

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation and
a Component Unit of the City of Detroit, Michigan)
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
(With Supplementary Information)

June 30, 2017 and 2016



EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONTENTS

INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION	23
SUPPLEMENTARY INFORMATION:	
Consolidating Schedule of Financial Position	24
Consolidating Schedule of Activities	26
Consolidated Schedules of Public Market Operations	28
NOTES TO SUPPLEMENTARY INFORMATION	29

INDEPENDENT AUDITOR'S REPORT

December 19, 2017

To the Board of Directors
Eastern Market Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Market Corporation (the "Corporation," a Michigan non-profit Corporation), a component unit of the City of Detroit, Michigan, and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, as well as the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

The Corporation's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (continued)

In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Market Corporation and Subsidiaries as of June 30, 2017 and 2016, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 19, 2017, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,548,137	\$ 1,344,459
Accounts and other receivables (no allowance considered necessary) (Note D)	1,286,713	1,311,841
Land contract receivable - current portion (no allowance considered necessary) (Note F)	5,913	5,478
Inventory (Note A)	26,142	36,902
Prepaid expenses	26,184	13,554
	<u>2,893,089</u>	<u>2,712,234</u>
Fixed Assets (Note A):		
Leasehold improvements	11,585,804	11,965,383
Building	95,999	78,713
Furniture	8,023	8,023
Equipment	788,563	948,488
Construction in progress	689,993	-0-
Software upgrades in process	78,126	78,126
	13,246,508	13,078,733
Less: Accumulated depreciation	<u>(5,743,997)</u>	<u>(4,956,764)</u>
	<u>7,502,511</u>	<u>8,121,969</u>
Other Assets:		
Land contract receivable (net of current portion) (no allowance considered necessary) (Note F)	<u>107,892</u>	<u>111,498</u>
	<u>\$ 10,503,492</u>	<u>\$ 10,945,701</u>

See notes to consolidated financial statements.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 356,429	\$ 494,032
Accrued payroll and related liabilities	38,825	57,948
Deferred lease revenue (Note A)	242,044	282,087
Fiduciary deposits payable (Note G)	18,751	22,501
Note payable - current portion (Note I)	23,923	21,758
Lines of credit (Note J)	-0-	177,522
	<u>679,972</u>	<u>1,055,848</u>
Total Current Liabilities		
Long-Term Liabilities:		
Note payable (net of current portion) (Note I)	7,408	31,132
	<u>687,380</u>	<u>1,086,980</u>
Total Liabilities		
Net Assets:		
Unrestricted:		
Noncontrolling interest (Note M)	-0-	(29,004)
Undesignated	7,196,754	7,756,930
	<u>7,196,754</u>	<u>7,727,926</u>
Total Unrestricted Net Assets		
Temporarily restricted (Note B)	2,619,358	2,130,795
	<u>9,816,112</u>	<u>9,858,721</u>
Total Net Assets		
Total Liabilities and Net Assets		
	<u><u>\$ 10,503,492</u></u>	<u><u>\$ 10,945,701</u></u>

See notes to consolidated financial statements.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets:		
Revenue:		
Lease revenue (Note A)	\$ 1,416,836	\$ 1,472,283
Grants and contributions	1,204,371	615,784
Interest and other income	361,349	290,146
Donated facilities and services (Note A)	334,600	15,600
	<u>3,317,156</u>	<u>2,393,813</u>
Net assets released from restrictions (Note B)	<u>2,588,828</u>	<u>3,507,526</u>
	<u>5,905,984</u>	<u>5,901,339</u>
Expenses (Note H):		
Salaries and benefits	2,177,058	2,233,219
Professional fees	863,738	990,030
Depreciation (Note A)	829,370	969,420
Office and program expenses	905,805	886,500
Security and maintenance	527,381	495,850
Publications and marketing	251,485	107,281
Travel and conferences	49,757	30,704
Interest expense	20,899	35,746
Bad debt expense	10,368	2,733
Occupancy	15,600	41,340
	<u>5,651,461</u>	<u>5,792,823</u>
	<u>\$ 254,523</u>	<u>\$ 108,516</u>

See notes to consolidated financial statements.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets (continued):		
Other changes in unrestricted net assets:		
Transactions involving noncontrolling interest (Note M):		
Member contributions	\$ 6,880	\$ 43,141
Net Increase in Unrestricted Net Assets from Continuing Operations	261,403	151,657
Excess (deficiency) of revenue over expenses and losses from discontinued operations (Note N)	<u>(792,575)</u>	<u>-0-</u>
Net Increase (Decrease) in Unrestricted Net Assets	<u>(531,172)</u>	<u>151,657</u>
Changes in Temporarily Restricted Net Assets:		
Foundation contributions	3,077,391	3,861,586
Net assets released from restrictions (Note B)	<u>(2,588,828)</u>	<u>(3,507,526)</u>
Net Increase in Temporarily Restricted Net Assets	<u>488,563</u>	<u>354,060</u>
Net Increase (Decrease) in Net Assets	(42,609)	505,717
Net Assets, Beginning of Year	<u>9,858,721</u>	<u>9,353,004</u>
Net Assets, End of Year	<u>\$ 9,816,112</u>	<u>\$ 9,858,721</u>

See notes to consolidated financial statements.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Net increase (decrease) in net assets	\$ (42,609)	\$ 505,717
Adjustments to reconcile net increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation:		
From continuing operations	829,370	969,420
From discontinued operations	41,940	-0-
Loss on disposition of fixed assets used in discontinued operations	542,577	-0-
Transactions involving noncontrolling interest:		
Member contributions	(6,880)	(43,141)
(Increase) decrease in:		
Accounts and other receivables	25,128	75,669
Inventory	10,760	(15,733)
Deposits	-0-	-0-
Prepaid expenses	(12,630)	14,427
Increase (decrease) in:		
Accounts payable	(137,603)	(318,252)
Accrued payroll and related liabilities	(19,123)	(40,379)
Deferred lease revenue	(40,043)	(21,725)
Fiduciary deposits payable	(3,750)	(22,355)
	<u>1,187,137</u>	<u>1,103,648</u>
Cash Flows from Investing Activities:		
Payments received on land contract receivable	3,171	3,315
Acquisition of fixed assets	(104,436)	(1,060,198)
Payments for construction in progress	(689,993)	-0-
Payments for software upgrades in process	-0-	(400)
	<u>(791,258)</u>	<u>(1,057,283)</u>

See notes to consolidated financial statements.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Financing Activities:		
Proceeds issued on lines of credit	\$ -0-	\$ 100,000
Payments on lines of credit	(177,522)	(772,418)
Payments on note payable	(21,559)	(20,423)
Transactions involving noncontrolling interest:		
Member contributions	6,880	43,141
	<u>6,880</u>	<u>43,141</u>
Net Cash Provided (Used) by Financing Activities	<u>(192,201)</u>	<u>(649,700)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	203,678	(603,335)
Cash and Cash Equivalents Balance, Beginning of Year	<u>1,344,459</u>	<u>1,947,794</u>
Cash and Cash Equivalents Balance, End of Year	<u>\$ 1,548,137</u>	<u>\$ 1,344,459</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 21,979</u>	<u>\$ 35,746</u>

See notes to consolidated financial statements.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

Eastern Market Corporation (the “Corporation”) is a Michigan non-profit Corporation organized to combat community deterioration and to lessen the burdens of government by performing the following functions:

- Developing, maintaining, and promoting the Eastern Market district of Detroit, Michigan as a viable district for residential and commercial uses that complement the farmers’ market and food-based businesses in the district
- Managing the market in Detroit known as “Eastern Market”

For financial reporting purposes, the Corporation is a component unit of the City of Detroit (the “City”) because the City can significantly influence the Corporation’s programs, projects, and activities through a management and promotion agreement, which is described in more detail in Note C, and because the City’s representative on the Corporation’s Board of Directors approves the Corporation’s budget. There are no component units included in the accompanying consolidated financial statements.

The Corporation has established the following subsidiaries:

- Red Truck Fresh Produce LLC (“Red Truck”), a limited liability company with the Corporation as a majority member that was formed for the purpose of providing customers the freshest produce possible and supporting the community and local economy
- Grow Eastern Market, Inc. (“GEM”), a wholly-owned subsidiary formed for the purpose of creating and expanding new market channels for Michigan’s small and emerging growers
- Eastern Market Development Corporation (“EMDC”), a tax-exempt membership organization in which the Corporation is the sole member, and whose Board of Directors is elected by the Corporation’s Board of Directors, that was established for the development of businesses and other resources within the Eastern Market district

Red Truck and GEM were dissolved as of June 30, 2017. See Note N for discontinued operation information.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All material intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis.

Basis of Presentation

Although the Corporation is a component unit of the City, the accompanying consolidated financial statements have been prepared in accordance with the standards established by the Financial Accounting Standards Board as applicable to non-profit organizations, rather than the standards established by the Governmental Accounting Standards Board that are applicable to state and local governments, due to the following factors:

- The Corporation's officers are not elected by the public.
- A controlling majority of the members of the Corporation's Board of Directors are not approved or appointed by City officials or the officials of any other government unit.
- The Corporation cannot unilaterally be dissolved by the City or any other government unit with the net assets reverting to that government unit.
- The Corporation does not have the power to enact and enforce a tax levy.
- The Corporation does not have the ability to directly issue debt that pays interest exempt from federal taxation.

The Corporation 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.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the consolidated statements of cash flows, the Corporation considers all short-term securities with original maturities of three months or less to be cash equivalents.

Recognition of Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with donor-imposed restrictions that are met in the same year as received are reported as unrestricted support. Unconditional contributions are recorded as support at the time verifiable evidence of the pledge is received. Contributions payable in future periods are considered implicitly time-restricted and are reported as temporarily restricted net assets until they are due. Conditional contributions are not recorded as support until the condition is met, at which time they become unconditional.

Use of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Corporation uses fair value measurements in the preparation of its consolidated financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The Corporation utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Corporation applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

The measurement of fair value includes a hierarchy based on the quality of inputs used to measure fair value. Financial assets and liabilities are categorized into this three-level fair value hierarchy based on the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of the fair value hierarchy are described as follows:

- Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Corporation has the ability to access
- Level 2 - Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability
- Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

The use of observable market data, when available, is required in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

As of June 30, 2017 and 2016, the Corporation does not have any financial assets or liabilities subject to being classified in any of the above categories.

Lease Revenue

Fees are assessed to the vendors and other lessees in Eastern Market under lease agreements. Stalls at the market may be leased under annual or daily agreements. These fees are recognized as revenue in the period covered by such fees.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory is stated at the lower of cost (determined by the retail inventory method) or market. Inventory consists of clothing available for sale.

Grants

The W.K. Kellogg Foundation provided a \$2,600,000 grant to the Corporation in February 2014. The purpose of this grant is to advance the creation of an inclusive, resilient, and robust regional food hub to increase food access in underserved areas and expedite the growth of food businesses. The Corporation received the entire grant as of June 30, 2017.

Income Taxes

The Corporation and EMDC have been classified by the Internal Revenue Service (“IRS”) as organizations exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (“IRC”). Additionally, the Corporation and EMDC have been classified by the IRS as organizations that are not private foundations. GEM is classified as a for-profit organization subject to income taxes under the IRC, while Red Truck has been established as a pass-through entity for tax purposes. GEM did not have material net taxable income during the years ended June 30, 2017 or 2016. No provisions for federal income taxes have been made in the accompanying consolidated financial statements. There was no unrelated business income during the years ended June 30, 2017 or 2016, and the Corporation’s management is not aware of any unrecognized tax benefits as of June 30, 2017 or 2016.

Fixed Assets

Fixed assets are carried at cost or, if donated, at their estimated fair values at the time of the donation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range from three to 39 years. The Corporation’s policy is to capitalize acquisitions of \$1,000 or more.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Facilities and Services

The Corporation has an arrangement with the City under which the City provides the Corporation with facilities at no charge. Management estimates the fair value of the use of these facilities to be \$15,600 per year for the years ended June 30, 2017 and 2016. These values have been included in the accompanying consolidated statements of activities.

Concentration of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash, cash equivalents, and grants receivable.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed the federally insured limit of \$250,000 per depositor at each financial institution. Cash and cash equivalents on deposit in excess of the federally insured limit as of June 30, 2017 approximated \$1,320,000. Grants receivable are due from various sources, primarily as reimbursement for the costs of providing program services.

Reclassifications

Certain reclassifications have been made to the accompanying consolidated financial statements as of, and for the year ended, June 30, 2016 to conform to classifications used as of, and for the year ended, June 30, 2017.

Subsequent Events

The Corporation has evaluated subsequent events through December 19, 2017, the date that the accompanying consolidated financial statements were available to be issued.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE B - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available as of June 30, 2017 and 2016 for the following purposes:

	<u>2017</u>	<u>2016</u>
Restricted for program activities or projects:		
Economic development	\$ 1,163,672	\$ 664,086
Food access	573,394	279,632
Food entrepreneurship	184,774	371,079
Food hub development	27,391	249,586
Infrastructure improvements	92,286	51,732
Placemaking	165,685	100,000
Public markets	395,157	414,680
Farmstand	16,999	-0-
	<u><u>\$ 2,619,358</u></u>	<u><u>\$ 2,130,795</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, as follows:

	<u>2017</u>	<u>2016</u>
Purpose restrictions accomplished for the following programs or projects:		
Community development	\$ -0-	\$ 41,250
Economic development	800,415	526,164
Food access	360,031	998,561
Food entrepreneurship	712,519	440,263
Food hub development	465,440	606,643
Infrastructure improvements	29,436	699,982
Placemaking	114,930	-0-
Public markets	79,776	194,663
Farmstand	26,281	-0-
	<u><u>\$ 2,588,828</u></u>	<u><u>\$ 3,507,526</u></u>

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE C - CITY OF DETROIT MANAGEMENT AND PROMOTION AGREEMENT

The Corporation has entered into a 10-year management and promotion agreement with the City that expires on June 30, 2022; the agreement includes a 10-year renewal option. Under this agreement, the Corporation is responsible for the operation, promotion, and management of the Eastern Market district on behalf of the City. The Corporation is authorized to prepare and execute lease agreements and collect rents. The Corporation is required to prepare an annual operating budget and to disburse funds in the following order of priority:

- Operating expenses of the market
- Payment of debt service on loans for the improvement of the Eastern Market district that have been approved by the City
- Alterations and/or improvements to the market as approved by the City
- An operating reserve account to be maintained by the Corporation, not to exceed five percent of the total revenue generated by the operation of the market in any fiscal year
- A capital reserve account to be maintained by the Corporation, not to exceed five percent of the total revenue generated by the operation of the market in any fiscal year
- Payment to the City's general fund

There is no payment due to the City for the years ended June 30, 2017 and 2016 under this agreement.

NOTE D – ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Grants receivable:		
Amounts due in less than one year	\$ 840,170	\$ 1,109,122
Accounts receivable	434,872	190,598
Stalls and tokens receivable	11,671	12,121
	<u>\$ 1,286,713</u>	<u>\$ 1,311,841</u>

EASTERN MARKET CORPORATION
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AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE E - CONDITIONAL PROMISES TO RECEIVE

The Corporation periodically obtains conditional promises to receive from various foundations. These promises to receive are contingent upon meeting certain conditions stipulated by the donors. Therefore, such promises are not recorded in the consolidated financial statements as of June 30, 2017. These conditional promises to receive include the following:

Satisfactory progress in achieving objectives for the following programs:	
Economic development	<u>\$ 700,000</u>

NOTE F - LAND CONTRACT RECEIVABLE

The Corporation has entered into a land contract, dated November 23, 2011, under which the Corporation sold three storefronts and a parking lot to a third party. Under the terms of the land contract, no payments were due during the first six months, and monthly payments of interest only at a rate of four percent per annum were due during the next six months. Subsequently, monthly payments of \$667, including principal and interest at a rate of four percent per annum, are payable beginning December 16, 2012. The outstanding balance is due by December 16, 2021.

NOTE G – FIDUCIARY DEPOSITS PAYABLE

As part of the Corporation's mission to foster the production, processing, distribution, and sale of local food to help address food access for the poor and to stimulate entrepreneurial and professional skills through community-based programs, the Corporation serves as the fiduciary for several initiatives involving other local non-profit groups for which the Corporation has received funds specifically designated for those groups and efforts. This role of the Corporation has been undertaken due to the fact that, in some cases, these organizations have not yet received their determination letters from the IRS as tax-exempt organizations under IRC section 501(c)(3).

As of June 30, 2017 and 2016, the Corporation is serving in a fiduciary capacity for the Promotion of Food Sovereignty in Detroit program. The Corporation managed grant and other funding to aid Keep Growing Detroit's efforts to distribute garden resources, to host educational events, to support a garden cooperative, and to broaden the leadership of the community-based urban agricultural movement.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE G – FIDUCIARY DEPOSITS PAYABLE (CONTINUED)

Activity in fiduciary deposits payable for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 22,501	\$ 44,856
Funds received as fiduciary	168,750	71,250
Funds disbursed as fiduciary	<u>(172,500)</u>	<u>(93,605)</u>
Balance, End of Year	<u>\$ 18,751</u>	<u>\$ 22,501</u>

NOTE H - FUNCTIONAL EXPENSES

The expenses from continuing operations of the Corporation for the years ended June 30, 2017 and 2016 have been allocated to the following services based on management's estimates:

	<u>2017</u>	<u>2016</u>
Program services	\$ 4,205,729	\$ 4,770,141
Supporting services:		
Management and general	1,045,769	696,922
Fund raising	<u>399,963</u>	<u>325,760</u>
Total Expenses	<u>\$ 5,651,461</u>	<u>\$ 5,792,823</u>

Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different allocation.

NOTE I - NOTE PAYABLE

The Corporation has entered into a note payable to the Detroit Development Fund, effective April 12, 2013. Under the terms of the note, monthly payments of \$1,994, including principal and interest at a rate of five percent per annum, are payable. The outstanding balance is due by October 1, 2018.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE I - NOTE PAYABLE (CONTINUED)

Maturities of the note payable are as follows as of June 30, 2017:

For the Years Ending June 30:	
2018	\$ 23,923
2019	<u>7,408</u>
	<u><u>\$ 31,331</u></u>

NOTE J - LINES OF CREDIT

The Corporation obtained two lines of credit with one financial institution. On December 20, 2015, an operating line of credit with an interest rate of 3.434 percent over the London Inter-Bank Offering Rate ("LIBOR") was obtained. There was no outstanding balance on this line of credit as of June 30, 2017 or 2016.

On October 20, 2014, a construction line of credit for \$2,000,000 with interest payable at LIBOR was obtained. The effective interest rate was 3.25 percent per annum as of June 30, 2016. The outstanding balance on this line of credit is \$-0- and \$177,522 as of June 30, 2017 and 2016, respectively.

NOTE K - LEASES

The Corporation leases certain equipment and market space under operating lease agreements. Rental expense under these agreements was \$67,383 and \$51,531 for the years ended June 30, 2017 and 2016, respectively.

The following is a schedule, by year, of future minimum lease payments as of June 30, 2017:

For the Years Ending June 30:	
2018	\$ 51,708
2019	<u>8,580</u>
Total Minimum Lease Payments	<u><u>\$ 60,288</u></u>

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE L – RETIREMENT PLAN

The Corporation has a 401(k) defined contribution savings and retirement plan. All employees who have attained the age of 21 and who have greater than one year of service are eligible to participate in the plan. Employees must complete more than 500 hours of service or be employed on the last day of the plan year in order to be eligible to share in the allocation of the employer’s matching contribution for the plan year. The employer match vests after one year of service. The Corporation’s contributions to this plan totaled \$5,675 and \$7,537 for the years ended June 30, 2017 and 2016, respectively.

NOTE M – RELATED-PARTY TRANSACTIONS

The Corporation had an equity interest of 60 percent in Red Truck. The equity in Red Truck held by Community Growth Partnership, which totaled 40 percent, represents a noncontrolling interest in Red Truck. The Corporation also had an equity interest of 100 percent in GEM.

Changes in consolidated unrestricted net assets for the years ended June 30, 2017 and 2016, allocated between controlling and noncontrolling interests, are as follows:

	<u>Controlling Interest</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
Unrestricted net assets, July 1, 2015	\$ 7,576,269	\$ -0-	\$ 7,576,269
Changes for the year ended June 30, 2016:			
Excess (deficiency) of unrestricted revenue over expenses	180,661	(72,145)	108,516
Member contributions		43,141	43,141
	<u>7,756,930</u>	<u>(29,004)</u>	<u>7,727,926</u>
Unrestricted Net Assets, (Deficit), June 30, 2016	7,756,930	(29,004)	7,727,926
Changes for the year ended June 30, 2017:			
Excess of unrestricted revenue over expenses from continuing operations	254,523		254,523
Excess (deficiency) of revenue over expenses and losses from discontinued operations	(499,011)	(293,564)	(792,575)
Member contributions		6,880	6,880
Transfer of interest upon discontinuation of operations	(315,688)	315,688	-0-
	<u>(315,688)</u>	<u>315,688</u>	<u>-0-</u>
Unrestricted Net Assets, June 30, 2017	<u>\$ 7,196,754</u>	<u>\$ -0-</u>	<u>\$ 7,196,754</u>

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017 and 2016

NOTE N – DISCONTINUED OPERATIONS

Since Red Truck and GEM were dissolved as of June 30, 2017, Red Truck's and GEM's activities for the year ended June 30, 2017 are considered discontinued operations. Red Truck and GEM had no assets, liabilities, or net assets as of June 30, 2017.

Summarized activity for the discontinued operations for the year ended June 30, 2017 are as follows:

Revenue:	
Interest and other income	\$ 33,555
Total Revenue	<u>33,555</u>
Expenses and Losses:	
Salaries and benefits	62,088
Professional fees	84,453
Depreciation	41,940
Office and program expenses	53,518
Security and maintenance	9,319
Publications and marketing	8,614
Travel and conferences	159
Interest expense	1,080
Occupancy	2,680
Total Expenses	<u>263,851</u>
Loss on disposition of assets	<u>562,279</u>
Total Expenses and Losses	<u>826,130</u>
Excess (Deficiency) of Revenue over Expenses and Losses from Discontinued Operations	<u>\$ (792,575)</u>

NOTE O – CONTINGENCIES

In the normal course of operations, there may be outstanding contingent liabilities, such as lawsuits, which are not reflected in the accompanying consolidated financial statements. The Corporation's management is of the opinion that insurance coverage is adequate to handle any potential losses. No such liabilities have been asserted; therefore, no estimation of loss has been made.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

December 19, 2017

To the Board of Directors
Eastern Market Corporation

We have audited the consolidated financial statements of Eastern Market Corporation (a Michigan non-profit Corporation) and Subsidiaries as of June 30, 2017 and 2016, and for the years then ended, and our report thereon dated December 19, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the consolidating schedule of financial position and consolidating schedule of activities is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual companies, and it is not a required part of the consolidated financial statements. The consolidated schedules of public market operations are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

George Johnson & Company

CERTIFIED PUBLIC ACCOUNTANTS
Detroit, Michigan

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2017

	<u>Discontinued Operations</u>				<u>Consolidated</u>
	<u>Eastern Market Corporation</u>	<u>Red Truck Fresh Produce LLC</u>	<u>Grow Eastern Market, Inc.</u>	<u>Intercompany Eliminations</u>	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 1,548,137	\$ -0-	\$ -0-	\$ -0-	\$ 1,548,137
Accounts and other receivables (no allowance considered necessary)	1,286,713				1,286,713
Land contract receivable - current portion (no allowance considered necessary)	5,913				5,913
Inventory	26,142				26,142
Prepaid expenses	26,184				26,184
Total Current Assets	2,893,089	-0-	-0-	-0-	2,893,089
Fixed Assets:					
Leasehold improvements	11,585,804				11,585,804
Building	95,999				95,999
Furniture	8,023				8,023
Equipment and vehicles	788,563				788,563
Construction in progress	689,993				689,993
Software upgrades in process	78,126				78,126
	13,246,508	-0-	-0-	-0-	13,246,508
Less: Accumulated depreciation	(5,743,997)				(5,743,997)
Total Fixed Assets	7,502,511	-0-	-0-	-0-	7,502,511
Other Assets:					
Land contract receivable (net of current portion) (no allowance considered necessary)	107,892				107,892
Total Assets	\$ 10,503,492	\$ -0-	\$ -0-	\$ -0-	\$ 10,503,492

See notes to supplementary information.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)

June 30, 2017

	<u>Discontinued Operations</u>				<u>Consolidated</u>
	<u>Eastern Market Corporation</u>	<u>Red Truck Fresh Produce LLC</u>	<u>Grow Eastern Market, Inc.</u>	<u>Intercompany Eliminations</u>	
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	\$ 356,429	\$ -0-	\$ -0-	\$ -0-	\$ 356,429
Accrued payroll and related liabilities	38,825				38,825
Deferred lease revenue	242,044				242,044
Fiduciary deposits payable	18,751				18,751
Note payable - current portion	23,923				23,923
Total Current Liabilities	679,972	-0-	-0-	-0-	679,972
Long-Term Liabilities:					
Note payable (net of current portion)	7,408				7,408
Total Liabilities	687,380	-0-	-0-	-0-	687,380
Net Assets:					
Unrestricted:					
Undesignated	7,196,754				7,196,754
Temporarily restricted	2,619,358				2,619,358
Total Net Assets	9,816,112	-0-	-0-	-0-	9,816,112
Total Liabilities and Net Assets	\$ 10,503,492	\$ -0-	\$ -0-	\$ -0-	\$ 10,503,492

See notes to supplementary information.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended June 30, 2017

	<u>Discontinued Operations</u>				<u>Consolidated</u>
	<u>Eastern Market Corporation</u>	<u>Red Truck Fresh Produce LLC</u>	<u>Grow Eastern Market, Inc.</u>	<u>Intercompany Eliminations</u>	
Changes in Unrestricted Net Assets:					
Revenue:					
Lease revenue	\$ 1,416,836	\$ -0-	\$ -0-	\$ -0-	\$ 1,416,836
Grants and contributions	1,204,371		40,398	40,398	1,204,371
Interest and other income	361,349	38,505	6,648	11,598	394,904
Donated facilities and services	334,600				334,600
	<hr/>				
Total Unrestricted Revenue	3,317,156	38,505	47,046	51,996	3,350,711
Net assets released from restrictions	2,588,828				2,588,828
	<hr/>				
Total Unrestricted Revenue and Other Support	5,905,984	38,505	47,046	51,996	5,939,539
	<hr/>				
Expenses and losses:					
Salaries and benefits	2,177,058	54,955	7,133		2,239,146
Professional fees	915,734	51,584	32,869	51,996	948,191
Depreciation	829,370	41,940			871,310
Office and program expenses	905,805	49,249	4,269		959,323
Security and maintenance	527,381	9,248	71		536,700
Publications and marketing	251,485	8,000	614		260,099
Travel and conferences	49,757		159		49,916
Interest expense	20,899	554	526		21,979
Bad debt expense	10,368				10,368
Occupancy	15,600		2,680		18,280
	<hr/>				
Total Expenses	5,703,457	215,530	48,321	51,996	5,915,312
Loss on disposition of assets		556,884	5,395		562,279
	<hr/>				
Total Expenses and Losses	5,703,457	772,414	53,716	51,996	6,477,591
	<hr/>				
Excess (Deficiency) of Unrestricted Revenue over Expenses and Losses	\$ 202,527	\$ (733,909)	\$ (6,670)	\$ -0-	\$ (538,052)

See notes to supplementary information.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES (CONTINUED)

For the Year Ended June 30, 2017

	<u>Discontinued Operations</u>				<u>Consolidated</u>
	<u>Eastern Market Corporation</u>	<u>Red Truck Fresh Produce LLC</u>	<u>Grow Eastern Market, Inc.</u>	<u>Intercompany Eliminations</u>	
Changes in Unrestricted Net Assets (continued):					
Other changes in unrestricted net assets:					
Transfer of paid-in capital upon discontinuation of operations	\$ (914,709)	\$ 864,251	\$ 50,458	\$ -0-	\$ -0-
Transactions involving noncontrolling interest:					
Member contributions		6,880			6,880
Net Increase (Decrease) in Unrestricted Net Assets	(712,182)	137,222	43,788	-0-	(531,172)
Changes in Temporarily Restricted Net Assets:					
Grants and contributions	3,077,391				3,077,391
Net assets released from restrictions	(2,588,828)				(2,588,828)
Net Increase in Temporarily Restricted Net Assets	488,563	-0-	-0-	-0-	488,563
Net Increase (Decrease) in Net Assets	(223,619)	137,222	43,788	-0-	(42,609)
Net Assets (Deficit), Beginning of Year	10,039,731	(137,222)	(43,788)		9,858,721
Net Assets, End of Year	\$ 9,816,112	\$ -0-	\$ -0-	\$ -0-	\$ 9,816,112

See notes to supplementary information.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

CONSOLIDATED SCHEDULES OF PUBLIC MARKET OPERATIONS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Market Revenue	\$ 1,844,094	\$ 1,690,479
Expenditures:		
Salaries and benefits	1,567,482	1,577,202
Market improvements (see Note B on page 29)	795,561	942,075
Office expenses	352,811	329,386
Security and maintenance	289,198	265,997
Professional fees	319,462	301,622
Publications and marketing	184,094	59,473
Cost of goods sold and shrinkage	65,340	56,325
Total Expenditures	<u>3,573,948</u>	<u>3,532,080</u>
Excess (Deficiency) of Market Revenue over Expenditures	<u>(1,729,854)</u>	<u>(1,841,601)</u>
Reserve Accounts:		
Operating reserve (Note C)	-0-	-0-
Capital reserve (Note C)	-0-	-0-
Total Reserve Accounts	<u>-0-</u>	<u>-0-</u>
Balance Payable to City of Detroit General Fund	<u>\$ -0-</u>	<u>\$ -0-</u>

See notes to supplementary information.

EASTERN MARKET CORPORATION
(A Michigan Non-Profit Corporation)
AND SUBSIDIARIES

NOTES TO SUPPLEMENTARY INFORMATION

June 30, 2017 and 2016

NOTE A - PRINCIPLES OF CONSOLIDATION

The accompanying supplementary information includes the accounts of Eastern Market Corporation (the “Corporation”) and its subsidiaries. Eastern Market Development Corporation had no assets, liabilities, or net assets as of June 30, 2017, and had no revenue or expenses for the year ended June 30, 2017.

NOTE B - MARKET IMPROVEMENTS

Market improvement expenditures have been included by the Corporation in the accompanying consolidated schedules of public market operations, in accordance with the management and promotion agreement with the City of Detroit (the “City”), as alterations and improvements that have been approved by the City. Market improvement expenditures include approximately \$29,000 and \$700,000 in expenditures funded by foundation contributions during the years ended June 30, 2017 and 2016, respectively.