STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of the Charitable Gift Annuity Business

of

Seattle's Union Gospel Mission
Seattle, Washington

AUGUST 31, 2006

Order No. G 07-348
Seattle's Union Gospel Mission
Exhibit A

SALUTATION

Seattle, Washington
December 11, 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's Union Gospel Mission

of

Seattle, Washington

hereinafter referred to as "SUGM" at its office, 388 South Othello Street, Seattle, Washington 98118.

This report of examination is respectfully submitted showing the condition of the CGA business of SUGM as of August 31, 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's Union Gospel Mission of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Seattle's Union Gospel Mission as of August 31, 2006.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

12-11-2007

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 SUGM as of August 31, 2006. The OIC granted permission to SUGM to present its Annual Report as of its fiscal year ended August 31, 2006. The examination of the 2006 Annual Report, therefore, covers the period ending August 31, 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 scope of our examination focused only on the transactions and operations of the CGA business. SUGM'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. In addition, SUGM's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, 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 SUGM by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed SUGM's CGA Annual Reports as part of the statutory examination. This review was performed to determine if SUGM 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. 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%).

SUGM 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 $252,365 annuity liabilities were understated by $25,365 as of August 31, 2006. There was no examination adjustment made at this time due to immateriality.

SUGM 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. Investment Policy

SUGM's investment policy is a draft dated November 2, 2003 with numerous hand-written changes.

It is recommended that SUGM review its investment policy to reflect current conditions and draft a formal investment policy for Board of Trustees approval.

2. Custodial Agreement Name Change

SUGM changed its name in November 2003 from Union Gospel Mission to Seattle's Union Gospel Mission, but did not change the name with the investment custodian.

It is recommended that SUGM notify the investment custodian of its name change so that securities are held in the name of the correct legal entity.

3. Investment Committee

SUGM has an investment committee that does not meet on a regular basis and does not take minutes.

To establish better control of its investment process, it is recommended that SUGM's investment committee meet on a regular basis and record minutes of the meetings.

ORGANIZATION PROFILE

History: SUGM was organized by Seattle area churches in 1932. The purpose of SUGM is to promote Christian religious principles and conduct rescue mission work in the city of Seattle.

Territory and Plan of Operation: On September 3, 1999, the OIC granted SUGM a Certificate of Exemption Number 131 to conduct a CGA business in the state of Washington. There were twenty-seven annuity contracts as of December 31, 2006. All were issued to residents of the state of Washington.

Total Net Assets: SUGM's total adjusted net assets as of August 31, 2006 were $29,154,595. This amount included an unrestricted net asset of $27,895,796. The

minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of SUGM for the past five years is reflected in the following schedules. All information was compiled from SUGM's audited financial statements as of fiscal years ending August 31, 2006.

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Total Net Assets	Unrestricted
2006	$29,852,597	$698,002	$29,154,595	$27,895,796
2005	29,465,838	726,077	28,739,761	27,849,814
2004	25,925,005	660,695	25,264,310	24,653,251
2003	20,346,418	757,278	19,589,140	19,316,102
2002	19,184,431	866,475	18,317,956	17,213,217

Schedule 2 – Statement of Activities and Changes in Net Assets

	2006	2005	2004	2003	2002
Total support and revenue	$13,160,501	$12,843,269	$12,598,184	$12,024,631	$11,233,675
Total expenses	13,601,945	12,649,123	10,943,941	10,753,447	11,027,191
Change in Assets - Non-operating	856,278	3,281,305	3,960,927	0	
Increase (decrease) in net assets	414,834	3,475,451	5,615,170	1,271,184	206,484
Changes in net assets per examination	0				
Prior period adjustment			60,000		
Net assets at beginning of year	28,739,761	25,264,310	19,589,140	18,317,956	18,111,472
Net assets at end of year	**$29,154,595**	**$28,739,761**	**$25,264,310**	**$19,589,140**	**$18,317,956**
Number of gift annuity contracts at end of year	27	26	25	30	27

AFFILIATED ORGANIZATIONS

SUGM has no affiliated organizations.

MANAGEMENT AND CONTROL

Management: SUGM is governed by a Board of Trustees (BOT). The BOT should be not less than 6 or more than twenty-four. Each trustee will serve a term of three years. Trustees are elected annually.

Board of Trustees: The BOT as of fiscal year 2005-2006:

Bill Aanenson
John Forrest
Marjorie Guy
Hoon Kang
Felix Khumalo
Linda Ranz
Al Robinson
Bill Smead
Gordon Stephenson
Andy Toles
Michael Tutmarc
Scott Urie
Herbert Pfiffner

Officers: In accordance with the Bylaws, the officers of SUGM are the president, vice president, secretary, treasurer, and executive director. The terms of all officers will be one year, or until their successors are elected and qualified.

Officers as of fiscal year 2005-2006:

Andy Toles – President
John Forrest – Secretary
Al Robinson – Treasurer
Bill Aanenson – Vice President
Herbert Pfiffner – Executive Director

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

Conflict of Interest: SUGM has a conflict of interest declaration form signed by each trustee. No exceptions were noted.

CORPORATE RECORDS

The BOT normally meets six times a year to discuss any business which is pertinent to SUGM. Minutes of the meetings of trustees documented the approval of SUGM's transactions and events. SUGM has an investment committee that does not meet on a regular basis. When it meets, it does not take minutes nor is there a formally approved investment policy. See Comments and Recommendations Nos. 1 and 3.

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. The SAO indicated that SUGM's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be $336,077 as of December 31, 2006. The 10% surplus required by RCW 48.38.020(3)(c) was not reported as an annuity liability in SUGM's financial statements. As of December 31, 2006, the annuity liabilities were understated by $33,608. See Instruction No. 1.

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 SUGM's fiscal year-end as reflected in the Examination Report Financial Statements.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of SUGM as required by RCW 48.38.020(2). The fair value of the annuity investments as of December 31, 2006 was $600,852. The annuity investments consisted of money market funds and were properly reported in the financial statements at fair value.

SUBSEQUENT EVENTS

There were no material events which impacted SUGM's CGA operations 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 SUGM as of August 31, 2006:

SEATTLE'S UNION GOSPEL MISSION
STATEMENT OF FINANCIAL POSITION
FOR FISCAL YEAR ENDED AUGUST 31, 2006

Assets	Balance Per Annual Report	Examination Adjustments	Adjusted Balance
Current Assets			
Cash and cash equivalents	$127,784		$127,784
Inventory Prepaid expenses and	527,504		527,504
other current assets	311,342		311,342
Total Current Assets	966,630		966,630
Long-term pledges and estates receivable, net	383,126		383,126
Investments	13,212,961		13,212,961
CGA Investments	600,853		600,853
Land, building and equipment, net	14,689,027		14,689,027
Total Assets	$29,852,597		$29,852,597
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	$259,989		$259,989
Accrued Expenses	185,648		185,648
Current portion of gift annuities payable	51,143		51,143
Total Current Liabilities	496,780		496,780
Gift annuities payable, net of current portion	201,222		201,222
Total Liabilities	698,002		698,002
Net Assets			
Unrestricted			
Undesignated	2,377,821		2,377,821
Net investment in land, building and equipment	14,689,027		14,689,027
Board-designated capital fund	5,469,810		5,469,810
Board - designated endowment	5,359,138		5,359,138
	27,895,796		27,895,796
Temporarily restricted	1,109,606		1,109,606
Permanently restricted	149,193		149,193
Total Net Assets	29,154,595		29,154,595
Total Liabilities and Net Assets	$29,852,597		$29,852,597

SEATTLE'S UNION GOSPEL MISSION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR FISCAL YEAR ENDED AUGUST 31, 2006

	Balance Per Annual Report	Examination Adjustments	Adjusted Balance
Operating			
Support and Revenue			
Contributions:			
Individual	$8,666,155		$8,666,155
Chruches	128,699		128,699
Companies	509,574		509,574
Foundations	641,052		641,052
Organizations	234,028		234,028
Estates	187,364		187,364
Donated material and services	1,684,799		1,684,799
	12,051,671		12,051,671
Retail store sales	448,497		448,497
Rent	218,609		218,609
Program fees and other income	71,843		71,843
Change in value of split interest agreements	(47,318)		(47,318)
Investment return	417,199		417,199
Total Support and Revenue	13,160,501		13,160,501
Expenses			
Program services	10,940,160		10,940,160
Management and general	904,343		904,343
Fundraising	1,757,442		1,757,442
Total Expenses	13,601,945		13,601,945
Change in Net Assets - Operating	(441,444)		(441,444)
Non-operating			
Contributions from estates designated for long-term purposes	449,000		449,000
Endowment contributions	1,770		1,770
Capital campaign contributions	575,918		575,918
Capital campaign fundraising expenses	(175,314)		(175,314)
Gain (Loss) on disposal of fixed assets	4,904		4,904
Change in Net Assets - Non-operating	856,278		856,278
Total Change in Net Assets	414,834		414,834
Net Assets			
Beginning of year	28,739,761		28,739,761
End of year	$29,154,595		$29,154,595

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

Susan Campbell

Susan Campbell, CPA, CFE, FLMI
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
} ss
COUNTY OF KING }

Susan Campbell, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of SUGM's CGA operations 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).

Susan Campbell

Susan Campbell, CPA, CFE, FLMI
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 11th day of December, 2007.

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