u> |
| Total grants paid to agencies and individuals | | |

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 2018 and 2017, the PDA contributed \$57,713 and \$116,719, 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, 2018 | | | |
|--|---------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ - | \$ 586,787 | \$ 839,429 | \$ 1,426,216 |
| Board-designated quasi-endowment funds | 2,013,273 | | | 2,013,273 |
| Total funds | <u>\$ 2,013,273</u> | <u>\$ 586,787</u> | <u>\$ 839,429</u> | <u>\$ 3,439,489</u> |
| | 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> |

Changes to endowment net assets are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| 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 | 164,434 | 519,497 | 839,429 | 1,523,360 |
| Interest and dividends, net of fees | 44,194 | 29,960 | | 74,154 |
| Net realized and unrealized gains | 54,625 | 117,856 | | 172,481 |
| Additions | 1,750,020 | | | 1,750,020 |
| Releases from unappropriated earnings | | (80,526) | | (80,526) |
| Endowment net assets, March 31, 2018 | <u>\$ 2,013,273</u> | <u>\$ 586,787</u> | <u>\$ 839,429</u> | <u>\$ 3,439,489</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.