

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business

of

Seattle Symphony Orchestra
Seattle, Washington

JUNE 30, 2006

Order No. G07-349
Seattle Symphony Orchestra
Exhibit A

SALUTATION

Seattle, Washington
December 12, 2007

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 affairs and financial records pertaining to the CGA business of

Seattle Symphony Orchestra

of

Seattle, Washington

hereinafter referred to as "SSO" at its office, 200 University Street, Seattle, Washington 98101.

This report of examination is respectfully submitted showing the condition of the CGA business of SSO as of June 30, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity (CGA) business of Seattle Symphony Orchestra of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Seattle Symphony Orchestra as of June 30, 2006.



Patrick H. McNaughton
Chief Examiner

12-12-2007

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006. The 2006 Annual Report reflected the balance sheet and statement of revenue and expenses of SSO as of June 30, 2006. The OIC granted permission to SSO to present its CGA Annual Report as of its fiscal year ended June 30, 2006. The examination of the 2006 Annual Report, therefore, covers the period ending June 30, 2006 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2006 for the general interrogatories, charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The financial statements are presented on a consolidated basis for SSO and its affiliates. However, the scope of our examination focused only on the transactions and operations of the CGA business. SSO'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 reporting. The results of the examination are commented upon in the various sections of this report.

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 SSO by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed SSO's CGA Annual Reports as part of the statutory examination. This review was performed to determine if SSO completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. Reporting Requirements

The filing of the Annual Reports by SSO did not conform to Chapter 48.38 RCW and the OIC Annual Report Instructions during the examination periods 2002 through 2006.

- a.** Balances reported in the Annual Reports included the accounts of SSO and its affiliates, Seattle Symphony Foundation (the Foundation) and Benaroya Hall Music Center (BHMC). SSO is the holder of Certificate of Exemption No. 129. The OIC Annual Report Instructions specifically 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 the affiliates, thereby, reflecting only the financial

statements of SSO in accordance with the OIC Annual Report Instructions. Adjustments to the 2006 Annual Report resulted in aggregate decreases in total assets of \$131,421,677, total liabilities of \$2,556,444, and total net assets of \$128,865,233. (See Financial Statements)

- b. Transactions related to the CGA business were all accounted for in the Seattle Symphony Foundation's financial statements. As a result, balances of the annuity assets, liabilities and related temporarily restricted net assets were not included and reported in the financial statements of SSO, the holder of the certificate of exemption. Examination adjustments were made to recognize the CGA investments of \$464,127, liabilities of \$288,944, temporarily restricted net assets of \$87,591, and permanently restricted net assets of \$87,592 in SSO's 2006 Annual Report. (See Financial Statements)

SSO is instructed to comply with reporting requirements in accordance with RCW 48.38.010(a) and the OIC Annual Report Instructions.

2. Unrestricted Net Assets

SSO's financial statements showed unrestricted net asset balance of (\$558,517) as of June 30, 2006 which was significantly below the required minimum amount of \$500,000. The December 31, 2006 and April 30, 2007 unaudited financial statements showed unrestricted net asset balances of (\$1,071,556) and (\$1,992,297), respectively. SSO was not in compliance with RCW 48.38.010(6) because it did not maintain the required \$500,000 minimum unrestricted net assets. Also, pursuant to RCW 48.38.012, SSO may not issue any new charitable gift annuities until SSO obtains and maintains the minimum unrestricted net assets required by RCW 48.38.010(6).

SSO is instructed to maintain, at all times, the required \$500,000 of unrestricted net assets to ensure compliance with RCW 48.38.010(6) and RCW 48.38.012.

3. Accrued Liabilities - Reserves

RCW 48.38.020 requires an organization to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. The amount of the separate reserve fund shall include a surplus of ten percent (10%).

SSO maintained a separate fund, but it did not include the surplus of 10% to the actuary's calculated reserve amount required by RCW 48.38.020(3)(c). As a result, the reported \$288,944 annuity liabilities were understated by \$28,894 as of June 30, 2006. No examination adjustment was made due to immateriality.

SSO is instructed to report the statutory reserve amount as annuity liabilities on its financial statements in compliance with RCW 48.38.020(1) and (3).

COMMENTS AND RECOMMENDATIONS

1. Managed Agency Agreement

The annuity investments are currently managed by The Harris Bank. However, the custodial agreement, provided by SSO, identifies Northwestern Trust and Investors Advisory Company as the agent and custodian of the annuity investments.

It is recommended that SSO coordinate with The Harris Bank to re-issue a new managed agency and custodial agreement reflecting The Harris Bank as the agent and custodian of the annuity investments.

ORGANIZATION PROFILE

History: SSO was established in 1928 to sponsor a symphony orchestra, present musical concerts, and promote the education and the appreciation of classical music.

Territory and Plan of Operation: On June 29, 1999, the OIC granted SSO a Certificate of Exemption Number 129 to conduct a CGA business in the state of Washington. There were sixteen in-force annuity contracts as of December 31, 2006. All of the sixteen annuity contracts were issued to residents of the state of Washington.

Total Net Assets: SSO’s total adjusted net assets as of June 30, 2006 were \$3,606,692. This amount included an unrestricted net asset of (\$558,517). The minimum unrestricted net assets requirement was not satisfied pursuant to RCW 48.38.010(6). (See Instruction No. 2)

Growth: The growth of SSO for the past five years is reflected in the following schedules. All information was compiled from SSO’s audited financial statements and Internal Revenue Service (IRS) Form 990 as of fiscal years ending June 30:

Schedule 1 – Statement of Financial Position

<u>Fiscal Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Total Net Assets Allocated Into:</u>		
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
2006	\$14,949,068	\$11,342,376	\$3,606,692	(\$558,517)	\$949,502	\$3,215,707
2005	19,425,066	11,953,628	7,471,438	1,944,194	2,549,666	2,977,578
2004	21,888,434	11,568,989	10,319,445	3,429,475	4,006,435	2,883,535
2003	19,173,716	12,596,587	6,577,129	2,030,299	1,832,956	2,713,874
2002	\$19,575,773	\$11,087,243	\$8,488,530	\$4,409,457	\$1,347,729	\$2,731,344

Schedule 2 – Statement of Activities and Changes in Net Assets

	2006*	2005	2004	2003	2002
Total revenue, operating and nonoperating	\$16,751,300	\$20,099,438	\$24,254,091	\$19,762,408	\$19,002,913
Total expenses, operating and nonoperating	<u>21,571,513</u>	<u>22,198,064</u>	<u>22,278,931</u>	<u>20,112,765</u>	<u>22,019,074</u>
Increase (decrease) in net assets	(4,820,213)	(2,098,626)	1,975,160	(350,357)	(3,016,161)
Changes in net assets per examination	175,183				
Other changes in net assets	780,284	(749,381)	1,767,156	(1,561,044)	(5,677,649)
Net assets at beginning of year	<u>7,471,438</u>	<u>10,319,445</u>	<u>6,577,129</u>	<u>8,488,530</u>	<u>17,182,340</u>
Net assets at end of year	<u>\$3,606,692</u>	<u>\$7,471,438</u>	<u>\$10,319,445</u>	<u>\$6,577,129</u>	<u>\$8,488,530</u>
Number of gift annuity contracts at end of year	16	15	16	12	7

* = The 2006 balances included examination adjustments (See Financial Statements)

AFFILIATED ORGANIZATIONS

SSO's affiliates include: the Foundation, a separate Washington nonprofit corporation, formed in 1986 to aid and support SSO; and BHMC, a Washington nonprofit corporation, formed to manage the development and construction of the new concert hall, and to maintain, operate, and present performances and events at Benaroya Hall.

MANAGEMENT AND CONTROL

Management: Responsibility for governing SSO is vested in a Board of Directors (BOD) made up of not less than thirty nor more than sixty-nine persons, one third of whom are elected in each year. One-third of the directors in office constitute a quorum. The BOD is elected by members of SSO which are: (1) those persons or entities making a direct monetary contribution during the fiscal year to the Orchestra and (2) voting members of the ArtsFund.

Board of Directors: BOD's as of June 30, 2006:

Marco Abbruzzese	Barry Forman	Marlys Palumbo
Kathy Adler	David Fulton	Sue Raschella
Ellsworth Alvord	David E. Gannett	Ann Redmond
Thomas D. Andersen	Jeff Gennette	Bernice M. Rind
Eve Anderson	Mauricio Gonzalez de la Fuente	H. Jon Runstad
Patricia H. Anderson	Patty Hall	Jeff Sanderson
John Atcheson	Steven R. Hill	Lucas D. Schenck
Patrice Auld	Patricia Holmes	Gilbert Scherer
Phillip A. Boshaw	Susan Hutchison	John A. Schukar
Alexandra A. Brookshire	Robert S. Jaffe	John F. Shaw, PhD
Phyllis M. Byrdwell	Samuel Jones	Joseph Slattery
Mike Cave	Edwin C. Laird	Michael C. Slonski
Mary Ann Champion	Keith Larson	Marcus Tsutakawa
Fay Chapman	Carolyn Lewis	Christopher J. Voss

Leslie Chihuly
Robert L. Collett
Dr. Alexander Clowes
Richard P. Cooley
Dr. David R. Davis
Nancy B. Evans

Hubert G. Locke
Nancy Mallinak
Jennifer McCausland
Brian R. McGee
Sheila B. Noonan

Craig Watjen
Ron Woodard
Kathy Wright
Leonard Yerkes
Kay Zatine

Officers: Officers as of June 30, 2006:

Paul Meecham, Executive Director
Ron Woodard, President
Traci Boyle, Chief Financial Officer

Mike Cave, Treasurer
Bob Collett, Secretary

Tax Status: SSO is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: SSO has a conflict of interest policy which requires each director and officer to sign and deliver to the secretary an annual statement which affirms that such person: (a) has received a copy of the conflict of interest policy, (b) has read and understands the policy, (c) has agreed to comply with the policy, and (d) understands that SSO is a charitable organization and that in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes. No exceptions were noted.

CORPORATE RECORDS

The BOD meets five times a year to discuss any business which is pertinent to SSO. Minutes of the meetings of the BOD documented the approval of SSO's transactions and events. No exceptions were noted.

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 meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. The SAO indicated that the SSO's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be \$286,120 as of December 31, 2006.

As of June 30, 2006, the \$288,944 reported annuity liabilities were understated by \$28,894 because SSO did not include the surplus of 10% in its financial statements as required by RCW 48.38.020(3)(c). (See Instruction No. 3) Please note that the statutory reserve liability information is provided based on calendar year-end, the reporting period required by the OIC, which is different than SSO's fiscal year-end as reflected in the Financial Statements of this Examination Report.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of SSO as required by RCW 48.38.020(2). The fair value of the annuity investments as of December 31, 2006 was \$489,642, and consisted of cash and equity funds.

SUBSEQUENT EVENTS

There were no material events which impacted SSO between the examination date and the last day of our field work.

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 information summarizes the financial statements of SSO as of June 30, 2006:

Balance Sheet

	<u>Balance per Annual Report</u>	<u>Adjustment</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Assets				
Cash and temporary investment	\$2,570,806	1	(\$765,718)	\$1,805,088
Investment - securities	29,848,702	1	(29,848,702)	-
CGA investments	-	2	464,127	464,127
Split interest agreements	4,064,995	1	(4,064,995)	-
Intangible pension assets	1,427,041		-	1,427,041
Property and equipment, net	6,067,546	1	(1,019,840)	5,047,706
Building, net	95,615,655	1	(95,615,655)	-
Other Assets	6,776,000	1	(570,894)	6,205,106
Total Assets	<u>\$146,370,745</u>		<u>(\$131,421,677)</u>	<u>\$14,949,068</u>
Liabilities				
Current liabilities	\$8,677,582	1	(\$1,495,147)	\$7,182,435
CGA payable	288,944		-	288,944
Deferred pension liability	3,845,997		-	3,845,997
Other liability	1,086,297	1	(1,061,297)	25,000
Total Liabilities	<u>13,898,820</u>		<u>(2,556,444)</u>	<u>11,342,376</u>
Net Assets				
Unrestricted	98,343,292	1	(98,901,809)	(558,517)
Temporarily restricted	1,488,264	1 & 2	(538,762)	949,502
Permanently restricted	32,640,369	1 & 2	(29,424,662)	3,215,707
Total Net Assets	<u>132,471,925</u>		<u>(128,865,233)</u>	<u>3,606,692</u>
Total Liabilities and Net Assets	<u>\$146,370,745</u>		<u>(\$131,421,677)</u>	<u>\$14,949,068</u>

Statement of Financial Activity and Changes in Net Assets

	<u>Balance Per Annual Report</u>	<u>Adj.</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Total revenue, operating and nonoperating	\$22,847,175	1	(\$6,095,875)	\$16,751,300
Total expenses, operating and nonoperating	28,354,344	1	(6,782,831)	21,571,513
Increase (decrease) in net assets	(5,507,169)		686,956	(4,820,213)
Changes in net assets per examination		2	175,183	175,183
Other changes per IRS Form 990		1	780,284	780,284
Net assets at beginning of year	137,979,094	1	(130,507,656)	7,471,438
Net assets at end of year	<u>\$132,471,925</u>		<u>(\$128,865,233)</u>	<u>\$3,606,692</u>

Examination Adjustments:

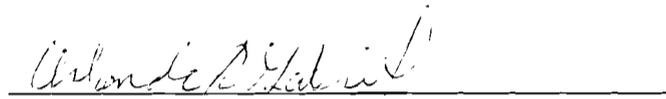
1. To remove the assets, liabilities and net assets of the affiliated entities, Benaroya Hall Music Center and The Seattle Symphony Foundation (the Foundation), in order to present SSO's financial statements in accordance with the OIC Annual Report Instructions. (See Instruction No. 1)
2. To transfer the CGA investments, liabilities and net assets from the Foundation to SSO in accordance with the OIC Annual Report Instructions. (See Instruction No. 1)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of SSO during the course of this examination.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Orlando R. Gabriel", is written above a horizontal line.

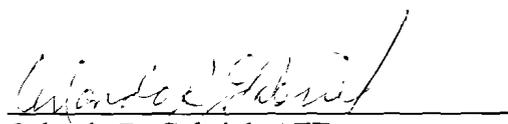
Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 }
COUNTY OF KING } **SS**
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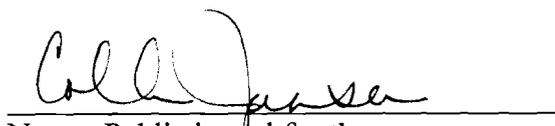
Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of SSO was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 12th day of December, 2007.



Notary Public in and for the
State of Washington,
Residing at Seattle.

