



Consolidated Financial Statements

For the Year Ended December 31, 2019

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Independent Auditor's Report

**To the Board of Trustees
Seattle Foundation
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Seattle Foundation and Affiliates (collectively, Seattle Foundation), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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 of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seattle Foundation as of December 31, 2019, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Seattle Foundation's 2018 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information consisting of agency contributions on page 4, the consolidating statement of financial position and the consolidating statement of activities on pages 28 and 29 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.

Clark Nuber P.S.

Certified Public Accountants
May 18, 2020

SEATTLE FOUNDATION

Consolidated Statement of Financial Position

December 31, 2019

(With Comparative Totals for 2018)

(In Thousands)

	2019	2018
Assets:		
Cash and cash equivalents	\$ 15,626	\$ 19,963
Accounts receivable and other assets	966	669
Pledges receivable, net	5,283	4,615
Bequests receivable	183	183
Beneficial interests held in trust	29,555	27,750
Investments	1,069,328	868,956
Real estate held for sale	2,178	2,878
Mission related investments	9,541	10,058
Fixed assets, net of accumulated depreciation	2,411	2,426
Total Assets	\$ 1,135,071	\$ 937,498
Liabilities and Net Assets		
Liabilities:		
Unconditional grants payable	\$ 10,502	\$ 8,548
Other liabilities	3,096	3,514
Funds held for others	52,083	44,899
Liability for life estate	335	402
Liability for charitable lead and remainder trusts	34,711	27,927
Liability for charitable gift annuities	2,578	2,720
Total Liabilities	103,305	88,010
Net Assets:		
Without donor restrictions-		
Community/area of interest	114,612	97,665
Donor advised	532,076	408,525
Designated	260,830	228,792
Supporting organizations	43,198	39,500
Administrative	9,128	9,353
Total net assets without donor restrictions	959,844	783,835
With donor restrictions-		
Donor restrictions for future periods or programs	59,118	53,467
Donor restrictions for perpetual trusts	12,804	12,186
Total net assets with donor restrictions	71,922	65,653
Total Net Assets	1,031,766	849,488
Total Liabilities and Net Assets	\$ 1,135,071	\$ 937,498

See accompanying notes.

SEATTLE FOUNDATION

Consolidated Statement of Activities

December 31, 2019

(With Comparative Totals for 2018)

(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating Activities				
Revenues and Support:				
Contributions and agency funds-				
Community/area of interest	\$ 11,077	\$ 21,122	\$ 32,199	\$ 34,709
Donor advised	118,056	7	118,063	74,381
Designated	5,854	3,645	9,499	7,812
Charitable trusts and beneficial interests	-	-	-	1,216
Supporting organizations	15,634	4,936	20,570	5,872
Agency	1,711	-	1,711	570
Administrative	231	750	981	369
	<u>152,563</u>	<u>30,460</u>	<u>183,023</u>	<u>124,929</u>
Less agency	<u>(1,711)</u>	<u>-</u>	<u>(1,711)</u>	<u>(570)</u>
Total contributions	150,852	30,460	181,312	124,359
Change in value of charitable gift annuities and trusts	4,087	3,970	8,057	(1,722)
Other income	1,555	-	1,555	1,759
Releases from restriction	28,254	(28,254)	-	-
	<u>184,748</u>	<u>6,176</u>	<u>190,924</u>	<u>124,396</u>
Total Revenues and Support				
Expenses:				
Grants-				
Community/area of interest	22,370	-	22,370	22,108
Donor advised	81,831	-	81,831	77,077
Designated	8,560	-	8,560	12,170
Supporting organizations	14,211	-	14,211	6,285
Agency	2,366	-	2,366	3,736
	<u>129,338</u>	<u>-</u>	<u>129,338</u>	<u>121,376</u>
Less agency	<u>(2,366)</u>	<u>-</u>	<u>(2,366)</u>	<u>(3,736)</u>
Total grants expense	126,972	-	126,972	117,640
Support expenses	29,050	-	29,050	23,514
	<u>156,022</u>	<u>-</u>	<u>156,022</u>	<u>141,154</u>
Total Expenses	156,022	-	156,022	141,154
Change in Net Assets from Operating Activities	28,726	6,176	34,902	(16,758)
Nonoperating Activities:				
Return on investments, net	147,283	93	147,376	(47,762)
	<u>176,009</u>	<u>6,269</u>	<u>182,278</u>	<u>(64,520)</u>
Total Change in Net Assets	176,009	6,269	182,278	(64,520)
Net assets, beginning of year	783,835	65,653	849,488	914,008
Net Assets, End of Year	\$ 959,844	\$ 71,922	\$ 1,031,766	\$ 849,488

See accompanying notes.

SEATTLE FOUNDATION

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)
(In Thousands)**

	Program	Management and General	Fundraising	2019 Total	2018 Total
Grant expense	\$ 126,972	\$ -	\$ -	\$ 126,972	\$ 117,640
Compensation	5,424	3,521	571	9,516	7,387
Employee benefits	963	625	101	1,689	1,442
Professional services	11,274	1,544	70	12,888	10,327
Facilities and utilities	656	426	69	1,151	1,062
Office expense	109	71	12	192	198
Information technology	318	206	33	557	516
Other expenses	1,765	1,141	151	3,057	2,582
Total Expenses	\$ 147,481	\$ 7,534	\$ 1,007	\$ 156,022	\$ 141,154
Total 2018 Expenses	\$ 134,231	\$ 5,732	\$ 1,191		\$ 141,154

The consolidated statement of functional expenses includes the expenses of all Seattle Foundation funds. Operating expenses for Seattle Foundation's administrative fund totaled \$11,571, which was 7.4% of total expenses in 2019.

Professional services consist of program and business consulting, legal fees, audit, tax, and advertising expenses.

SEATTLE FOUNDATION

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)
(In Thousands)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Cash received from-		
Contributions	\$ 167,265	\$ 120,932
Agency contributions	1,711	570
Investments	12,748	11,310
Other sources	1,258	1,447
Cash paid for-		
Grants	(124,118)	(114,275)
Agency grants	(2,366)	(3,736)
Compensation and benefits	(11,098)	(8,776)
Other operating expenses	(17,590)	(13,503)
Net Cash Provided by (Used in) Operating Activities	27,810	(6,031)
Cash Flows From Investing Activities:		
Purchase of fixed assets	(493)	(73)
Purchase of investments	(595,273)	(539,399)
Mission related investments funded	(32)	(380)
Repayments from mission related investments	356	1,509
Earnest money received for real estate held for sale	700	50
Proceeds from sale of investments	562,595	549,066
Net Cash (Used in) Provided By Investing Activities	(32,147)	10,773
Net Change in Cash and Cash Equivalents	(4,337)	4,742
Cash and cash equivalents, beginning of year	19,963	15,221
Cash and Cash Equivalents, End of Year	\$ 15,626	\$ 19,963
Supplementary Information:		
Noncash transactions-		
Contributions of investments	\$ 13,305	\$ -
Change in value of mission related investments	\$ 192	\$ -
Contributions of real estate held for sale	\$ -	\$ 750

See accompanying notes.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 1 - Description of Seattle Foundation

Seattle Foundation was established in 1946 as a public charity and is incorporated under the laws of the State of Washington. Seattle Foundation's mission is to ignite powerful, rewarding philanthropy to make Greater Seattle a stronger, more vibrant community for all. It accomplishes this purpose through contributions from individuals, corporations, and nonprofit agencies. These contributions support a wide range of organizations that promote educational, cultural, health, social, and civic development.

Our goal as a community foundation is to simplify giving and strengthen the impact of philanthropy for the more than 1,200 individuals, families, businesses, and nonprofits we serve. We provide deep community insights, powerful civic leadership, effective philanthropic advising, and judicious stewardship of assets in support of our mission.

In pursuit of its mission, Seattle Foundation launched The Center for Community Partnerships (the Center) in 2012 to further its goal of greater racial and economic equality and opportunity. Understanding that social problems are products of networks of cause and effect at a policy level, advancing systems change is the most effective way to achieve our mission of creating a stronger, more vibrant community for all.

The Center employs multiple strategies, including grantmaking, civic leadership, impact investing, research, technical assistance, and partnerships with residents at the grassroots level. These initiatives together create a holistic approach to community-engaged systems and policy change. Seattle Foundation also uses donor-contributed funds to support a wide range of community interests from arts and culture to health and wellness, and from economic and economic opportunity to basic human needs and climate change.

Seattle Foundation accepts gifts, bequests, contributions, and grants of property. These take a variety of forms including cash, stock, real estate, and other assets, and ensure Seattle Foundation is able to carry out its organizational purpose. Seattle Foundation generally does not administer programs of its own. Instead, it grants funds to a variety of charitable and nonprofit organizations to support their respective programs.

King County Accountable Community of Health, LLC, BDA as HealthierHere - During the year ended December 2017, Seattle Foundation became the sole member of the King County Accountable Community of Health, LLC, doing business as HealthierHere. HealthierHere is part of an initiative to transform health care in Washington State so that people experience better health during their lives, receive better care when they need it, and ensure that care is more affordable and accessible.

Supporting Organizations - The consolidated financial statements include the activities of seven supporting organizations active in 2019 for which Seattle Foundation performs accounting and administrative functions as well as appointing a majority of voting members to the Board of Directors for each organization. Each governing board may establish its own investment policy and grant guidelines. As the supporting organizations are effectively under Seattle Foundation's control and Seattle Foundation has an economic interest, their financial activities and balances are consolidated with Seattle Foundation for financial reporting purposes. The supporting organizations make grants to outside organizations.

During 2019, one of the supporting organizations dissolved, and its remaining net assets were contributed to Seattle Foundation. Additionally, one new supporting organization was formed during 2019.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 1 - Continued

Fund Types - Seattle Foundation has approximately 1,200 funds, organized over a variety of fund types. While the fund attributes may have one or more of the following: specified area of interest, annual spending limitation, donor restrictions, or may be associated with a donor who recommends grant distributions, all are subject to a legal variance power. Under this power, Seattle Foundation, in its sole discretion, has the right to withhold, withdraw, or demand the immediate return of any funds if, in Seattle Foundation's reasonable judgment, the provider is not in compliance with the reporting obligations or cannot use the funds for the intended purpose. The fund types are as follows:

Community - Funds for which donors have neither imposed any restrictions nor reserved any rights to make recommendations regarding distributions. Distributions from these funds are made at the discretion of the Board based on identified community needs, including the Healthy Community Framework elements of Health & Wellness, Basic Needs, Arts & Culture, Education, Environment, Global Giving, and Economic Opportunity.

Area of Interest - Funds designated by donors who want to focus grants toward a specific field of interest or specific geographic area but who do not want to take an active role in grant making. This type of fund allows the donor to identify and support a charitable purpose such as strong and connected neighborhoods, or a category of interest such as arts or a geographic area in the State of Washington.

Donor Advised - Donor advised funds allow donors to recommend grant recipients, aligned with their values and interests, subject to the Seattle Foundation's due diligence and approval. Seattle Foundation holds approximately 600 donor advised funds.

Designated - Funds designated by the donors for support of specific charitable organizations. A donor-advised fund allows donors to recommend grant making to any charitable organization, while a designated fund identifies a single organization that is supported through the donor's lifetime and beyond through the application of Seattle Foundation's spending policy, which determines the amount of the annual grant, and may be paid either annually, bi-annually or quarterly. If the beneficiary organization ceases to exist, loses its tax-exempt status or changes its mission, Seattle Foundation's variance power allows the monies to be re-directed to support an organization with a similar mission.

Administrative - Funds which are used to pay Seattle Foundation operating costs.

Agency - Funds received under the terms of agreements with certain qualified not-for-profit organizations that specify themselves as the ultimate beneficiary for the funds. Even though these funds are classified as agency funds (funds held for others), Seattle Foundation controls and manages Agency Fund assets.

Fiscal Sponsorships - In addition to the funds described above, Seattle Foundation is the fiscal sponsor of nine organizations. Each of the sponsored organizations are considered programs of Seattle Foundation, and contributions received for the sponsored organizations are recognized as donor-restricted contributions in the consolidated statement of activities.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements as of December 31, 2019, include the financial accounts of Seattle Foundation, its supporting organizations, and HealthierHere, (collectively, the Seattle Foundation). Inter-organization transactions and balances have been eliminated in the consolidation.

Basis of Presentation - The consolidated financial statements of Seattle Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Seattle Foundation has presented an unclassified consolidated statement of financial position which sequences assets according to their nearness of conversion to cash and sequences liabilities according to their nearness of their maturity or resulting use of cash.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash in bank accounts and highly liquid investments with maturities of three months or less at date of acquisition. Cash and cash equivalents on deposit with brokers or in investment pools are considered to be investments.

Pledges Receivable - Pledges receivable (unconditional promises to give) are stated at the amount management expects to receive. Management provides an allowance for probable uncollectible pledges through a charge to contribution revenue and a credit to the allowance account based on its assessment of each pledge. Pledges that are deemed uncollectible are written off through a charge to the allowance and a credit to pledges receivable. Pledges are recognized as revenues in the period the pledge is received. Pledges receivable over periods more than one year are recorded at present value, and amortization of discounts is included in contribution revenue.

Bequests Receivable - Bequests are recorded as contribution revenue when Seattle Foundation is notified of its beneficiary status, the bequest becomes irrevocable, and Seattle Foundation's interest can be estimated. If the value of Seattle Foundation's interest cannot be estimated, contribution revenue is recognized when distributions are received.

Charitable Trusts and Charitable Gift Annuities - Seattle Foundation has an irrevocable interest in a number of charitable trusts and charitable gift annuities whose maturities are based on the life expectancies of the income beneficiaries or on a specified period of time (Note 5).

Trusts and annuities for which Seattle Foundation is the trustee and a beneficiary are recorded at the fair value of the trust assets, which are included in investments on the consolidated statement of financial position. A corresponding liability for the net present value of future amounts to be paid to other trust beneficiaries is reported as a liability for charitable lead and remainder trusts, and liability for charitable gift annuities on the consolidated statement of financial position.

Trusts for which Seattle Foundation is not the trustee but in which Seattle Foundation has a beneficial interest are recorded at the net present value of expected future payments to be received as beneficial interests held in trust on the consolidated statement of financial position.

Investments - Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. Investments in securities traded on organized securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter markets are valued at the last reported bid price. Real estate investments are recorded at fair value determined by periodic appraisals which are obtained as deemed necessary based upon economic conditions and management's discretion with the assistance of third-party investment managers. The fair value of other investments, principally investments in hedge funds and private equities, for which quoted market prices are not available, are determined by management with the assistance of third-party investment managers using methods it considers appropriate. Securities are generally held in custodial investment accounts administered by certain financial institutions.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 2 - Continued

Investments are made according to the Investment Objectives and Policies adopted by Seattle Foundation's Board of Trustees. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate benchmarks and indices. Outside parties are contracted by Seattle Foundation to provide investment consulting.

Investment securities, in general, are exposed to various risks, including interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably probable that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

Real Estate Held for Sale - Seattle Foundation receives gifts in the form of real estate. Seattle Foundation generally liquidates the real estate as soon as practical after transfer of title to Seattle Foundation. Real estate held for sale is reported at the lower of Seattle Foundation's cost or fair value.

Mission Related (Impact) Investments - Seattle Foundation has made loans, loan guaranties, and equity investments for program purposes.

Impact loans are generally due over a period of one to ten years with stated annual interest rates of 1 to 6 percent. The loans are recorded at their net present value, and imputed interest is recognized over the term of the loans calculated using the simple-interest method on the outstanding principal balances. Outstanding loan balances totaled \$7,105 and \$8,207 at December 31, 2019 and 2018, respectively. Loans maturing within one year totaled \$3,128 at December 31, 2019. Loans maturing in two to five years totaled \$3,609, and those maturing in more than five years totaled \$278 at December 31, 2019. Management determined an allowance for uncollectible loans was not considered necessary at December 31, 2019 or 2018.

Impact equity investments are reported at the lower of cost or impaired value and totaled \$2,527 and \$1,851 at December 31, 2019 and 2018, respectively. Seattle Foundation has outstanding capital commitments for the impact equity investments totaling \$375 and \$1,393 at December 31, 2019 and 2018, respectively. Management has determined the value of the impact equity investments is not impaired at December 31, 2019 and 2018.

Fixed Assets Capitalization and Depreciation - Seattle Foundation capitalizes assets with a cost greater than \$5 and an estimated useful life of more than one year. Purchased fixed assets are recorded at cost and donated fixed assets are recorded at fair value on the date received. Other capitalized costs include software website development and certain intangibles.

Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the related assets or, for leasehold improvements, over the term of the lease as follows:

Technology, equipment and software	3 - 5 years
Leasehold improvements	10 years or remainder of lease term, whichever is shorter
Furniture and fixtures	3 - 10 years
Intangibles	5 - 10 years

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 2 - Continued

Funds Held for Others - In accordance with U.S. GAAP, when a not-for-profit organization, such as a community foundation, accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor, the community foundation must account for the transfer of such assets as if it is holding the funds as an agent of the donor. These funds, identified as agency funds, are included in Seattle Foundation's assets with an offsetting liability on the consolidated statement of financial position. The liability is valued at the fair value of the agency funds, estimated by Seattle Foundation. Activities related to the agency funds do not affect the change in net assets of Seattle Foundation.

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

Net Assets Without Donor Restrictions - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Net assets with donor restrictions include charitable remainder trusts, charitable lead trusts, pledges and bequests that will be collected in a future year, and the net assets of the LLC and sponsored programs. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation, such as perpetual trusts.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restriction.

Seattle Foundation's corporate bylaws and contribution documents grant Seattle Foundation variance power that in effect gives Seattle Foundation control over all grant disbursements. Consequently, all contributions are classified as net assets without donor restrictions if they are available to Seattle Foundation with no restriction as to when the funds are available for expenditure.

Contribution Revenue - Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on discounted cash flows. Contributions of assets other than cash are recorded at their estimated fair value on the date received. Contributed real estate is recorded at appraised or estimated fair value on the date received.

Conditional promises to give are recognized as revenue when the donor-imposed conditions upon which they depend have been substantially met. Conditional promises to give total approximately \$3,946 and \$1,500 at December 31, 2019 and 2018, respectively. Donor-imposed conditions are expected to be met, and revenue recognized, during the year ended December 31, 2020.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 2 - Continued

Administrative Revenue - Administrative revenue consists of administrative, sponsorship, event and various sublease fees. Revenue is recognized in the period the service is provided or the event occurs based on the terms of the related agreements. There are no accounts receivable for administrative revenue at December 31, 2019 or 2018.

Grants - Community, area of interest, agency and designated grants are approved by the Board of Trustees of Seattle Foundation in accordance with Seattle Foundation's bylaws and operating guidelines. The Board has delegated authority to certain Foundation senior staff members to approve donor advised fund grant recommendations consistent with Seattle Foundation's charitable purposes and policies. Grants are approved by the Board of Trustees of Seattle Foundation or supporting organizations under their respective bylaws and guidelines. Unconditional grants and distributions are recorded in the consolidated financial statements when approved and communicated to the grantee. Grants approved by the Board of Trustees that are payable upon the performance of specified conditions by the grantee are not reflected in grants payable in the consolidated financial statements until those conditions are satisfied. There were no conditional grants outstanding at December 31, 2019 and 2018.

In-Kind Contributions - Each year, volunteers give their time and expertise to Seattle Foundation in a wide variety of areas including grants, audit, investment, finance and other activities. These contributions, despite their considerable value to the mission of Seattle Foundation, are not reflected in the consolidated financial statements.

Concentration of Credit Risk - Investments in cash, mutual funds, and investments held in banks generally exceeded the available federally insured amounts during the years ended December 31, 2019 and 2018.

Approximately 28% and 14% of contribution revenue was received from two and one donors for the years ended December 31, 2019 and 2018, respectively. Approximately 73% and 72% of pledges receivable were from four and two donors at December 31, 2019 and 2018, respectively.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses - Expenses which apply to more than one functional category have been allocated among program and support expenses based on the time spent on these functions by specific employees as estimated by management. Indirect expenses such as facilities costs, information technology and general office supplies are allocated based on the overall number of staff in various functional categories used by functional departments. All other costs are charged directly to the appropriate functional category.

Income Taxes - Seattle Foundation and its supporting organizations qualify as tax-exempt organizations, under Section 501(c)(3) of the Internal Revenue Code, and are not subject to federal or state income taxes, except on unrelated business income. In addition, Seattle Foundation and its supporting organizations qualify for the charitable contribution deduction under Section 170(b)(a)(A) of the Internal Revenue Code and have been classified as organizations that are not private foundations as defined in Section 509(a) of the Code. Seattle Foundation is subject to federal income tax only on "unrelated business taxable income" as defined in Section 512 of the Code. Unrelated business income tax, if any, is immaterial and no tax provision has been made in the accompanying consolidated financial statements. King County Accountable Community of Health, LLC (Note 1) is wholly owned by Seattle Foundation and is a disregarded entity for tax purposes.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 2 - Continued

Adoption of New Accounting Pronouncements - During the year ended December 31, 2019, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08 - Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. Seattle Foundation has elected to adopt the changes from this ASU for contributions received prospectively starting in 2019, and accordingly, no changes have been made to balances reported in the 2018 financial statements. Seattle Foundation will adopt the changes from this ASU for grants awarded to other organizations prospectively in 2020.

During the year ended December 31, 2019, Seattle Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These ASUs apply to Seattle Foundation's administrative revenue; however, application of the new ASUs did not result in changes to the revenue recognition methods used by Seattle Foundation.

Financial Statement Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances as previously reported.

Comparative Amounts for 2018 - The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Seattle Foundation's consolidated financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Note 3 - Investments and Fair Value Measurements

Seattle Foundation records investments in accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 investments include marketable securities and exchange traded funds that are carried at fair value based on observable quoted market prices in active markets and mutual funds that are valued based on the net asset value per share computed by the fund manager and validated by a sufficient level of observable activity. Cash and money market funds are reported at cost plus accrued interest, which approximates fair value.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 3 - Continued

Level 2 investments include cash equivalents in funds with limited liquidity, and domestic bonds, including U.S. Treasury securities, that are valued using matrix pricing or market corroborated pricing inputs such as yield curves and indices.

Level 3 investments include beneficial interests in nontrusted charitable trusts valued at Seattle Foundation's proportional share of the underlying assets held by the trusts. Direct investments in nonmarketable notes and insurance policies are valued based on estimates of similar assets.

Level 3 liabilities consist of funds held for others valued at each fund's proportionate share of Seattle Foundation's investment portfolio, which is valued as described above.

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Seattle Foundation considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment only and should not be considered analogous to risk.

Nonmarketable securities are valued at net asset value (NAV) per share, or its equivalent, as a practical expedient, as reported by the investment manager unless specific evidence indicates the NAV should be adjusted.

The valuation methodologies used by Seattle Foundation may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Seattle Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019
(In Thousands)

Note 3 - Continued

Fair values of Seattle Foundation's investments and liabilities measured on a recurring basis are as follows at December 31, 2019:

	In Thousands			Total
	Level 1	Level 2	Level 3	
Investments at Fair Value:				
Cash and money market funds	\$ 98,355	\$ 1,090	\$ -	\$ 99,445
Domestic equities	304,903	1	-	304,904
International equities	104,315	-	-	104,315
Domestic fixed income	148,630	14,024	-	162,654
International fixed income	1,288	-	-	1,288
Real estate funds	1,758	-	-	1,758
Real return funds	2,348	-	-	2,348
Hedged strategies	1,771	-	-	1,771
Other assets	-	-	514	514
	<u>663,368</u>	<u>15,115</u>	<u>514</u>	<u>678,997</u>
Beneficial interests held in trust	<u>-</u>	<u>-</u>	<u>29,555</u>	<u>29,555</u>
Total Investments in the Fair Value Hierarchy	<u>\$ 663,368</u>	<u>\$ 15,115</u>	<u>\$ 30,069</u>	708,552
Investments measured at NAV				<u>390,331</u>
Total Investments				<u>\$ 1,098,883</u>
Liabilities at Fair Value:				
Funds held for others	\$ -	\$ -	\$ 52,083	\$ 52,083
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,083</u>	<u>\$ 52,083</u>

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019
(In Thousands)

Note 3 - Continued

Fair values of Seattle Foundation's investments and liabilities measured on a recurring basis are as follows at December 31, 2018:

	In Thousands			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value:				
Cash and money market funds	\$ 64,289	\$ 1,429	\$ -	\$ 65,718
Domestic equities	239,675	-	-	239,675
International equities	87,727	-	-	87,727
Domestic fixed income	122,448	8,851	-	131,299
International fixed income	2,884	-	-	2,884
Real estate funds	2,893	-	-	2,893
Real return funds	1,768	-	-	1,768
Real estate notes receivable	3,265	-	-	3,265
Other assets	-	-	992	992
	524,949	10,280	992	536,221
Beneficial interests held in trust	-	-	27,750	27,750
Total Investments in the Fair Value Hierarchy	\$ 524,949	\$ 10,280	\$ 28,742	563,971
Investments measured at NAV				332,735
Total Investments				\$ 896,706
Liabilities at Fair Value:				
Funds held for others	\$ -	\$ -	\$ 44,899	\$ 44,899
Total Liabilities at Fair Value	\$ -	\$ -	\$ 44,899	\$ 44,899

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019
(In Thousands)

Note 3 - Continued

A reconciliation of the beginning and ending balances, by each major category of assets, for fair value measurements made using significant unobservable inputs (Level 3) is as follows for the years ended December 31:

	In Thousands			
	Investments	Beneficial Interests Held in Trust	Total 2019 Assets at Fair Value	Total 2018 Assets at Fair Value
Beginning balance	\$ 992	\$ 27,750	\$ 28,742	\$ 29,776
Investment return, net	62	4,140	4,202	(714)
Write-off of asset	(500)	-	(500)	-
Purchases and receipts	-	-	-	1,216
Sales and distributions	(40)	(2,335)	(2,375)	(1,536)
Ending Balance	\$ 514	\$ 29,555	\$ 30,069	\$ 28,742

A reconciliation of the beginning and ending balances, by each major category of liability, for fair value measurements made using significant unobservable inputs (Level 3) is as follows for the years ended December 31:

	In Thousands	
	2019 Funds Held for Others	2018 Funds Held for Others
Beginning balance	\$ (44,899)	\$ (51,547)
Investment return, net	(8,467)	2,881
Purchases and receipts	(1,711)	(570)
Sales and distributions	2,994	4,337
Ending Balance	\$ (52,083)	\$ (44,899)

SEATTLE FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019
(In Thousands)**

Note 3 - Continued

The table below summarizes significant terms of the agreements with certain investment companies. There are no significant redemption restrictions or unfunded commitments on other types of investments.

Asset Class	Fair Value (in Millions)	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedged Strategies	\$91.8M	No limit.	None	Redemption terms are quarterly with notification periods ranging from 45 to 180 days.	Lockup provisions range from none to 12 months.
Private Equity	\$35.5M	Ranging from 1 to 11 years.	\$8.4M	Closed end funds not eligible for redemption.	Not redeemable.
Real Estate	\$9.8M	Closed end funds range from 1 to 11 years.	\$8.5M	Closed end funds not eligible for redemption.	Not redeemable.
Real Return Funds	\$20.5M	Ranging from 6 to 12 years.	\$14.4M	Closed end funds not eligible for redemption.	Not redeemable.
International Equity	\$104.4M	No limit.	None	No restrictions.	None
Select Strategies	\$91.0M	No limit.	None	Monthly and Quarterly with 45 to 180 days' notice.	Lockup provisions range from none to 35 months.
Domestic Equity	\$20.4M	No limit.	None	No restrictions.	None
International Fixed Income	\$16.9M	No limit.	None	Twice a month with 5 days' notice.	None
Total	\$390.3M		\$31.3M		

Hedged Strategies - Managers in this category utilize long/short equity and credit strategies in pursuit of investment returns. Investments may be made directly to the managers' funds or to a fund of funds vehicle.

Private Equity - Includes closed end funds that make direct investments in venture capital and buy-out managers. The funds have a predetermined lifespan and redemptions during the life of the fund are not allowed.

Real Estate (Closed End Funds) - Closed end funds that invest in the equity and/or debt of real estate properties, have predetermined lifespans and redemptions during the life of the funds are not allowed.

Real Return Funds - Includes investments in commingled trusts that, in turn, provide exposure to Treasury Inflation Protected Securities (TIPS), commodities, natural resources and other inflation hedging strategies. Strategies may also include closed end funds that make direct investments in natural resource investments.

International Equity - Includes a fund that invests in public equity markets.

Select Strategies - Includes strategies that have the ability to invest anywhere in the world, primarily within the public equity market. These strategies may also short positions when necessary.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 3 - Continued

Domestic Equity - Includes a fund that invests in public equity markets.

International Fixed Income - Includes governments outside the U.S., including developed and developing countries.

Note 4 - Pledges Receivable

Pledges receivable are expected to be received as follows at December 31:

	In Thousands	
	2019	2018
Due within one year	\$ 4,658	\$ 3,164
Due within two to five years	640	1,500
Pledges receivable, gross	5,298	4,664
Less discount to present value (2.8%)	(15)	(49)
Pledges Receivable, Net	\$ 5,283	\$ 4,615

Note 5 - Charitable Trusts and Charitable Gift Annuities

Charitable trusts and charitable gift annuities are recorded as follows:

Charitable Gift Annuities - Under its Charitable Gift Annuity (CGA) program, Seattle Foundation receives contributions from donors pursuant to written agreements that stipulate periodic payments will be made to specified beneficiaries. Upon the death of the beneficiaries, the related periodic payments cease and the related remaining funds, decreased by payments to other beneficiaries if stipulated, become available for use by Seattle Foundation.

The present value of the periodic payments is actuarially determined at year end based on mortality and discount rate assumptions that meet or exceed those set forth under Washington state law as applicable to issues of charitable gift annuities. Distributions are expected to be made from investment earnings and a portion of the original contributions; however, if for some reason insufficient principal remains, Seattle Foundation is responsible to continue the periodic payments.

Upon receipt of a CGA contribution, Seattle Foundation records the fair value of the assets received and the net present value of the actuarially determined liability. The portion of the actuarially determined residuum payable to Seattle Foundation is recorded as a contribution.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 5 - Continued

Investment income and changes in the estimated liability are recognized in the consolidated statement of activities. As of December 31, 2019, Seattle Foundation had 32 active CGAs. Underlying investments were valued at \$3,184 and \$2,592 at December 31, 2019 and 2018, respectively. The corresponding liability for payments to other beneficiaries was determined to be \$2,578 and \$2,720 at December 31, 2019 and 2018, respectively. It is Seattle Foundation's policy to maintain assets equal to reserves on outstanding agreements and a surplus of 10 percent of such reserves, under Washington state law.

Charitable Remainder Trusts - Under Seattle Foundation's Charitable Remainder Trust (CRT) program, a donor establishes and funds a trust with specified distributions to be made to the donor and/or other beneficiaries over the trust's term. Seattle Foundation will receive the amounts remaining in a CRT at the end of the trust's stated term.

Charitable Lead Trusts - Under Seattle Foundation's Charitable Lead Trust (CLT) program, a donor establishes and funds a trust with specified distributions to be made to Seattle Foundation. At the termination of the trust, the amount remaining in the CLT reverts to the donor and/or other beneficiaries.

Upon formation of an irrevocable CRT or CLT when Seattle Foundation is the trustee, the fair value of the assets received is recorded as an investment, and the net present value of Seattle Foundation's actuarially determined charitable interest is recorded as contribution revenue. The difference is recorded as a liability. Subsequent changes in the fair value of the assets and changes in the estimated liability are recognized in the consolidated statement of activities. Included in investments are CRTs and CLTs with a fair value of \$53,862 and \$44,739, at December 31, 2019 and 2018, respectively. The corresponding liability totaled \$34,711 and \$27,927 at December 31, 2019 and 2018, respectively.

When Seattle Foundation has irrevocable rights to a CRT or CLT, but Seattle Foundation is not the trustee and does not hold the assets, Seattle Foundation's interest in the trust assets and specified future distributions is recorded as a beneficial interest held in trust, valued using actuarial assumptions. The change in value of Seattle Foundation's beneficial interest during the year is recorded as a component of change in value of charitable gift annuities and trusts. At December 31, 2019, beneficial interests in CRTs and CLTs totaled \$11,238 and \$4,241, respectively. At December 31, 2018, beneficial interests in CRTs and CLTs totaled \$10,171 and \$4,295, respectively.

Perpetual Trusts - Seattle Foundation is a named income beneficiary on various perpetual trusts for which Seattle Foundation does not serve as trustee. Under these arrangements, Seattle Foundation is to receive all income earned on its share of the underlying assets held in perpetuity. Contribution revenue and the related asset are recognized at fair value in the period in which Seattle Foundation receives notice that the trust agreement conveys an unconditional, irrevocable right to receive benefits. Subsequent changes in the value of the underlying assets are recorded in the accompanying consolidated statement of activities as a component of change in value of charitable gift annuities and trusts. At December 31, 2019 and 2018, beneficial interests in perpetual trusts totaled \$14,076 and \$13,284, respectively. Included in these amounts is a perpetual trust held for others which totaled \$1,272 and \$1,097 at December 31, 2019 and 2018, respectively.

The assets held in charitable gift annuities and charitable trusts, for which Seattle Foundation is the trustee, are recorded at fair value using the same valuation method as Seattle Foundation's investments. Beneficial interest held in trusts, for which Seattle Foundation is not the trustee, is based on estimates provided by third party trustees.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 6 - Fixed Assets

Fixed assets consist of the following at December 31:

	In Thousands	
	2019	2018
Technology, equipment and software	\$ 1,988	\$ 1,987
Leasehold improvements	2,189	1,990
Furniture and fixtures	1,182	889
Intangible assets	196	196
Fixed assets, gross	5,555	5,062
Less accumulated depreciation	(3,144)	(2,636)
Fixed Assets, Net	\$ 2,411	\$ 2,426

Depreciation expense totaled \$508 and \$517 for the years ended December 31, 2019 and 2018, respectively.

Note 7 - Unconditional Grants Payable

Unconditional grants payable are scheduled to be disbursed as follows at December 31:

	In Thousands	
	2019	2018
Due within one year	\$ 7,829	\$ 7,775
Due within two to five years	2,541	534
Thereafter	132	239
Total Unconditional Grants Payable	\$ 10,502	\$ 8,548

The discount for present value was immaterial at December 31, 2019 and 2018.

Note 8 - Net Assets Without Donor Restrictions

As described in Notes 1 and 2, Seattle Foundation has legal variance power over its approximately 1,200 funds; therefore, the funds are classified as net assets without donor restrictions. Funds to be held in perpetuity are classified as donor-established endowment funds within the net assets without donor restrictions classification (Note 10). The Board of Trustees of Seattle Foundation has also designated a fund to operate as an endowment, which is classified as a quasi-endowment within the net assets without donor restrictions classification (Note 10). The quasi-endowment was designated by the Board of Trustees with the intent of maintaining the corpus in perpetuity by utilizing established spending policies.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 9 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for future periods or for specific programs. They consist of the following at December 31:

	In Thousands	
	2019	2018
Subject to expenditure for specific purpose-		
Fiscal sponsorship and LLC	\$ 16,924	\$ 16,888
Supporting organizations	1,469	302
Subject to the passage of time and expenditure for specific purpose	630	400
Subject to the passage of time-		
Charitable remainder and lead trusts	34,629	31,278
Pledges receivable	5,283	4,415
Bequests receivable	183	183
Perpetual trusts	12,804	12,187
Total Net Assets with Donor Restrictions	\$ 71,922	\$ 65,653

Note 10 - Endowments

Seattle Foundation's endowments consist of funds established for a variety of purposes. Its endowments include both donor-established endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments) as described in Note 8. Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. However, because of Seattle Foundation's variance power as described in Notes 1 and 2, all endowments are classified as net assets without donor restrictions.

Interpretation of Relevant Law - The Board has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for Seattle Foundation to track the fair value of the original gift as of the gift date of the donor-established endowment funds absent explicit donor stipulations to the contrary.

Seattle Foundation's organizing documents set forth the power to modify any restrictions or conditions on distributions from funds if, in Seattle Foundation's judgment, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area being served. Because of this variance power, Seattle Foundation classifies as net assets without donor restrictions (a) the original value of gifts donated to the perpetual endowment, and (b) the original value of subsequent gifts to the perpetual endowment.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 10 - Continued

Endowment net asset composition by type of fund is as follows at December 31:

	In Thousands	
	2019	2018
Donor established endowment funds	\$ 160,665	\$ 124,524
Board designated quasi-endowment funds	230,619	203,968
Endowment Net Assets	\$ 391,284	\$ 328,492

Changes to endowment net assets are as follows for the years ended December 31:

	In Thousands	
	2019	2018
Endowment net assets, beginning of year	\$ 328,492	\$ 360,443
Endowment investment return, net	61,638	(21,700)
Contributions	18,603	10,761
Net transfer from endowments	(17,449)	(21,012)
Endowment Net Assets, End of Year	\$ 391,284	\$ 328,492

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor-established endowment funds may fall below the level that the donor or PMIFA requires Seattle Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in seven donor-established endowment funds, which together had an original gift value of \$864, a current fair value of \$699 and a deficiency of \$165 at December 31, 2019. Deficiencies of this nature existed in twenty-six donor-established endowment funds, which together had an original gift value of \$15,952, a current fair value of \$15,314, and a deficiency of \$638 at December 31, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-established endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters - Seattle 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-established funds that Seattle Foundation has been instructed to hold in perpetuity or for donor-specified periods and board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that, over time, will provide a real rate of return equal to the spending rate while assuming a reasonable level of investment risk. Seattle Foundation expects its endowment funds, over time, to provide an average real rate of return of approximately 4.5 percent annually plus an assumed 3.0 percent inflation rate. While actual returns may vary, the targeted nominal rate of return is approximately 7.5 percent.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 10 - Continued

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, Seattle 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). Seattle 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 - Seattle Foundation has a general policy of appropriating for distribution each year 4.5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, Seattle Foundation considered the long-term expected return on its endowment. Over the long term, Seattle Foundation expects the spending policy to allow its endowment to grow at a rate equal to inflation. This follows Seattle Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity.

Note 11 - Retirement Plans

Seattle Foundation maintains a defined contribution retirement plan that complies with Code Section 403(b). All regular employees are eligible to participate in the retirement plan immediately upon commencing employment. Although employee contributions can be made to the plan immediately, an employee is not eligible to receive matching contributions from Seattle Foundation until completion of the orientation period, which is currently 90 days.

Seattle Foundation matches employee contributions based on years of service as follows:

<u>Years of Service</u>	<u>Matching Percentage</u>
0 - 4 years	5.0%
5 - 9 years	7.5%
10 or more	10.0%

Total matching expense was \$374 and \$267 for the years ended December 31, 2019 and 2018, respectively. All contributions under the plan vest with employees when contributions are made.

Note 12 - Commitments

Revolving Line of Credit - Seattle Foundation entered into a line of credit agreement on November 10, 2014, which provides for borrowings of up to \$10 million and bears interest equal to the LIBOR rate plus 0.90%; however, in no event can the interest rate charged exceed the highest rate permitted by applicable state or federal law or be less than 0.90% per annum. The covenants require Seattle Foundation to maintain collateral of at least \$50 million in assets at an account established with the creditor. The credit agreement also contains various other customary restrictive covenants. Seattle Foundation has complied with all covenants and there was no outstanding balance owed on the line at December 31, 2019 and 2018.

SEATTLE FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2019
(In Thousands)**

Note 12 - Continued

Leases - Operations of Seattle Foundation are conducted in leased office space in Seattle, Washington. The current lease commenced in November 2016 and expires in February 2027. Seattle Foundation may extend the initial term of the lease for two successive periods of five years. The Seattle Foundation has also entered into leased office agreements for one of its fiscal sponsorships and one of its supporting organizations. These leases expire in November 2022 and May 2023. The office leases include escalating base rent plus a proportionate share of the actual operating costs of the building as specified in the lease agreement. Rent expense for these leases was \$1,003 and \$966 for the years ended December 31, 2019 and 2018, respectively.

Seattle Foundation also leases copier equipment. Future minimum lease payments under all noncancelable leases for existing office space and equipment are:

For the Year Ending December 31,	In Thousands		
	Office Space	Equipment Leases	Total
2020	\$ 994	\$ 18	\$ 1,012
2021	1,019	9	1,028
2022	1,027	9	1,036
2023	878	2	880
2024	834	-	834
Thereafter	1,869	-	1,869
Total Future Lease Payments	\$ 6,621	\$ 38	\$ 6,659

The lease also allows for Seattle Foundation to sublease space in the Westlake Tower for community partners, aligned with Seattle Foundation's mission. As of December 31, 2019, Seattle Foundation had sublease agreements with Global Washington, Seattle International Foundation and an individual. The subleases have terms that extend through 2021 with total annual sublease payments ranging from \$160 to \$179.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 13 - Liquidity and Availability

Seattle Foundation's financial assets available within one year of the consolidated statement of financial position date to meet general expenditures include the following as of December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 15,626	\$ 19,963
Accounts receivable and other assets	966	669
Pledges receivable, net	5,283	4,615
Investments	<u>1,069,328</u>	<u>868,956</u>
Total financial assets	1,091,203	894,203
Less financial assets unavailable for general expenditures due to designations-		
Donor-established endowment funds	(160,665)	(124,524)
Board designated quasi-endowment funds	(230,619)	(203,968)
Less investments classified as Level 3	(514)	(992)
Less investments measured at NAV	(390,331)	(332,735)
Less investments for charitable gift annuities	(3,184)	(2,592)
Less prepaid expenses included in other assets	(492)	(298)
Less pledges receivable due in more than one year	<u>(625)</u>	<u>(1,451)</u>
Financial assets unavailable for general expenditures	<u>(786,430)</u>	<u>(666,560)</u>
Available Financial Assets, Net	<u>\$ 304,773</u>	<u>\$ 227,643</u>

Seattle Foundation endeavors to structure its financial assets to be available and liquid as its general expenditures, liabilities and other obligations become due. In addition to the available financial assets listed above, Seattle Foundation has a line of credit totaling \$10 million which can be drawn upon in the event of immediate liquidity needs. There are also other components of Seattle Foundation's investments that may be available and liquid within one year. These components include certain portions of marketable alternative investments reflected above as investment measured at NAV. Had it been necessary to generate liquid funds from these alternative investments to meet short-term needs on December 31, 2019, management estimates it could have liquidated approximately \$311 million (unaudited).

The assets of the funds held for others and the charitable lead and remainder trusts for which Seattle Foundation is trustee are co-mingled in the investment portfolio. Investments held at NAV, which contains portions of these assets, are deducted from available financial assets in the table above. Therefore, the assets obligated to the funds held for others and the charitable lead and remainder trusts are not reflected in the table above. These obligations totaled \$86,794 and \$72,826 at December 31, 2019 and 2018, respectively.

The table above reflects Seattle Foundation's consolidated financial assets. While most Seattle Foundation funds are subject to its variance power, the majority of these funds have specific mandates identified by the donors, which Seattle Foundation honors. In stewarding these assets Seattle Foundation invests the assets with the objective of meeting donors' intent as well as their grantmaking time horizons.

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended December 31, 2019 (In Thousands)

Note 13 - Continued

Seattle Foundation's Administrative Fund, which covers its operating costs, represents approximately 1% of the Seattle Foundation's consolidated net assets, and are accounted separately from dollars awarded through grants made from funds such as Donor Advised Funds or endowments managed for others. These operating costs, including programmatic and community support activities, are funded largely through operating revenue derived from fees assessed on Assets Under Management.

Seattle Foundation closely monitors an operating revenue and expense budget in order to preserve resources to ensure that it can meet its donors' needs in grantmaking and programmatic activities, thereby furthering the mission of the organization.

For the years 2019, and 2018 the Administrative Fund (excluding the CGA surplus reserve) had expenses of \$11,490 and \$10,020, respectively, which was offset by funding of \$11,491 and \$11,434 respectively, for a surplus from operating activities of \$1 and \$1,414, respectively.

Note 14 - Subsequent Events

Seattle Foundation has evaluated subsequent events with respect to the consolidated financial statements for the year ended December 31, 2019 through May 18, 2020, the date the consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements, nor have any events occurred, the nature of which would require disclosure, except as discussed below.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. Subsequent to year-end, the World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak has caused business disruption through mandated and voluntary closings of multiple businesses. As a result, the Seattle Foundation office has been temporarily closed, with staff successfully working remotely without disruption. While the situation is expected to be temporary, the extent of the impact of COVID-19 on Seattle Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the effect on Seattle Foundation's customers, employees and vendors, none of which can be predicted. The extent to which COVID-19 may impact Seattle Foundation's financial condition or results of operations is uncertain at this time. Management continues to monitor events and conditions as they unfold and have established strategies to respond accordingly.

In response to COVID-19, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 30, 2020, Seattle Foundation obtained a loan under the PPP with a principal balance of \$1,069 and an annual interest rate of 1%. Principal and interest are payable in monthly installments beginning November 30, 2020 through maturity on April 30, 2022. All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met.

SUPPLEMENTARY INFORMATION

SEATTLE FOUNDATION

**Consolidating Statement of Financial Position
December 31, 2019
(In Thousands)**

	Seattle Foundation	Supporting Organizations	Eliminations	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 14,712	\$ 914	\$ -	\$ 15,626
Accounts receivable and other assets	841	125	-	966
Pledges receivable, net	5,233	50	-	5,283
Bequests receivable	183	-	-	183
Beneficial interests held in trust	29,555	-	-	29,555
Investments	1,028,609	40,719	-	1,069,328
Real estate held for sale	-	2,178	-	2,178
Mission related investments	7,041	2,500	-	9,541
Fixed assets, net of accumulated depreciation	1,960	451	-	2,411
Total Assets	\$ 1,088,134	\$ 46,937	\$ -	\$ 1,135,071
Liabilities and Net Assets				
Liabilities:				
Unconditional grants payable	\$ 8,949	\$ 1,553	\$ -	\$ 10,502
Other liabilities	2,764	332	-	3,096
Funds held for others	52,083	-	-	52,083
Liability for life estate	-	335	-	335
Liability for charitable lead and remainder trusts	34,711	-	-	34,711
Liability for charitable gift annuities	2,578	-	-	2,578
Total Liabilities	101,085	2,220	-	103,305
Net Assets:				
Without donor restrictions-				
Community/area of interest	114,612	-	-	114,612
Donor advised	532,076	-	-	532,076
Designated	260,830	-	-	260,830
Supporting organizations	-	43,198	-	43,198
Administrative	9,128	-	-	9,128
Total net assets without donor restrictions	916,646	43,198	-	959,844
With donor restrictions-				
Donor restrictions for future periods or programs	57,599	1,519	-	59,118
Donor restrictions for perpetual trusts	12,804	-	-	12,804
Total net assets with donor restrictions	70,403	1,519	-	71,922
Total Net Assets	987,049	44,717	-	1,031,766
Total Liabilities and Net Assets	\$ 1,088,134	\$ 46,937	\$ -	\$ 1,135,071

See independent auditor's report.

SEATTLE FOUNDATION

Consolidating Statement of Activities
For the Year Ended December 31, 2019
(In Thousands)

	Seattle Foundation	Supporting Organizations	Eliminations	Consolidated Total
Operating Activities				
Without Donor Restrictions				
Revenues and Support:				
Contributions and agency funds	\$ 151,052	\$ 20,528	\$ (19,017)	\$ 152,563
Less agency	(1,711)	-	-	(1,711)
Total contributions	149,341	20,528	(19,017)	150,852
Change in value of charitable gift annuities and trusts	4,087	-	-	4,087
Other income	1,420	4,549	(4,414)	1,555
Transfers within	80	(80)	-	-
Releases	27,806	448	-	28,254
Total Revenues and Support	182,734	25,445	(23,431)	184,748
Expenses:				
Grants	128,412	17,577	(19,017)	126,972
Support expenses	24,617	8,847	(4,414)	29,050
Total Expenses	153,029	26,424	(23,431)	156,022
Change in Net Assets Without Donor Restrictions	29,705	(979)	-	28,726
Net Assets With Donor Restrictions				
Revenues and Support:				
Contributions	30,355	105	-	30,460
Change in value of charitable gift annuities and trusts	3,970	-	-	3,970
Net assets released from restriction	(27,806)	(448)	-	(28,254)
Change in Net Assets With Donor Restrictions	6,519	(343)	-	6,176
Change in Net Assets from Operating Activities	36,224	(1,322)	-	34,902
Nonoperating Activities:				
Return on investments, net	141,821	5,555	-	147,376
Total Change in Net Assets	178,045	4,233	-	182,278
Net assets, beginning of year	809,004	40,484	-	849,488
Net Assets, End of Year	\$ 987,049	\$ 44,717	\$ -	\$ 1,031,766

See independent auditor's report.