



Consolidated Financial Statements

For the Year Ended December 31, 2018

## Table of Contents

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	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Consolidated Financial Statements:</b>	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 26
<b>Supplementary Information:</b>	
Consolidating Statement of Financial Position	27
Consolidating Statement of Activities	28

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of Seattle Foundation (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2018, 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](http://clarknuber.com)

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018, 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.

## **Effect of Adopting New Accounting Standard**

As discussed in Note 2, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2017 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 and GiveBig contributions on page 4, the consolidating statement of financial position and the consolidating statement of activities on pages 27 and 28 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 13, 2019

**SEATTLE FOUNDATION**  
**Consolidated Statement of Financial Position**  
**December 31, 2018**  
**(With Comparative Totals for 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 19,963	\$ 15,221
Accounts receivable and other assets	669	357
Pledges receivable, net	4,615	1,232
Bequests receivable	183	183
Beneficial interests held in trust	27,750	28,316
Investments	868,956	944,290
Real estate held for sale	2,878	2,928
Mission related investments	10,058	10,762
Fixed assets, net of accumulated depreciation	<u>2,426</u>	<u>2,870</u>
<b>Total Assets</b>	<b><u>\$ 937,498</u></b>	<b><u>\$ 1,006,159</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Unconditional grants payable	\$ 8,548	\$ 5,183
Other liabilities	3,514	2,871
Funds held for others	44,899	51,547
Liability for life estate	402	469
Liability for charitable lead and remainder trusts	27,927	29,608
Liability for charitable gift annuities	<u>2,720</u>	<u>2,473</u>
<b>Total Liabilities</b>	<b>88,010</b>	<b>92,151</b>
<b>Net Assets:</b>		
Without donor restrictions-		
Community/area of interest	97,665	110,925
Donor advised	408,525	439,639
Designated	228,792	249,366
Supporting organizations	39,500	46,305
Administrative	<u>9,353</u>	<u>7,829</u>
Total net assets without donor restrictions	783,835	854,064
With donor restrictions-		
Donor restrictions for future periods or programs	53,467	47,260
Donor restrictions for perpetual trusts	<u>12,186</u>	<u>12,684</u>
Total net assets with donor restrictions	65,653	59,944
<b>Total Net Assets</b>	<b><u>849,488</u></b>	<b><u>914,008</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 937,498</u></b>	<b><u>\$ 1,006,159</u></b>

See accompanying notes.

**SEATTLE FOUNDATION**  
**Consolidated Statement of Activities**  
**For the Year Ended December 31, 2018**  
**(With Comparative Totals for 2017)**  
**(In Thousands)**

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<b>Revenues and Support:</b>				
Contributions and agency funds-				
Community/area of interest	\$ 10,586	\$ 24,123	\$ 34,709	\$ 29,143
Donor advised	72,319	2,062	74,381	68,996
Designated	7,812	-	7,812	2,135
Charitable trusts and beneficial interests	-	1,216	1,216	-
Supporting organizations	4,671	1,201	5,872	4,537
Agency	570	-	570	1,388
Administrative	369	-	369	686
GiveBIG	10,709	-	10,709	12,634
	<u>107,036</u>	<u>28,602</u>	<u>135,638</u>	<u>119,519</u>
Less agency	(570)	-	(570)	(1,388)
Less GiveBIG	<u>(10,709)</u>	<u>-</u>	<u>(10,709)</u>	<u>(12,634)</u>
Total contributions	95,757	28,602	124,359	105,497
Return on investments, net	(47,820)	58	(47,762)	113,026
Change in value of charitable gift annuities and trusts	3,659	(5,381)	(1,722)	5,684
Other income	1,759	-	1,759	1,445
Releases	17,570	(17,570)	-	-
	<u>70,925</u>	<u>5,709</u>	<u>76,634</u>	<u>225,652</u>
<b>Total Revenues and Support</b>	<b>70,925</b>	<b>5,709</b>	<b>76,634</b>	<b>225,652</b>
<b>Expenses:</b>				
Grants-				
Community/area of interest	22,108	-	22,108	15,328
Donor advised	77,077	-	77,077	67,734
Designated	12,170	-	12,170	9,464
Supporting organizations	6,285	-	6,285	2,320
Agency	3,736	-	3,736	5,579
	<u>121,376</u>	<u>-</u>	<u>121,376</u>	<u>100,425</u>
Less agency	<u>(3,736)</u>	<u>-</u>	<u>(3,736)</u>	<u>(5,579)</u>
Total grants expense	117,640	-	117,640	94,846
Support expenses	23,514	-	23,514	14,714
	<u>141,154</u>	<u>-</u>	<u>141,154</u>	<u>109,560</u>
<b>Total Expenses</b>	<b>141,154</b>	<b>-</b>	<b>141,154</b>	<b>109,560</b>
<b>Change in Net Assets</b>	<b>(70,229)</b>	<b>5,709</b>	<b>(64,520)</b>	<b>116,092</b>
Net assets, beginning of year	854,064	59,944	914,008	797,916
<b>Net Assets, End of Year</b>	<b><u>\$ 783,835</u></b>	<b><u>\$ 65,653</u></b>	<b><u>\$ 849,488</u></b>	<b><u>\$ 914,008</u></b>

See accompanying notes.

**SEATTLE FOUNDATION**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended December 31, 2018**  
**(With Comparative Totals for 2017)**  
**(In Thousands)**

	Program	Management and General	Fundraising	2018 Total	2017 Total
Grant Expense	\$ 117,640	\$ -	\$ -	\$ 117,640	\$ 94,846
Compensation	4,211	2,733	443	7,387	5,588
Employee benefits	822	533	87	1,442	1,039
Professional services	9,284	588	455	10,327	3,235
Facilities and utilities	605	393	64	1,062	913
Office expense	113	73	12	198	233
Information technology	294	191	31	516	405
Other expenses	1,262	1,221	99	2,582	3,301
<b>Total Expenses</b>	<b>\$ 134,231</b>	<b>\$ 5,732</b>	<b>\$ 1,191</b>	<b>\$ 141,154</b>	<b>\$ 109,560</b>

See accompanying notes.

**SEATTLE FOUNDATION**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2018**  
**(With Comparative Totals for 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (64,520)	\$ 116,092
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities-		
Noncash items included in change in net assets:		
Depreciation	517	501
Change in present value adjustment of pledges receivable	44	-
Net loss (gain) on investments	59,060	(103,653)
Loss on disposal of assets	-	69
Noncash contributions of real estate held for sale	-	(750)
Net loss (gain) on charitable gift annuities and trusts	2,590	(5,604)
Noncash change in value of beneficial interest assets	566	(2,944)
Noncash change in liability for annuities and trusts	(1,434)	2,864
Noncash change in mission related investments	(425)	763
Change in operating accounts:		
Accounts receivable and other assets	(312)	22
Pledges receivable	(3,427)	1,291
Bequests receivable	-	2,614
Unconditional grants payable	3,365	2,247
Funds held for others	(6,648)	3,143
Other liabilities	576	1,097
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(10,048)</b>	<b>17,752</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of fixed assets	(73)	(190)
Purchase of investments	(535,382)	(492,904)
Mission related investments funded	(380)	(2,985)
Repayments from mission related investments	1,509	623
Earnest money received for real estate held for sale	50	-
Proceeds from sale of investments	549,066	486,183
<b>Net Cash Provided By (Used in) Investing Activities</b>	<b>14,790</b>	<b>(9,273)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>4,742</b>	<b>8,479</b>
Cash and cash equivalents, beginning of year	15,221	6,742
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 19,963</b>	<b>\$ 15,221</b>
<b>Supplementary Information:</b>		
Noncash contributions of real estate held for sale	\$ -	\$ 750

See accompanying notes.



## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### 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 that support a wide range of organizations that promote educational, cultural, health, social and civic development. Seattle Foundation is authorized to accept gifts, bequests, contributions and grants of property in a variety of asset forms including cash, stock, real estate and other assets to carry out its organizational purpose. The 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.

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. We use our donor funds to support a wide range of community interests including those expressed through our Healthy Community Framework, making grants to nonprofit organizations to support their programs. In pursuit of its mission, Seattle Foundation is guided by the central principles of equity and opportunity and developed the Center for Community Partnerships (the Center) to focus directly on efforts to achieve greater racial and economic equity. Understanding that social problems are products of networks of cause and effect at a policy level, the Center focuses on advancing systems change as the most effective way to advance our mission of creating a stronger, more vibrant community for all.

**Supporting Organizations** - The consolidated financial statements include the activities of seven supporting organizations 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.

In addition to the six existing supporting organizations, during the year ended December 31, 2018, Glenhome Trust dissolved, and its remaining net assets were contributed to Seattle Foundation.

**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.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 1 - Continued

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 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 the operating costs of the Foundation.

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 maintains legal variance power over these assets.

**Fiscal Sponsorships** - In addition to the funds described above, Seattle Foundation is the fiscal sponsor for ten organizations. New sponsored organizations were as follows for the years ended December 31, 2018 and 2017.

King County Accountable Community of Health, LLC - During the year ended December 31, 2017, Seattle Foundation became the sole member of King County Accountable Community of Health, LLC (LLC), doing business as Healthier Here. LLC revenues and expenses totaled \$3,649 and \$4,845, respectively, for the year ended December 31, 2018. LLC revenues and expenses totaled \$6,010 and \$1,872, respectively, for the year ended December 31, 2017.

Trueblood Diversion Workgroup - During the year ended December 31, 2017, Seattle Foundation became the fiscal sponsor to oversee the management and disbursement of funds awarded as the result of a class action lawsuit. The funds will be distributed to various local mental healthcare organizations. Revenues and expenses for this program totaled \$17,493 and \$10,307, respectively, for the year ended December 31, 2018. Revenues and expenses for this program totaled \$9,956 and \$3,194, respectively, for the year ended December 31, 2017.

#### Note 2 - Summary of Significant Accounting Policies

**Principles of Consolidation** - The consolidated financial statements as of December 31, 2018, include the financial statements of Seattle Foundation, its supporting organizations, King County Accountable Community of Health, LLC, and the fiscally sponsored programs (collectively, the Seattle Foundation). Inter-organization transactions and balances have been eliminated in the consolidation.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 2 - Continued

**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, 2018  
(In Thousands)**

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**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 title 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. Loans receivable are generally due over a period of one to ten years. The loans are recorded net of a present value discount, and imputed interest is recognized over the term of the loans, calculated using the simple-interest method on the principal outstanding. Seattle Foundation has outstanding capital commitments for equity mission related investments totaling \$1.3 million for both December 31, 2018 and 2017. Management has reviewed the collectability of the notes receivable and equity investments and has determined an allowance for impairment is not necessary at December 31, 2018 and 2017.

**Fixed Assets Capitalization and Depreciation** - Seattle Foundation capitalizes assets with a cost greater than \$5,000 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 assets capitalized to the books include software development costs incurred to create a website and intangibles consisting of rebranding costs are capitalized.

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
Furniture and fixtures	3 - 10 years
Intangibles	5 - 10 years

**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.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 2 - Continued

**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.

**Revenue Recognition** - 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.

**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, 2018 and 2017.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 2 - Continued

**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.

Approximately 14% of contribution revenue was received from one donor for the year ended December 31, 2018. There were no contribution revenue concentrations for the year ended December 31, 2017. Approximately 72% and 100% of pledges receivable were from two and four donors at December 31, 2018 and 2017, 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.

**Methods Used for Allocation of Expenses Among Program and Supporting Services** - 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. Expenses for the year ended December 31, 2017 consisted of: grants of \$94,846; other program of \$8,386; management and general of \$5,444 and fundraising of \$884.

**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.

**New Accounting Pronouncements** - During the year ended December 31, 2018, the Seattle Foundation adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for calendar years ending 2018. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the net asset classes used in these consolidated financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. Implementation of ASU 2016-14 also resulted in additional disclosures surrounding Seattle Foundation's functional expense classifications and liquidity and availability of financial assets.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 2 - Continued

In December 2017, the United States enacted tax reform legislation, Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the Act). Provisions of the Act are effective for Seattle Foundation beginning January 1, 2018. Seattle Foundation is evaluating the impact the Act will have on the consolidated financial statements.

**Comparative Amounts for 2017** - 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, 2017, from which the summarized information was derived.

**Subsequent Events** - Seattle Foundation has evaluated subsequent events through May 13, 2019, the date on which the consolidated financial statements were available to be issued.

#### Note 3 - Investments and Fair Value Measurements

**Fair Value Measurements** - U.S. GAAP establishes a framework for measuring fair value and requires certain disclosures. To increase consistency and comparability in fair value measurements, fair value is required to be determined based on the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

U.S. GAAP utilizes a three-level valuation hierarchy based on observable and unobservable inputs. Observable inputs consist of data obtained from independent sources. Unobservable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Financial assets and liabilities classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Financial assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. Financial assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

While this requirement applies to all financial assets recorded at fair value on a recurring basis, it primarily applies to the securities held in Seattle Foundation's investment portfolio and certain liabilities.

**Valuation Techniques** - Valuation techniques utilized to determine fair value are consistently applied. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Cash and Money Market Funds - Includes cash held in investment pools and is reflected at cost plus accrued interest, which approximates fair value.

Marketable Equity and Fixed Income Securities - Valued at the closing price reported on the active markets in which the securities are traded.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

#### Note 3 - Continued

Real Estate Funds and Return Funds - Valued at net asset value (NAV), which represents Seattle Foundation's proportionate share of the net assets of the investment as reported by the underlying investment managers or general partners.

Real Estate and Other Assets - Valued based on estimates of similar assets and are generally illiquid.

Beneficial Interests Held in Trust - Valued at Seattle Foundation's proportionate share of the underlying assets held by the trusts.

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.

Funds Held for Others - Valued at each fund's proportionate share of Seattle Foundation's investment portfolio, which is valued as described above.

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
<b>Investments at Fair Value:</b>				
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
Hedged strategies	3,265	-	-	3,265
Other assets	-	-	992	992
	524,949	10,280	992	536,221
Beneficial interests held in trust			27,750	27,750
<b>Total Investments in the Fair Value Hierarchy</b>	<b>\$ 524,949</b>	<b>\$ 10,280</b>	<b>\$ 28,742</b>	563,971
Investments measured at NAV				332,735
<b>Total Investments at Fair Value</b>				<b>\$ 896,706</b>
<b>Liabilities at Fair Value:</b>				
Funds held for others	\$ -	\$ -	\$ 44,899	\$ 44,899
<b>Total Liabilities at Fair Value</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,899</b>	<b>\$ 44,899</b>



SEATTLE FOUNDATION

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2018  
(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, 2017:

	In Thousands			
	Level 1	Level 2	Level 3	Total
<b>Investments at Fair Value:</b>				
Cash and money market funds	\$ 75,672	\$ 1,779	\$ -	\$ 77,451
Domestic equities	278,498	-	-	278,498
International equities	75,131	-	-	75,131
Domestic fixed income	112,624	3,820	-	116,444
International fixed income	2,624	301	-	2,925
Real estate funds	2,959	-	-	2,959
Real return funds	6,997	-	-	6,997
Real estate notes receivable	-	-	193	193
Real estate	-	-	451	451
Other assets	-	-	816	816
	554,505	5,900	1,460	561,865
Beneficial interests held in trust	-	-	28,316	28,316
<b>Total Investments in the Fair Value Hierarchy</b>	<b>\$ 554,505</b>	<b>\$ 5,900</b>	<b>\$ 29,776</b>	590,181
Investments measured at NAV				382,425
<b>Total Investments at Fair Value</b>				<b>\$ 972,606</b>
<b>Liabilities at Fair Value:</b>				
Funds held for others	\$ -	\$ -	\$ 51,547	\$ 51,547
<b>Total Liabilities at Fair Value</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 51,547</b>	<b>\$ 51,547</b>

SEATTLE FOUNDATION

Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2018  
(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 2018 Assets at Fair Value	Total 2017 Assets at Fair Value
Beginning balance	\$ 1,460	\$ 28,316	\$ 29,776	\$ 26,742
Investment return, net	4	(718)	(714)	3,356
Purchases and receipts	-	1,216	1,216	149
Sales and distributions	(472)	(1,064)	(1,536)	(471)
<b>Ending Balance</b>	<b>\$ 992</b>	<b>\$ 27,750</b>	<b>\$ 28,742</b>	<b>\$ 29,776</b>

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	
	2018 Funds Held for Others	2017 Funds Held for Others
Beginning balance	\$ (51,547)	\$ (48,404)
Investment return, net	2,881	(7,952)
Purchases and receipts	(570)	(1,416)
Sales and distributions	4,337	6,225
<b>Ending Balance</b>	<b>\$ (44,899)</b>	<b>\$ (51,547)</b>

**SEATTLE FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2018  
(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.

<b>Asset Class</b>	<b>Fair Value</b>	<b>Remaining Life</b>	<b>Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>
Hedged Strategies	\$82.6M	No limit.	None	Redemption terms are quarterly with notification periods ranging from 45 to 90 days.	Lockup provisions range from none to 24 months.
Private Equity	\$34.8M	Ranging from 1 to 11 years.	\$8.9M	Closed end funds not eligible for redemption.	Not redeemable.
Real Estate	\$15.0M	Closed end funds range from 1 to 11 years.	\$11.7M	Closed end funds not eligible for redemption.	Not redeemable.
Real Return Funds	\$18.1M	Ranging from 6 to 12 years.	\$12.5M	Closed end funds not eligible for redemption.	Not redeemable.
International Equity	\$96.5M	No limit.	None	No restrictions.	None
Select Strategies	\$45.8M	No limit.	None	Quarterly with 30-90 days' notice	None
Domestic Fixed Income	\$18.4M	No limit.	None	Monthly with 45 days' notice	None
International Fixed Income	\$21.6M	No limit.	None	Twice a month with 5 days' notice.	None
<b>Total</b>	<b>\$332.7M</b>		<b>\$33.1M</b>		

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, 2018 (In Thousands)

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#### Note 3 - Continued

Domestic Fixed Income - Includes strategies that will invest in various U.S. debt instruments in the investment grade space and below-investment grade debt, including traditional high yield and senior loans.

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	
	2018	2017
Due within one year	\$ 3,164	\$ 520
Due within two to five years	1,500	717
Pledges receivable, gross	4,664	1,237
Less discount to present value (2.8%)	(49)	(5)
<b>Pledges Receivable, Net</b>	<b>\$ 4,615</b>	<b>\$ 1,232</b>

#### 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, 2018 (In Thousands)

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#### Note 5 - Continued

Investment income and changes in the estimated liability are recognized in the consolidated statement of activities. As of December 31, 2018, Seattle Foundation had 36 active CGAs. Underlying investments were valued at \$2,592 and \$3,380 at December 31, 2018 and 2017, respectively. The corresponding liability for payments to other beneficiaries was determined to be \$2,720 and \$2,473 at December 31, 2018 and 2017, 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. At December 31, 2018, the CGA liabilities and reserve exceeded the underlying CGA investment balance by \$397. This deficit was resolved subsequent to year end.

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 \$44,739 and \$50,088, at December 31, 2018 and 2017, respectively. The corresponding liability totaled \$27,927 and \$29,608 at December 31, 2018 and 2017, 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, 2018, beneficial interests in CRTs and CLTs totaled \$10,171 and \$4,295, respectively. At December 31, 2017, beneficial interests in CRTs and CLTs totaled \$10,092 and \$4,372, 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, 2018 and 2017, beneficial interests in perpetual trusts totaled \$13,284 and \$13,852, respectively. Included in these amounts is a perpetual trust held for others which totaled \$1,097 and \$1,168 at December 31, 2018 and 2017, 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, 2018 (In Thousands)

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#### Note 6 - Fixed Assets

Fixed assets consist of the following at December 31:

	In Thousands	
	2018	2017
Technology, equipment and software	\$ 1,987	\$ 1,987
Leasehold improvements	1,990	1,990
Furniture and fixtures	889	816
Intangible assets	196	196
Fixed assets, gross	5,062	4,989
Less accumulated depreciation	(2,636)	(2,119)
<b>Fixed Assets, Net</b>	<b>\$ 2,426</b>	<b>\$ 2,870</b>

Depreciation expense totaled \$517 and \$501 for the years ended December 31, 2018 and 2017, respectively.

#### Note 7 - Unconditional Grants Payable

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

	In Thousands	
	2018	2017
Due within one year	\$ 7,775	\$ 3,691
Due within two to five years	534	1,251
Thereafter	239	241
<b>Total Unconditional Grants Payable</b>	<b>\$ 8,548</b>	<b>\$ 5,183</b>

The discount for present value was immaterial at December 31, 2018 and 2017.

#### Note 8 - GiveBIG

Seattle Foundation's annual GiveBIG campaign, which began in 2011, is an online giving event designed to raise money for nonprofit organizations in Greater Seattle. Select contributions are increased by \$2,500 as part of the Dollar for Change provided by both Seattle Foundation and GiveBIG sponsors.

GiveBIG contributions are made online to approximately 1,600 nonprofit organizations representing a broad range of issues. Donors contribute through a secure third-party service provider, and the contributions are forwarded directly to the nonprofit organizations. Seattle Foundation does not collect personal or payment information from any GiveBIG donor. In order for the nonprofit organizations to receive maximum benefit, no fees are charged by Seattle Foundation.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 8 - Continued

Contributions and other information related to GiveBIG consist of the following for the years ended December 31:

	In Thousands	
	2018	2017
Online contributions	\$ 10,709	\$ 12,634
Dollars for change	250	452
Comic relief	225	-
Sponsors	257	207
<b>Total GiveBIG Contributions</b>	<b>\$ 11,441</b>	<b>\$ 13,293</b>
Number of donors	27,598	33,348
Number of gifts	68,936	82,076
Number of nonprofit recipient organizations	1,588	1,662

#### Note 9 - 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 with a permanent restriction attribute are classified as donor-established endowment funds within the net assets without donor restrictions classification (Note 11). 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 11). 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, 2018 (In Thousands)

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#### Note 10 - 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	
	2018	2017
Subject to expenditure for specific purpose-		
Fiscal sponsorship and LLC	\$ 16,890	\$ 10,901
Supporting organizations	302	-
Subject to the passage of time and expenditure for specific purpose -	400	-
Subject to the passage of time-		
Charitable remainder and lead trusts	31,277	34,944
Pledges receivable	4,415	1,232
Bequests receivable	183	183
Perpetual trusts	12,186	12,684
<b>Total Net Assets with Donor Restrictions</b>	<b>\$ 65,653</b>	<b>\$ 59,944</b>

#### Note 11 - 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 9. 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, 2018 (In Thousands)

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#### Note 11 - Continued

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

	In Thousands	
	2018	2017
Donor established endowment funds	\$ 124,524	\$ 133,922
Board designated quasi-endowment funds	203,968	226,522
<b>Endowment Net Assets</b>	<b>\$ 328,492</b>	<b>\$ 360,444</b>

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

	In Thousands	
	2018	2017
Endowment net assets, beginning of year	\$ 360,444	\$ 319,410
Endowment investment return, net	(21,701)	53,971
Contributions	10,761	6,518
Net transfer from endowments	(21,012)	(19,455)
<b>Endowment Net Assets, End of Year</b>	<b>\$ 328,492</b>	<b>\$ 360,444</b>

**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 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. Deficiencies of this nature existed in six donor-established endowments funds, which together had an original gift value of \$586, a current fair value of \$484, and a deficiency of \$102 at December 31, 2017. 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. While actual returns may vary, the targeted nominal rate of return is approximately 7 percent.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

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#### Note 11 - 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 12 - 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 \$267 and \$258 for the years ended December 31, 2018 and 2017, respectively. All contributions under the plan vest with employees when contributions are made.

Seattle Foundation also maintained a nonqualified deferred compensation plan covered under Section 457(b) of the Internal Revenue Code. Only employees specifically designated by the Board of Trustees were eligible. The maximum salary deferral under the 457(b) plan was \$18 (plus a catch-up provision of \$6 for eligible participants) for the year ended December 31, 2017. There were no matching provisions. The nonqualified deferred compensation plan was administered by Seattle Foundation. There were no participants in the 457(b) plan at December 31, 2018 and 2017. Assets of the 457(b) plan totaled \$86 as of December 31, 2017. The plan assets were distributed during the year ended December 31, 2018. Assets in the plan were held by TIAA on behalf of Seattle Foundation on a nontrust basis and were subject to the claims of its creditors.

## SEATTLE FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended December 31, 2018 (In Thousands)

#### Note 13 - 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, 2018 or December 31, 2017.

**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 \$966 and \$851 for the years ended December 31, 2018 and 2017, 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
2019	\$ 969	\$ 11	\$ 980
2020	994	6	1,000
2021	1,019	2	1,021
2022	1,036	2	1,038
2023	878	1	879
Thereafter	2,703	-	2,703
<b>Total Future Lease Payments</b>	<b>\$ 7,599</b>	<b>\$ 22</b>	<b>\$ 7,621</b>

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, 2018, 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, 2018 (In Thousands)

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#### Note 14 - Liquidity and Availability

Seattle Foundation's financial assets available within one year of to meet general expenditures include the following as of December 31, 2018:

	<u>In Thousands</u>
Cash and cash equivalents	\$ 19,963
Accounts and other assets	669
Pledges receivable, net	4,615
Investments	<u>868,956</u>
Available financial assets	894,203
Less: financial assets unavailable for general expenditures due to designations	
Donor-established endowment funds	(124,524)
Board designated quasi-endowment funds	(203,968)
Less: investments classified as Level 3	(992)
Less: investments measured at NAV	(332,735)
Less: pre-paid expenses included in other assets	(298)
Less: pledges receivable due in more than one year	<u>(1,500)</u>
Financial assets unavailable for general expenditures	<u>(664,017)</u>
<b>Available Financial Assets, Net</b>	<b><u><u>\$ 230,186</u></u></b>

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. Had it been necessary to generate liquid funds from these alternative investments to meet short-term needs on December 31, 2018, management estimates it could have liquidated approximately \$223 million (unaudited).

Seattle Foundation's endowment funds consist of donor-established endowments and funds designated by the Board of Trustees to function as endowments (quasi-endowments), all classified as net assets without donor restrictions. Although Seattle Foundation does not intend to spend from these endowment funds other than amounts appropriated for general expenditure as part of its annual budget, amounts from the endowment funds could be made available by the Board of Trustees as necessary.

**SUPPLEMENTARY INFORMATION**

**SEATTLE FOUNDATION**

**Consolidating Statement of Financial Position  
December 31, 2018  
(In Thousands)**

	Seattle Foundation	Supporting Organizations	Eliminations	Consolidated Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 18,882	\$ 1,081	\$ -	\$ 19,963
Accounts and other assets	616	53	-	669
Pledges receivable, net	4,125	490	-	4,615
Bequests receivable	183	-	-	183
Beneficial interests held in trust	27,750	-	-	27,750
Investments	834,600	34,356	-	868,956
Real estate held for sale	-	2,878	-	2,878
Mission related investments	7,558	2,500	-	10,058
Fixed assets, net of accumulated depreciation	2,426	-	-	2,426
<b>Total Assets</b>	<b>\$ 896,140</b>	<b>\$ 41,358</b>	<b>\$ -</b>	<b>\$ 937,498</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities:</b>				
Unconditional grants payable	\$ 8,288	\$ 260	\$ -	\$ 8,548
Other liabilities	3,302	212	-	3,514
Funds held for others	44,899	-	-	44,899
Liability for life estate	-	402	-	402
Liability for charitable lead and remainder trusts	27,927	-	-	27,927
Liability for charitable gift annuities	2,720	-	-	2,720
<b>Total Liabilities</b>	<b>87,136</b>	<b>874</b>	<b>-</b>	<b>88,010</b>
<b>Net Assets:</b>				
Without donor restrictions-				
Community/area of interest	97,665	-	-	97,665
Donor advised	408,525	-	-	408,525
Designated	228,792	-	-	228,792
Supporting organizations	-	39,500	-	39,500
Administrative	9,353	-	-	9,353
Total net assets without donor restrictions	744,335	39,500	-	783,835
With donor restrictions-				
Donor restrictions for future periods or programs	52,483	984	-	53,467
Donor restrictions for perpetual trusts	12,186	-	-	12,186
Total net assets with donor restrictions	64,669	984	-	65,653
<b>Total Net Assets</b>	<b>809,004</b>	<b>40,484</b>	<b>-</b>	<b>849,488</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 896,140</b>	<b>\$ 41,358</b>	<b>\$ -</b>	<b>\$ 937,498</b>

See independent auditor's report.

SEATTLE FOUNDATION

Consolidating Statement of Activities  
For the Year Ended December 31, 2018  
(In Thousands)

	Seattle Foundation	Supporting Organizations	Eliminations	Consolidated Total
<b>Without Donor Restrictions</b>				
<b>Revenues and Support:</b>				
Contributions and agency funds	\$ 125,266	\$ 4,671	\$ (22,901)	\$ 107,036
Less agency and GiveBIG	(11,279)	-	-	(11,279)
Total contributions	113,987	4,671	(22,901)	95,757
Return on investments, net	(45,550)	(2,270)	-	(47,820)
Change in value of charitable gift annuities and trusts	-	-	-	-
	3,659	-	-	3,659
Other income	1,540	3,221	(3,002)	1,759
Transfers within	(1,261)	1,261	-	-
Releases	17,122	448	-	17,570
<b>Total Revenues and Support</b>	<b>89,497</b>	<b>7,331</b>	<b>(25,903)</b>	<b>70,925</b>
<b>Expenses:</b>				
Grants	131,532	9,009	(22,901)	117,640
Support expenses	21,390	5,126	(3,002)	23,514
<b>Total Expenses</b>	<b>152,922</b>	<b>14,135</b>	<b>(25,903)</b>	<b>141,154</b>
<b>Change in Net Assets Without Donor Restrictions</b>	<b>(63,425)</b>	<b>(6,804)</b>	<b>-</b>	<b>(70,229)</b>
<b>Net Assets With Donor Restrictions</b>				
<b>Revenues and Support:</b>				
Contributions	27,401	1,201	-	28,602
Return on investments, net	58	-	-	58
Change in value of charitable gift annuities and trusts	-	-	-	-
	(5,381)	-	-	(5,381)
Net assets released from restriction and transfers	-	-	-	-
	(17,122)	(448)	-	(17,570)
<b>Change in Net Assets With Donor Restrictions</b>	<b>4,956</b>	<b>753</b>	<b>-</b>	<b>5,709</b>
<b>Total Change in Net Assets</b>	<b>(58,469)</b>	<b>(6,051)</b>	<b>-</b>	<b>(64,520)</b>
Net assets, beginning of year	867,473	46,535	-	914,008
<b>Net Assets, End of Year</b>	<b>\$ 809,004</b>	<b>\$ 40,484</b>	<b>\$ -</b>	<b>\$ 849,488</b>

See independent auditor's report.