

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



**FINANCIAL EXAMINATION**  
of the Charitable Gift Annuity Business

of

**Seattle Opera**  
**Seattle, Washington**

**JUNE 30, 2006**

Order No. G 08-15  
Seattle Opera  
Exhibit A

**SALUTATION**

Seattle, Washington  
February 19, 2008

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 Opera

of

Seattle, Washington

hereinafter referred to as the "Opera" at its office, 1020 John Street, Seattle, Washington 98109.

This report of examination is respectfully submitted showing the condition of the CGA business of the Opera 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 the Seattle Opera of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of the Seattle Opera as of June 30, 2006.



Patrick H. McNaughton  
Chief Examiner

2-19-08

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 the Opera as of June 30, 2006. The OIC granted permission to the Opera 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 scope of the examination focused only on the transactions of the CGA business. The Opera'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, the Opera'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 the Opera by examiners from the state of Washington.

## INSTRUCTIONS

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

The Opera maintained a separate fund, but it did not properly report the surplus of 10% to the actuary's calculated reserve amount required by RCW 48.38.020(3)(c). As a result, the reported \$541,801 annuity liabilities were understated by \$54,180 as of June 30, 2006. There was no examination adjustment made at this time due to immateriality.

**Pursuant to RCW 48.38.020(3), the Opera is instructed to increase its CGA reserves by 10% in the separate reserve fund for charitable gift annuities.**

## COMMENTS AND RECOMMENDATIONS

### **1. Investment Committee**

The Opera has an investment committee which does not meet on a regular basis, nor does it maintain minutes when it meets.

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

## ORGANIZATION PROFILE

**History:** The Opera is a not-for-profit organization founded in 1963 that produces and presents operas at the Seattle Center and presents touring and educational programs.

**Territory and Plan of Operation:** On September 8, 1998, the OIC granted the Opera a Certificate of Exemption Number 121 to conduct a CGA business in the state of Washington. There were 25 in-force annuity contracts as of December 31, 2006. All the active annuity contracts were issued to residents of the state of Washington.

**Total Net Assets:** The Opera's total adjusted net assets as of June 30, 2006 were \$15,961,630. This amount included an unrestricted net asset of \$779,680. The minimum unrestricted net assets requirement was satisfied and in compliance with RCW 48.38.010(6).

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

### Statement of Financial Position

Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2006	\$26,883,309	\$10,921,679	\$15,961,630	\$779,680	\$5,420,317	\$9,761,633
2005	32,189,692	14,870,492	17,319,200	1,261,374	6,861,909	9,195,917
2004	32,425,760	13,465,811	18,959,949	1,933,407	8,343,337	8,683,205
2003	30,043,449	11,950,999	18,092,450	2,558,382	7,400,498	8,133,570
2002	28,025,262	9,766,567	18,258,695	3,338,063	7,091,149	7,829,483

### Statement of Activities and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total revenue, operating and nonoperating	\$11,512,253	\$8,029,738	\$8,817,100	\$5,247,028	\$10,198,278
Total expenses, operating and nonoperating	24,490,799	18,792,873	21,215,695	14,849,496	22,675,620
Increase (decrease) in net assets	(12,978,546)	(10,763,135)	(12,398,595)	(9,602,468)	(12,477,342)
Contribution support and others	11,620,976	9,122,386	13,266,094	9,436,223	7,630,791
Net assets at beginning of year	17,319,200	18,959,949	18,092,450	18,258,695	23,105,246
<b>Net assets at end of year</b>	<b>\$15,961,630</b>	<b>\$17,319,200</b>	<b>\$18,959,949</b>	<b>\$18,092,450</b>	<b>\$18,258,695</b>
Number of gift annuity contracts at end of year	25	24	26	20	19

### AFFILIATED ORGANIZATIONS

The Opera has beneficial interests in the Seattle Opera Foundation (Foundation) and an investment in Song & Dance, LLC. The Foundation was established in 1982 to receive and invest donations for the benefit of the Opera. The Foundation is reported separately from the financial statements of the Opera. Song & Dance, LLC operates a retail sales facility at the location of the Opera performance.

### MANAGEMENT AND CONTROL

**Management:** The management of the affairs of the Opera is vested in a Board of Trustees (BOT) made up of not less than forty-five (45) or more than ninety (90) persons elected by members. A majority of the authorized number of trustees constitute a quorum except when a vacancy or vacancies prevent such a majority.

**Board of Trustees:** The trustees as of fiscal year 2006-2007 are:

Willie C. Aikens	Karl J. Ege	A. Jane Remsberg
Tom McQuaid	Evette Glauber	Thurston Roach
George C. Pagos	Felicia C. Guity	Alex J. Rose
William T. Weyerhaeuser	Jim L. Hodge	Eulalie Schneider
John Delo	Susanne F. Hubbach	Walter E. Skowronski
David Bukey	Andrea K. Kaempf	A. McNair Smith
Paul Rafanelli	Thomas A. Lemly	Stephen A. Sprenger
Kim A. Anderson	Carla E. Lewis,	Dawson Taylor
Cynthia Bayley	Bruce McCaw	Russell F. Tousley
Katarina Bonde	JJ McKay	Jim Uhlir
Patricia L. Bostrom	Ed Miles	Muriel Van Housen
Gregory Chan, M.D.	Louise Miller	John E. Veblen
Janice C. Condit	Robert C. Milnor	Joan S. Watjen

**Officers:** The officers as of fiscal year 2006-2007 are:

John F. Neshoim, Chairman	Diana Gale, Vice-President
Lawrence W. Clarkson, Chairman Emeritus	Max E. Gellert, Vice-President
William P. Gerberding, Chairman Emeritus	Jerry Landeen, Vice-President
Steven C. Phelps, President	James David Raisbeck, Vice-President
Gerard L. Hanauer, Executive Vice- President	Dana A. Rasmussen, Vice-President
Jeffrey Hanna, Treasurer	J. Thurston Roach, Vice-President
Rosemarie Anderson, Secretary	Kenneth L. Schubert, Jr., Vice-President
Thomas H. Allen, Vice-President	A. McNair Smith, M.D., Vice-President
Steven A. Clifford, Vice-President	Kathy Wilcox, Vice-President
Tracy B. Edgers, Vice-President	Brandon Williams, Vice-President
James R. Faulstich, Vice-President	

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

**Conflict of Interest:** Each officer and BOT member signs a conflict of interest statement acknowledging that they have read the Seattle Opera policy on Conflict of Interest and have agreed to comply with the policy. No exceptions were noted.

### **CORPORATE RECORDS**

The BOT meets five times a year to discuss any business which is pertinent to the Opera. The BOT meeting minutes documented the approval of the Opera's transactions and events. (See COMMENTS AND RECOMMENDATIONS No. 1).

### **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 Opera's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be \$541,801 as of June 30, 2006.

As of June 30, 2006, the \$541,801 reported annuity liabilities were understated by \$54,180 because the Opera did not include the surplus of 10% in its financial statements as required by RCW 48.38.020(3)(c). (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 the Opera'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 the Opera as required by RCW 48.38.020(2). The fair value of the annuity investments as of December 31, 2006 was \$850,373, and consisted of cash and equity funds. Please note that the annuity investments information is provided based on calendar year-end, the reporting period required by the OIC, which is different than the Opera's fiscal year-end reflected in the Examination Report Financial Statements.

### **SUBSEQUENT EVENTS**

There were no material events which impacted the Opera's CGA business 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

### Seattle Opera Statement of Financial Position For Fiscal Year Ended June 30, 2006

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$5,897,338	\$0	\$5,897,338
Cash permanently restricted - CGA	674,770		674,770
Investments	335,641		335,641
Other assets	19,975,560		19,975,560
<b>Total Assets</b>	<b><u>\$26,883,309</u></b>	<b><u>\$0</u></b>	<b><u>\$26,883,309</u></b>
<b><u>Liabilities</u></b>			
Accrued annuities payable - long-term	\$541,801		\$541,801
Other liabilities	10,379,878		10,379,878
<b>Total Liabilities</b>	<b><u>10,921,679</u></b>	<b><u>\$0</u></b>	<b><u>10,921,679</u></b>
<b><u>Net Assets</u></b>			
Unrestricted net assets	779,680		779,680
Temporarily restricted net assets	5,420,317		5,420,317
Split interest trust fund	9,761,633		9,761,633
<b>Total Net Assets</b>	<b><u>15,961,630</u></b>	<b><u>0</u></b>	<b><u>15,961,630</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$26,883,309</u></b>	<b><u>\$0</u></b>	<b><u>\$26,883,309</u></b>

### Statement of Activities and Changes in Net Assets For Fiscal Year Ended June 30, 2006

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Total revenues	\$23,133,229	\$0	\$23,133,229
Total expenses	24,490,799	0	24,490,799
Increase (decrease) in net assets	(1,357,570)		(1,357,570)
Net assets at beginning of year	17,319,200	0	17,319,200
<b>Net assets at end of year</b>	<b><u>\$15,961,630</u></b>	<b><u>\$0</u></b>	<b><u>\$15,961,630</u></b>

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Opera 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,



Tarik Subbagh, CPA, CFE  
Examiner-in-Charge  
State of Washington

