

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
THE SEATTLE FOUNDATION  
SEATTLE, WASHINGTON

December 31, 2010

Order No. 12-0009  
The Seattle Foundation  
Exhibit A

**SALUTATION**

Seattle, Washington  
January 4, 2012

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

Dear Commissioner Kreidler:

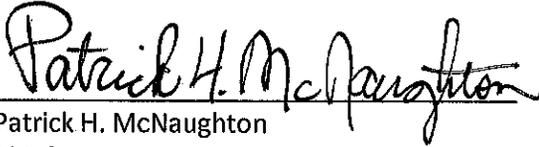
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

**The Seattle Foundation**  
of  
Seattle, Washington

hereinafter referred to as "TSF" at its office, 1200 Fifth Avenue, Suite 1300, Seattle, Washington 98101. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of TSF as of December 31, 2010.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of The Seattle Foundation of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of The Seattle Foundation as of December 31, 2010.



Patrick H. McNaughton  
Chief Examiner

1-4-12

Date

**TABLE OF CONTENTS**

**SCOPE OF THE EXAMINATION** .....1

**INSTRUCTIONS** .....1

**COMMENTS AND RECOMMENDATIONS**.....1

**ORGANIZATION PROFILE** .....2

    History .....2

    Territory and Plan of Operation .....2

    Total Net Assets.....2

    Growth.....2

**AFFILIATED ORGANIZATIONS** .....3

**MANAGEMENT AND CONTROL** .....3

    Management .....3

    Board of Trustees .....3

    Officers .....3

    Tax Status .....4

    Conflict of Interest.....4

**ORGANIZATION RECORDS** .....4

**STATEMENT OF ACTUARIAL OPINION**.....4

**ANNUITY ASSETS CUSTODIAL FUNCTION** .....4

**SUBSEQUENT EVENTS**.....4

**FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**.....4

**ACCOUNTING RECORDS AND PROCEDURES**.....5

**FINANCIAL STATEMENTS** .....5

    Statement of Financial Position.....6

    Statement of Activities and Changes in Net Assets.....7

**NOTES TO THE FINANCIAL STATEMENTS** .....8

**ACKNOWLEDGMENT**.....9

**AFFIDAVIT** ..... 10

## SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2006 through December 31, 2010. The scope of our examination focused only on the transactions and operations of the CGA business. TSF's records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate CGA business reporting. The results of the examination are commented upon in the various sections of this report. In addition, TSF's certified public accountant's (CPA's) work papers were reviewed and utilized to facilitate efficiency in the examination.

The examination was conducted in accordance with the statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Seattle office of TSF by examiners from the state of Washington.

The examiners reviewed TSF's CGA Annual Reports as part of the statutory examination. This review was performed to determine if TSF completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that TSF's accounts and records were prepared and maintained in accordance with RCW 48.38.010(10)(a).

## INSTRUCTIONS

### **1. Reporting Requirements**

The filing of the OIC Annual Reports by TSF did not conform to RCW 48.38.010(10)(a) and the OIC Annual Report Instructions during the five-year examination period. Balances reported included the accounts of TSF and its affiliates. TSF is the holder of the certificate of exemption.

The OIC Annual Report Instructions require that the annual report must be submitted only for the organization holding the certificate of exemption to issue annuities. Examination adjustments were made to remove account balances belonging to TSF's affiliates, thereby, reflecting only the financial statements of TSF in accordance with the OIC Annual Report Instructions. Adjustments to the 2010 Annual Report resulted in an aggregate decrease in total assets of \$45,323,372; increase in total liabilities of \$27,380,287; and decrease in total net assets of \$72,703,659. (See Financial Statements.)

**TSF is instructed to comply with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions by only including the certificate of exemption holder in the annual report submitted to the OIC.**

## COMMENTS AND RECOMMENDATIONS

None

## ORGANIZATION PROFILE

### History

TSF is a Washington nonprofit charitable organization established in 1946. TSF is authorized to accept gifts, bequests, contributions and grants of property to carry out its organizational purpose.

### Territory and Plan of Operation

TSF is a community foundation organized and operated exclusively for charitable and educational purposes. The mission of TSF is to create a healthy community through engaged philanthropy, community knowledge and leadership. TSF invests in selected nonprofit organizations, primarily within King County, Washington.

TSF was granted Certificate of Exemption No. 44 to conduct a CGA business in the state of Washington by the OIC on February 10, 1993. There were 76 in-force annuity contracts as of December 31, 2010.

### Total Net Assets

TSF's total net assets as of December 31, 2010 were \$525,206,189. This amount included unrestricted net assets of \$495,322,726. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### Growth

The growth of TSF for the past five years is reflected in the following schedules.

#### Schedule 1 – Statement of Financial Position

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
*2010	\$620,740,894	\$95,534,705	\$525,206,189	\$495,322,726	\$18,782,090	\$11,101,373
2009	550,764,978	88,981,699	461,783,279	439,861,011	11,870,123	10,052,145
2008	507,151,187	130,733,712	376,417,475	356,862,853	11,136,848	8,417,774
2007	640,490,103	108,126,758	532,363,345	505,104,928	14,810,093	12,448,324
2006	551,393,924	53,441,770	497,952,154	461,685,279	24,485,201	11,781,674

#### Schedule 2 – Statement of Activities and Changes in Net Assets

	*2010	2009	2008	2007	2006
Total revenues	\$76,839,717	\$64,040,013	\$69,280,978	\$119,447,675	\$132,080,942
Total expenses	54,300,936	50,936,986	90,367,003	56,129,945	51,873,343
Increase (decrease) in net assets	22,538,781	13,103,027	(21,086,025)	63,317,730	80,207,599
Net assets at beginning of year	461,783,279	376,417,475	532,363,345	497,952,154	400,584,357
Other changes in net assets	40,884,129	72,262,777	(134,859,845)	(28,906,539)	17,160,198
<b>Net assets at end of year</b>	<b>\$525,206,189</b>	<b>\$461,783,279</b>	<b>\$376,417,475</b>	<b>\$532,363,345</b>	<b>\$497,952,154</b>

\*The 2010 balances include examination adjustments. (See Financial Statements.)

## **AFFILIATED ORGANIZATIONS**

TSF is a supported organization and has control over the following charitable organizations that are classified as supporting organizations, as defined under Section 509(a)(3) of the Internal Revenue Code. In 2010, the financial activities and balances of the following supporting organizations were included in TSF's consolidated financial statements and Annual Reports: (See Instruction No. 1.)

The Brotman Foundation	The Regis Family Community Fund
The Dabney Point Fund	Roberts-Becker Family Foundation
The Luino and Margaret Dell'Osso Family Foundation	The Rudolf Family Foundation
Dillon Family Foundation	Seattle International Foundation
Glenhome Trust	TSF Properties
George P. Hardgrove Foundation	TSF Services
The Hood Family Foundation	Walker Family Foundation
The Kauffman Family Foundation	The Whitehorse Foundation
McKibben/Merner Family Foundation	Youth Outdoor Legacy Fund

## **MANAGEMENT AND CONTROL**

### **Management**

The management and administration of TSF is the responsibility of its Board of Trustees (BOT). As of December 31, 2010, the BOT consisted of no less than 24 members.

### **Board of Trustees**

The following individuals were trustees as of December 31, 2010:

Robert Watt, Chair	Gary Kaplan, M.D.
Maggie Walker, First Vice-Chair	Carolyn Kelly
Martha Choe, Second Vice-Chair	Don Nielsen
Pete Shimer, Treasurer	Linda Park, PhD
Bill Lewis, Past Chair	Mary Pugh
Tom Alberg	Brad Smith
Libby Armintrout	John Stanton
Nathaniel Brown	Kevin Washington
Kevin Daniels	Jan Whitsitt
Steve Davis	James Williams
Jean Enersen	Tay Yoshitani
Richard Fox	Grace Yuan
Joseph Gaffney	

### **Officers**

The following individuals were officers as of December 31, 2010:

Norman Rice, President and Chief Executive Officer	Jared Watson, Senior Vice President
Jeff Rudd, Chief Financial Officer	Mary Grace Roske, Communications Director

**Tax Status**

TSF is a nonprofit corporation, recognized by the Internal Revenue Service as an organization qualified under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest**

TSF has a formal conflict of interest policy. The policy has procedures for reviewing the Annual Conflict of Interest Questionnaire, which the BOT and officers are required to submit for any activities or participation on the part of the BOT and officers that could possibly be interpreted as a conflict of interest. The policy also has procedures for resolving any disclosed conflicts of interest. Based on our review of the submitted 2010 disclosure statements, no exceptions were noted.

**ORGANIZATION RECORDS**

The BOT has an annual meeting and regular quarterly meetings held on the second Wednesday of the months of March, June, September and December to discuss any pertinent business to TSF. The BOT meeting minutes documented the approval of TSF's transactions and events.

**STATEMENT OF ACTUARIAL OPINION**

A consulting actuary with Milliman, Inc., reviewed the adequacy of the annuity reserves and issued a Statement of Actuarial Opinion (SAO) which stated that he is a member of the American Academy of Actuaries, and that TSF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$3,660,166 for the 76 in-force annuity contracts as of December 31, 2010. This amount was properly reported in TSF's financial statements.

**ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of TSF as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of December 31, 2010 were \$5,370,322 and consisted of money market, mutual fund, and managed accounts. The annuity investments were properly reported in the financial statements at market value.

**SUBSEQUENT EVENTS**

On June 8, 2011, TSF's Bylaws were amended to change the required number of elected trustees from 24 to 20. There were no additional material events which impacted TSF between the examination date and the last day of our field work.

**FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

No instructions, comments or recommendations were made in the previous financial examination.

## **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation supported the data and amounts presented in the annual reports and financial statements.

## **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of The Seattle Foundation as of December 31, 2010:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**The Seattle Foundation**  
**Statement of Financial Position**  
**December 31, 2010**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$3,963,246	(\$10,148)	\$3,953,098	1
Investments	620,340,196	(70,331,390)	550,008,806	1
CGA Investments	5,370,322		5,370,322	
Supporting Organizations' Assets				
Held in TSF Custody		27,919,575	27,919,575	1
Other Assets	36,390,502	(2,901,409)	33,489,093	1, 2
<b>Total Assets</b>	<b><u>\$666,064,266</u></b>	<b><u>(\$45,323,372)</u></b>	<b><u>\$620,740,894</u></b>	
<b>Liabilities and Net Assets</b>				
Other Liabilities	\$64,494,252	(\$539,288)	\$63,954,964	1
CGA Liabilities	3,660,166		3,660,166	
Supporting Organizations' Assets				
Held in TSF Custody		27,919,575	27,919,575	1
<b>Total Liabilities</b>	<b><u>68,154,418</u></b>	<b><u>27,380,287</u></b>	<b><u>95,534,705</u></b>	
<b>Net Assets</b>				
Unrestricted	574,485,235	(79,162,509)	495,322,726	1, 2
Temporarily Restricted	12,323,240	6,458,850	18,782,090	2
Permanently Restricted	11,101,373		11,101,373	
<b>Total Net Assets</b>	<b><u>597,909,848</u></b>	<b><u>(72,703,659)</u></b>	<b><u>525,206,189</u></b>	
<b>Total Liabilities and Net Assets</b>	<b><u>\$666,064,266</u></b>	<b><u>(\$45,323,372)</u></b>	<b><u>\$620,740,894</u></b>	

**The Seattle Foundation**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2010**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues	\$135,588,371	(\$58,748,654)	\$76,839,717	1, 2
Total expenses	<u>70,327,496</u>	<u>(16,026,560)</u>	<u>54,300,936</u>	1, 2
Increase (decrease) in net assets	65,260,875	(42,722,094)	22,538,781	
Net assets at beginning of year	532,648,973	(70,865,694)	461,783,279	1, 2
Other changes in net assets		40,884,129	40,884,129	2
<b>Net assets at end of year</b>	<b><u>\$597,909,848</u></b>	<b><u>(\$72,703,659)</u></b>	<b><u>\$525,206,189</u></b>	

## **NOTES TO THE FINANCIAL STATEMENTS**

Examination adjustments to TSF's financial statements are as follows:

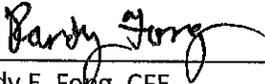
1. Assets, liabilities, revenues, expenses, and net assets of the supporting organizations were adjusted in order to present TSF's financial statements in accordance with the OIC Annual Report Instructions. (See Instruction No. 1.)
2. To reflect CPA audit adjustments made after the OIC Annual Report filing.

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of The Seattle Foundation and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner; and Orlando R. Gabriel, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



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Randy E. Fong, CFE  
Examiner-in-Charge  
State of Washington

