

THE MARKET FOUNDATION

FINANCIAL REPORT

MARCH 31, 2019

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of a Matter – Recent Accounting Pronouncement Adopted

As discussed in Note 1 to the financial statements, during the year ended March 31, 2019, The Market Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Petersen Sullivan LLP.

September 17, 2019

THE MARKET FOUNDATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents	\$ 793,037	\$ 541,330
Investments, unrestricted	1,050,745	1,028,993
Pledges receivable - MarketFront	45,614	110,890
Pledge receivable - use of facilities	57,401	57,401
Pledges receivable - other	283,730	184,953
Prepaid expenses and other current assets	6,507	34,457
Total current assets	2,237,034	1,958,024
Long-Term Assets		
Pledge receivable - use of facilities, net of current portion	305,487	365,573
Pledges receivable - other, net of current portion		17,917
Endowment investments	3,432,996	3,439,489
Investments, held as collateral	496,000	496,000
Property and equipment, net	616,429	669,092
Total long-term assets	4,850,912	4,988,071
Total assets	\$ 7,087,946	\$ 6,946,095
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses and accounts payable	\$ 42,548	\$ 49,061
Accounts payable - Pike Market Preservation and Development Authority		29,357
Grants payable to agencies	915,000	847,000
Unearned special event revenue	124,725	96,400
Total current liabilities	1,082,273	1,021,818
Net Assets		
Without donor restrictions		
Undesignated	1,631,569	1,636,716
Board-designated	2,128,574	2,161,574
Total without donor restrictions	3,760,143	3,798,290
With donor restrictions		
	2,245,530	2,125,987
Total net assets	6,005,673	5,924,277
Total liabilities and net assets	\$ 7,087,946	\$ 6,946,095

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended March 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Contributions	\$ 1,617,500	\$ 255,450	\$ 1,872,950	\$ 818,967	\$ 997,511	\$ 1,816,478
Special events - revenue (including in-kind of \$112,743 and \$275,050, respectively)	784,673	25,242	809,915	795,377	53,322	848,699
Special events - direct benefit to donors (including in-kind of \$42,534 and \$125,100, respectively)	(109,815)		(109,815)	(139,000)		(139,000)
In-kind services and contributions	93,879		93,879	115,508	456,127	571,635
	<u>2,386,237</u>	<u>280,692</u>	<u>2,666,929</u>	<u>1,590,852</u>	<u>1,506,960</u>	<u>3,097,812</u>
Net Assets Released from Restrictions	<u>157,697</u>	<u>(157,697)</u>		<u>1,192,355</u>	<u>(1,192,355)</u>	
Total support and revenue	2,543,934	122,995	2,666,929	2,783,207	314,605	3,097,812
Expenses						
Programs supported	1,336,983		1,336,983	1,399,502		1,399,502
Special events	442,401		442,401	402,549		402,549
Fundraising	528,578		528,578	294,137		294,137
Administrative	294,002		294,002	207,011		207,011
Total expenses	<u>2,601,964</u>		<u>2,601,964</u>	<u>2,303,199</u>		<u>2,303,199</u>
Change in net assets before net investment income and MarketFront activity	(58,030)	122,995	64,965	480,008	314,605	794,613
Net Investment Income	<u>19,883</u>	<u>(3,452)</u>	<u>16,431</u>	<u>270,023</u>	<u>147,816</u>	<u>417,839</u>
Change in net assets before MarketFront activity	(38,147)	119,543	81,396	750,031	462,421	1,212,452
MarketFront Contributions (including in-kind of \$200,201)					1,221,977	1,221,977
Net Assets Released from Restrictions				1,221,977	(1,221,977)	
MarketFront Expenses				(999,393)		(999,393)
Change in net assets	(38,147)	119,543	81,396	972,615	462,421	1,435,036
Net Assets, beginning of year	<u>3,798,290</u>	<u>2,125,987</u>	<u>5,924,277</u>	<u>2,825,675</u>	<u>1,663,566</u>	<u>4,489,241</u>
Net Assets, end of year	<u>\$ 3,760,143</u>	<u>\$ 2,245,530</u>	<u>\$ 6,005,673</u>	<u>\$ 3,798,290</u>	<u>\$ 2,125,987</u>	<u>\$ 5,924,277</u>

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2019

	<u>Programs</u>	<u>Special Events</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Grants to agencies and individuals	\$ 993,740	\$ -	\$ -	\$ -	\$ 993,740
Salaries, benefits, and payroll taxes	145,892	245,433	286,200	87,734	765,259
Purchased services	10,639	61,468	7,382	17,915	97,404
Printing and design	4,296	17,232	75,135		96,663
Food Access	72,531				72,531
Depreciation				52,663	52,663
Accounting				50,114	50,114
Technology	1,868	1,884	29,541	14,733	48,026
Construction	35,269				35,269
Supplies	11,567	13,318	248	1,803	26,936
Event rental and food	68	22,838	659	3,150	26,715
Credit card processing fees		8,244	17,304		25,548
Public relations	771		24,750		25,521
Uncollectible pledges				22,024	22,024
Continued education and staff appreciation	9,251			6,102	15,353
Postage and shipping		1,469	13,324	35	14,828
Other	12,980	6,436	1,985	12,542	33,943
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses before in-kind expenses	1,298,872	378,322	456,528	268,815	2,402,537
In-kind expenses	38,111	173,894	72,050	25,187	309,242
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	1,336,983	552,216	528,578	294,002	2,711,779
Less: direct benefit to donor		109,815			109,815
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses included in expense section on the statements of activities	<u>\$ 1,336,983</u>	<u>\$ 442,401</u>	<u>\$ 528,578</u>	<u>\$ 294,002</u>	<u>\$ 2,601,964</u>

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	\$ 910,185	\$ 75,000	\$ -	\$ -	\$ -	\$ 985,185
Salaries, benefits, and payroll taxes	97,231	112,636	193,769	163,558	20,026	587,220
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
Food Access	103,143					103,143
Depreciation	27,289	13,823			13,932	55,044
Accounting		5,000			31,745	36,745
Technology		737	190	4,867	17,023	22,817
Supplies	135,498	584	18,873	3,305	2,213	160,473
Event rental and food	2,161		15,972	1,435	1,840	21,408
Public relations		532		9,600		10,132
Uncollectible pledges		3,949	317	150		4,416
Postage and shipping	118	6,681	1,459	5,794	751	14,803
Artwork transferred to PDA		526,844				526,844
Campaign expenses	315	78,500		2,228		81,043
Other	2,264	13,741	8,134	2,892	27,698	54,729
	<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>
In-kind expenses	<u>98,308</u>	<u>152,986</u>	<u>275,050</u>	<u>54,842</u>	<u>59,693</u>	<u>640,879</u>
Total expenses	1,399,502	999,393	541,549	294,137	207,011	3,441,592
Less: direct benefit to donor			139,000			139,000
Less: MarketFront expenses		<u>999,393</u>				<u>999,393</u>
Total expenses included in expense section on the statements of activities	<u>\$ 1,399,502</u>	<u>\$ -</u>	<u>\$ 402,549</u>	<u>\$ 294,137</u>	<u>\$ 207,011</u>	<u>\$ 2,303,199</u>

See Notes to Financial Statements

THE MARKET FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 81,396	\$ 1,435,036
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Realized and unrealized losses (gains) on investments	125,189	(303,926)
Depreciation	52,663	55,044
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
Pledges receivable	44,502	(151,691)
Prepaid expenses and other current assets	27,950	(32,842)
Grants payable to agencies	68,000	(14,000)
Grants payable - Pike Market Preservation and Development Authority		(2,890,000)
Accounts payable - Pike Market Preservation and Development Authority	(29,357)	(40,329)
Accrued expenses and accounts payable	(6,513)	35,838
Unearned special event revenue	28,325	70,550
	392,155	860,028
Net cash flows from operating activities	392,155	860,028
Cash Flows from Investing Activities		
Purchases of investments, net	(140,448)	(64,694)
Purchases of property and equipment		(831,052)
	(140,448)	(895,746)
Net cash flows from investing activities	(140,448)	(895,746)
Net change in cash and cash equivalents	251,707	(35,718)
Cash and Cash Equivalents, beginning of year	541,330	577,048
Cash and Cash Equivalents, end of year	\$ 793,037	\$ 541,330

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 "Legacy Partner" 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")
- Heritage House at the Market ("Heritage House")

The Foundation also supports three food-related programs (Market Fresh Coupons, Pike Bucks, and Food Access programming). 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 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 two classes of net assets: without donor restrictions and with donor restrictions. Contributions are recorded 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 7. Board-designated net assets consist of the following at March 31:

	<u>2019</u>	<u>2018</u>
Quasi-endowment	\$ 2,010,232	\$ 2,013,273
Food Access Program	92,759	120,051
Safety Net	25,583	28,250
	<u>\$ 2,128,574</u>	<u>\$ 2,161,574</u>

Net Assets with Donor Restrictions

Some net assets with donor restrictions are temporary in nature and consist of unexpended contributions restricted for particular programs or time periods. Other net assets have perpetual donor restrictions, where the principal of the contributions is restricted in perpetuity and the income from which is utilized for the purposes specified by the donors. Net assets with temporary donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as time restrictions are met.

Net assets with donor restrictions are as follows at March 31:

	<u>2019</u>	<u>2018</u>
Net assets with purpose or time restrictions		
Playground	\$ 150,053	\$ -
Market Commons - Special Projects	109,086	111,086
Market Commons - Community Impact	96,098	100,000
Market Commons - Construction	91,812	52,081
Donated use of facilities (restricted for time)	362,888	422,974
Others	12,829	13,630
	<u>822,766</u>	<u>699,771</u>
Net assets with endowment restrictions (see Note 7)		
Perpetual endowment restrictions	839,429	839,429
Unappropriated endowment earnings	583,335	586,787
	<u>1,422,764</u>	<u>1,426,216</u>
	<u>\$ 2,245,530</u>	<u>\$ 2,125,987</u>

Of the net assets restricted in perpetuity, \$86,564 represents restricted contributions to the Preschool, which are held by the Foundation, as of March 31, 2019 and 2018.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds with original maturities of three months or less. 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, 2019 and 2018, no discount was recorded, as management determined that the discount would be immaterial to these financial statements.

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

	<u>2019</u>	<u>2018</u>
Pledges receivable in less than one year	\$ 283,730	\$ 184,953
Pledges receivable in one to five years		17,917
	<u>\$ 283,730</u>	<u>\$ 202,870</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, 2019 and 2018, no discount was recorded, as management determined that the discount would be immaterial to these financial statements. Pledges receivable – MarketFront at March 31, 2019 and 2018, are \$45,614 and \$110,890, respectively.

Pledge Receivable – Use of Facilities

As discussed in the in-kind contributions section below, this 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, 2019 and 2018, was \$52,663 and \$55,044, respectively. Property and equipment consist of the following at March 31:

	2019	2018
Market Commons	\$ 455,274	\$ 455,274
MarketFront charms/hoofprints	182,139	182,139
Furniture and fixtures	73,722	73,722
Equipment	32,339	32,338
Website	31,900	31,900
Leasehold improvements	7,816	7,816
	<u>783,190</u>	<u>783,189</u>
Less: accumulated depreciation	<u>(166,761)</u>	<u>(114,097)</u>
	<u>\$ 616,429</u>	<u>\$ 669,092</u>

Contribution Revenue

The Foundation receives contributions from a variety of sources, 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 6.

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. There were no such pledges outstanding at March 31, 2019 or 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 provided certain administrative services, or salaries and benefits in 2018 (not 2019), either at reduced rates or at no charge to the Foundation. 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 net asset with donor restrictions. The receivable is amortized over lease terms (see next paragraph).

A 2018 agreement with the PDA provides for the use of certain facilities by the Foundation within the Market free of charge through December 31, 2022. In 2018, this in-kind contribution was recognized at its fair value of \$125,933. The receivable balance was \$94,449 and \$119,636 at March 31, 2019 and 2018, respectively, and is being amortized on the straight-line basis over the remaining period of the agreement. At March 31, 2019, the current and noncurrent amounts were \$25,187 and \$69,262, respectively. At March 31, 2018, the current and noncurrent amounts were \$25,187 and \$94,449, 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 years ended March 31, 2019 and 2018, was \$25,187 and \$23,265, 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 years ended March 31, 2019 or 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 \$268,439 and \$303,338 at March 31, 2019 and 2018, respectively, and is being amortized on the straight-line basis over the remaining period of the lease. At March 31, 2019, the current and noncurrent amounts were \$32,214 and \$236,225, respectively. 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 years ended March 31, 2019 and 2018, was \$34,899 and \$26,856, respectively.

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:

	2019	2018
Salaries and benefits	\$ -	\$ 160,496
Services and goods (including use of facilities in 2018)	93,879	462,354
In-kind services and contributions for Foundation operations	93,879	622,850
In-kind contributions for the MarketFront (excluding salaries)		148,986
Total in-kind revenue (excluding special event contributions)	93,879	771,836
In-kind special event contributions	155,277	275,050
Net assets released from restrictions for occupancy expense	60,086	50,120
Less: contributed use of facilities		(456,127)
Total in-kind expenses	<u>\$ 309,242</u>	<u>\$ 640,879</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 and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services they benefit. Expenses such as Legacy Partner grants to agencies, grants from Rachel's Reserve or Billie's Bank and individuals within the Safety Net structure, and costs associated with the functionality and staffing of The Market Commons and Food Access programs are allocated based on the benefitting program. Expenses like salaries, benefits and payroll taxes, supplies, purchased services, printing and design, and other expenses are allocated to administration and fundraising based on actual or estimated amounts of time and effort. Additionally, special event expenses are allocated based on actual or estimated amounts of time and effort of producing these events.

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.

Recent Accounting Pronouncement Adopted

During the year ended March 31, 2019, the Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of financial assets note (see Note 2).

Subsequent Events

The Foundation has evaluated all subsequent events through the date these financial statements were available to be issued, which was September 17, 2019.

Note 2. Liquidity and Availability of Financial Assets

The Foundation regularly monitors liquidity required to meet its operating needs sufficient to cover 90 days of general expenditures, which include administrative and fundraising expenses, grant commitments, and other contractual obligations. Financial assets in excess of daily cash requirements are invested in a money market account and other short-term investments.

The Foundation manages its financial assets available to meet general expenditures by following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation operates with a balanced budget and plans to cover program and general operating expenses through monthly cost-reimbursements, collections of cash receipts on pledged contributions, support from the PDA, and ongoing fundraising efforts that include three planned fundraising events, as well as other smaller events throughout the year. All smaller unplanned events are evaluated by using a set of criteria to ensure that the event will meet Foundation's values before committing to participation.

In addition, the Executive Director, Accountant, and Fiscal Administrator meet on a regular basis to discuss the outstanding balance of assets held with donor restrictions, to ensure that these funds are being used timely and in accordance with associated donor restrictions.

The following table reflects the Foundation's financial assets as of March 31, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include board-designated net assets, as described in Note 1. In the event that the need arises to utilize board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

Financial assets at year-end	
Cash and cash equivalents	\$ 793,037
Investments	4,979,741
Pledges receivable	<u>329,344</u>
Total financial assets	6,102,122
Board-designated net assets	(2,128,574)
Net assets with donor restrictions, not for day-to-day operations	(963,105)
Endowment investments, held in perpetuity	(839,429)
Investments held as collateral	<u>(496,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,675,014</u></u>

Amounts not available to meet general expenditures within one year also include net assets with donor restrictions for purposes that are not directly associated with day-to-day operations and/or programs operated by the Foundation.

Note 3. 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:

	2019	2018
Money market	\$ 34,441	\$ 37,314
Mutual funds		
Bond	1,108,480	636,262
Large cap	1,065,668	1,136,584
Foreign	875,180	990,840
Mid cap	715,488	843,691
Small/micro cap	566,865	671,040
Emerging markets	357,457	407,929
Global real estate	256,162	240,822
Total investments	<u>\$ 4,979,741</u>	<u>\$ 4,964,482</u>

Investments are reported in the statements of financial position as follows:

	2019	2018
Investments, unrestricted	\$ 1,050,745	\$ 1,028,993
Endowment investments	3,432,996	3,439,489
Investments, held as collateral	496,000	496,000
Total investments	<u>\$ 4,979,741</u>	<u>\$ 4,964,482</u>

Investments held as collateral and endowment investments are described in further detail in Notes 4 and 7, respectively.

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

	2019	2018
Interest and dividends	\$ 186,600	\$ 149,018
Fees	(44,980)	(35,105)
Interest and dividends, net	141,620	113,913
Net realized and unrealized gains (losses)	(125,189)	303,926
Net investment income	<u>\$ 16,431</u>	<u>\$ 417,839</u>

Note 4. 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 5. 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:

	2019	2018
Pike Market Medical Clinic	\$ 325,000	\$ 315,000
Pike Market Senior Center	215,000	205,000
Pike Market Child Care and Preschool	225,000	205,000
Pike Market Food Bank	105,000	92,000
Heritage House	45,000	30,000
Total grants payable to agencies	<u>\$ 915,000</u>	<u>\$ 847,000</u>

The amounts granted to agencies in the Market and individuals supported by Foundation programs are included in the statements of functional expenses (as program expenses) as follows during the fiscal years ended March 31:

	2019	2018
Pike Market Medical Clinic	\$ 325,000	\$ 315,000
Pike Market Child Care and Preschool	235,011	214,608
Pike Market Senior Center	215,000	205,000
Pike Market Food Bank	105,000	92,000
Safety Net	65,063	53,577
Heritage House	45,000	30,000
Pike Place Secret Garden	3,666	
Total grants paid to agencies and individuals	<u>\$ 993,740</u>	<u>\$ 910,185</u>

Note 6. Related Parties

The Foundation occasionally receives funds and in-kind contributions from the PDA unrelated to the use of facilities as discussed in Note 1. The total amount of funds or in-kind contributions that the Foundation received from the PDA for salaries and benefits was \$239,386 and \$160,496 for the years ended March 31, 2019 and 2018, respectively. During 2018, the PDA additionally contributed \$57,713 to the Foundation for various Foundation programs, and these funds were distributed to other Market agencies.

Note 7. 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 net assets with perpetual endowment restrictions (a) the original value of gifts donated to the perpetual endowment and (b) the original value of subsequent gifts to the perpetual endowment. The remaining portion of the donor-restricted endowment fund that is not classified in as perpetually restricted is classified as unappropriated endowment earnings 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 as of March 31:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Donor-restricted endowment	\$ -	\$ 583,335	\$ 839,429	\$ 1,422,764
Board-designated quasi-endowment	2,010,232			2,010,232
Total funds	\$ 2,010,232	\$ 583,335	\$ 839,429	\$ 3,432,996

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
Donor-restricted endowment	\$ -	\$ 586,787	\$ 839,429	\$ 1,426,216
Board-designated quasi-endowment	2,013,273			2,013,273
Total funds	\$ 2,013,273	\$ 586,787	\$ 839,429	\$ 3,439,489

Changes to endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Unappropriated Earnings	Perpetual	
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	2,013,273	586,787	839,429	3,439,489
Interest and dividends, net of fees	51,182	36,591		87,773
Net realized and unrealized losses	(54,223)	(40,043)		(94,266)
Endowment net assets, March 31, 2019	\$ 2,010,232	\$ 583,335	\$ 839,429	\$ 3,432,996

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 the 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 and 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.