# STATE OF WASHINGTON
# OFFICE OF THE INSURANCE COMMISSIONER

## FINANCIAL EXAMINATION

## of the Charitable Gift Annuity Business

of

## Wesley Homes Foundation
## Des Moines, Washington

## DECEMBER 31, 2006

Wesley Homes Foundation
Order No. 08-181
Exhibit A

## SALUTATION

Seattle, Washington
December 10, 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 charitable gift annuity (CGA) business of

Wesley Homes Foundation

of

Des Moines, Washington

hereinafter referred to as "WHF" at its office, 815 South 216th Street, Des Moines, Washington 98198. This report of examination is respectfully submitted showing the condition of the CGA business of WHF as of December 31, 2006.

## CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the CGA business of Wesley Homes Foundation of Des Moines, Washington. This report shows the financial condition of the CGA business and related corporate matters of Wesley Homes Foundation as of December 31, 2006.

Patrick H. McNaughton
Chief Examiner

December 10, 2008
Date

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## SCOPE OF THE EXAMINATION

This examination covers the period June 3, 2005 through December 31, 2006, the period during which WHF has held a certificate of exemption from the OIC. The scope of our examination focused on the transactions and operations of the CGA business. WHF'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, WHF'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 Des Moines office of WHF by examiners from the state of Washington.

## INSTRUCTIONS

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

RCW 48.38.020 requires WHF 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 10%. WHF 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 $1,165,533 annuity liabilities were understated by $116,553 as of December 31, 2006. No examination adjustment was required due to immateriality.

**WHF is instructed to increase by an additional 10% the actuarial reserve calculated for the separate reserve fund in compliance with RCW 48.38.020(3)(c).**

### 2. Separate Reserve Fund

RCW 48.38.020(1) requires WHF to maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. The checking account at Bank of America used to pay charitable gift annuity benefits is in the name of its parent, Wesley Homes (WH) and reported on the books of Wesley Homes Des Moines, LLC (a subsidiary). As a result, the CGA assets of WHF were under-reported on the 2006 Annual Report by $48,070. No adjustment was required due to immateriality.

**WHF is instructed to comply with RCW 48.38.020(1) and transfer the balance in the gift annuity checking account into a new account established for WHF.**

### 3. Assets of the Separate Reserve Fund

RCW 48.38.020(2)(c) requires that the assets of the separate reserve fund not be liable for any debts of the insurer or institution holding a certificate of exemption other than those incurred pursuant to the issuance of charitable gift annuities. A resolution passed by the Board of Directors on October 26, 2005 provides a guaranty of its non-restricted funds, which included the CGA investments of $1,779,086, in favor of Bank of America, N.A. This guaranty serves to secure financing for the issuance of $58,425,000 of revenue bonds. These funds were borrowed primarily to finance the construction of multifamily residential facilities at Lea Hill, Washington.

**WHF is instructed to comply with RCW 48.38.020(2)(c) and ensure that the assets of the separate reserve fund are not liable for any debts of WHF other than those incurred pursuant to the issuance of charitable gift annuities.**

## COMMENTS AND RECOMMENDATIONS

### 1. Investment Manager Agreement and Statement of Investment Policy

The annuity investments are currently managed and held by EverTrust Asset Management. However, the agreement is by and between WH and EverTrust Management. WH is also identified in the trust annuity investments account statement and the Statement of Investment Policy.

**It is recommended that WHF coordinate with EverTrust Management to change the name in the agency agreement and account statement reflecting WHF as the principal and registered owner of the trust annuity assets. Also, WHF's Board of Directors (BOD) should develop a separate Statement of Investment Policy for WHF.**

**2. Documentation of Closed Annuity Contract**

WHF did not maintain full documentation, such as a death certificate, to sufficiently support the transfer of the remaining annuity funds of deceased annuitants.

**It is recommended that WHF obtain and retain full and adequate documentation of an annuitant's death. This could include a certified copy of the death certificate or any other relevant, important data gathered by or furnished to WHF.**

## ORGANIZATION PROFILE

**History:** WHF was established in 1996. It was organized for charitable and educational purposes to facilitate the solicitation, recognition, and management of charitable gifts in support of the parent company, WH.

At the time WHF was established, it did not have the assets required to issue charitable gift annuities, thus WH, holder of Certificate of Exemption #73, had been the issuer of charitable gift annuities for the last ten years. All the annuity contracts issued through August 2005 and the related annuity assets and liabilities were transferred to WHF and reported on its year-end 2005 financial statements. WHF's BOD and the OIC have approved the transfer, and WHF is now responsible for the administration and payment of all CGA contracts.

**Territory and Plan of Operation:** On June 3, 2005, the OIC granted WHF Certificate of Exemption No. 271 to conduct a CGA business in the state of Washington.

**Total Net Assets:** WHF's total net assets as of December 31, 2006 were $4,131,636 consisting of $2,069,594 unrestricted net assets, $1,317,081 temporarily restricted and $744,961 permanently restricted net assets. The minimum unrestricted net asset requirement as of December 31, 2006 was satisfied pursuant to RCW 48.38.010(6).

**Growth:** The growth of WHF for the past two years is reflected in the following schedules. All information was compiled from WHF's financial statements.

**Schedule 1 - Statement of Financial Position**

| Year | Assets | Liabilities | Total Net Assets | Total Net Assets Allocated Into: Unrestricted | Temporarily Restricted | Permanently Restricted |
|---|---|---|---|---|---|---|
| **2006** | $5,297,169 | $1,165,533 | $4,131,636 | $2,069,594 | $1,317,081 | $744,961 |
| **2005** | 4,701,028 | 735,598 | 3,965,430 | 1,155,302 | 2,066,392 | 743,736 |

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

| | 2006 | 2005 |
|---|---|---|
| Revenues and gains | ($24,800) | $896,443 |
| Expenses | (13,979) | (225,460) |
| Increase (decrease) in net assets | (38,779) | 670,983 |
| Change in unrealized gains (losses) on investments | 204,985 | 79,338 |
| Net assets at beginning of year | 3,965,430 | 3,215,109 |
| **Net assets at end of year** | **$4,131,636** | **$3,965,430** |
| | | |
| Number of gift annuity contracts at end of year | 102 | 97 |

## AFFILIATED ORGANIZATIONS

WHF is directly controlled by its parent company WH. During 2005, WH reorganized the corporate structure of the organization and all of the assets, liabilities and operations were transferred into a new legal entity, Wesley Homes Des Moines, LLC which became a subsidiary of WH. Wesley Homes Des Moines, LLC is organized to provide a continuing care retirement community located in Des Moines, Washington. Additional subsidiaries of WH include Wesley Homes Lea Hill, LLC organized to provide a planned retirement community in Auburn, Washington and Wesley Homes Community Health Services organized to provide health services to the organization.

## MANAGEMENT AND CONTROL

**Management:** According to the restated Articles of Incorporation and Bylaws (May 6, 2006), the management of all the affairs of WHF is vested in a BOD consisting of no less than nine and no more than fifteen directors. The BOD is elected by the Board of Trustees of WH. The restated Bylaws state that the officers of the corporation are a president, a vice president, a secretary and a treasurer who are elected by the BOD at each annual meeting. All officers of the corporation are members of WHF's BOD.

The BOD as of December 31, 2006:

Reverend Paul Beeman
Chuck Booth
Scott Burns
Nancy Colson
Margot Hightower
Vivian Lee
Reverend Bruce Parker
Jim Russell
Paul Schneider
Jane Shafer
Cyril Van Selus

The officers as of December 31, 2006:

| | |
|---|---|
| Scott Burns, President | Paul Schneider, Treasurer |
| Nancy Colson, Vice President | Jane Shafer, Secretary |

**Tax Status:** WHF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest:** WHF's conflict of interest policy requires each member of the BOD to disclose any conflict of interest by completing and submitting a conflict of interest questionnaire to the BOD. No exceptions were noted.

## ORGANIZATION RECORDS

The BOD meets at least five times a year to discuss any business which is pertinent to WHF. BOD meeting minutes documented the approval of WHF's transactions and events. No exceptions were noted.

## STATEMENT OF ACTUARIAL OPINION

A consulting actuary from 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 its qualification standards to render the actuarial opinion. The SAO indicated that WHF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be $1,165,533. This amount did not include the 10% surplus required by RCW 48.38.020(3)(c). (See Instruction No. 1.)

## ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were physically segregated from the other assets of WHF, but the company named on the custodial investments account statement is WH, the parent company. Also, the gift annuity checking account was not held legally and physically segregated from the other assets of the parent company. Total annuity assets as of December 31, 2006 included investments of $1,779,086 and a checking account of $48,070. The annuity investments consisted of cash equivalent, fixed income and equity funds. Investments were recorded at market value. (See Instruction No. 2 and No. 3.)

## SUBSEQUENT EVENTS

There were no material events which impacted WHF'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

The following financial information summarizes the financial statements of WHF:

| | Balance per Annual Report | Examination Adjustments | Balance per Examination |
|---|---|---|---|
| **Assets** | | | |
| Cash | $18,145 | $0 | $18,145 |
| CGA investments – unrestricted | 1,779,086 | | 1,779,086 |
| Investments – unrestricted | 1,400,356 | | 1,400,356 |
| Investments – restricted | 1,647,977 | | 1,647,977 |
| Other assets | 451,605 | | 451,605 |
| **Total Assets** | **$5,297,169** | **$0** | **$5,297,169** |
| **Liabilities** | | | |
| CGA reserves | $1,165,533 | $0 | $1,165,533 |
| Other liabilities | 0 | | 0 |
| **Total Liabilities** | **1,165,533** | **0** | **1,165,533** |
| **Net Assets** | | | |
| Unrestricted | 2,069,594 | 0 | 2,069,594 |
| Temporarily restricted | 1,317,081 | | 1,317,081 |
| Permanently restricted | 744,961 | | 744,961 |
| **Total Net Assets** | **4,131,636** | **0** | **4,131,636** |
| **Total Liabilities and Net Assets** | **$5,297,169** | **$0** | **$5,297,169** |

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Balance per Annual Report | Examination Adjustments | Balance per Examination |
|---|---|---|---|
| Total revenues | ($24,800) | $0 | ($24,800) |
| Total expenses | (13,979) | | (13,979) |
| Increase (decrease) in net assets | (38,779) | 0 | (38,779) |
| Change in net unrealized gains (losses) on investment | 204,985 | | 204,985 |
| Net assets at beginning of year | 3,965,430 | | 3,965,430 |
| **Net assets at end of year** | **$4,131,636** | **$0** | **$4,131,636** |

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of WHF 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 Richard Bologna, Insurance Examiner from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

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

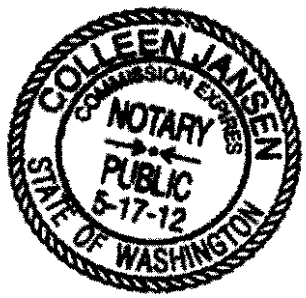
**AFFIDAVIT**

**STATE OF WASHINGTON** }
} ss
**COUNTY OF KING** }

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 WHF's CGA business 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 10th day of December, 2008.

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