

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



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

of

**The Greater Tacoma Community Foundation
Tacoma, Washington**

June 30, 2007

Order No. 09-50
The Greater Tacoma Community Foundation
Exhibit A

SALUTATION

Seattle, Washington
May 7, 2009

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

The Greater Tacoma Community Foundation

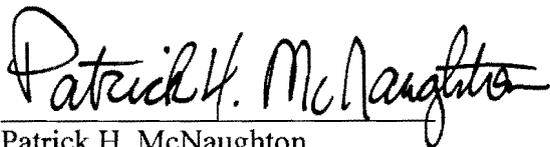
of

Tacoma, Washington

hereinafter referred to as "GTCF" at its office, 950 Pacific Avenue, Suite 1220, Tacoma, Washington 98402. This report of examination is respectfully submitted showing the condition of the CGA business of GTCF as of June 30, 2007.

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 Greater Tacoma Community Foundation of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of The Greater Tacoma Community Foundation as of June 30, 2007.



Patrick H. McNaughton
Chief Examiner

5-7-09

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007. The 2007 Annual Report reflected the balance sheet and statement of revenue and expenses of GTCF as of June 30, 2007. The OIC granted permission to GTCF to present its CGA Annual Report as of its fiscal year ended June 30, 2007. The examination of the 2007 Annual Report, therefore, covers the period ending June 30, 2007 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2007 for the general interrogatories and charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The financial statements are presented on a consolidated basis for GTCF and its affiliates. However, the scope of our examination focused only on the transactions and operations of the CGA business.

GTCF'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 the CGA reporting. The results of the examination are commented upon in the various sections of this report. In addition, GTCF'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 Tacoma office of GTCF by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed GTCF's CGA Annual Reports as part of the statutory examination. This review was performed to determine if GTCF completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that GTCF'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 GTCF did not conform to Chapter 48.38 RCW and the OIC Annual Report Instructions during the examination periods 2003 through 2007.

Balances reported included the accounts of GTCF and its affiliates, The Friends of Lakewold and The Western Forest Industries Museum. GTCF is the holder of the certificate of exemption. The OIC Annual Report Instructions specifically require that the Annual Report must be submitted only for the organization holding the certificate of

exemption (GTCF) to issue annuities. Examination adjustments were made to remove account balances belonging to affiliates, thereby, reflecting only the financial statements of GTCF in accordance with the OIC Annual Report Instructions. Adjustments to the 2007 Annual Report resulted in aggregate decreases in total assets of \$7,483,581, total liabilities of \$64,808, and total net assets of \$7,418,773. (See Financial Statements.)

GTCF is instructed to comply with reporting requirements in accordance with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions.

2. CGA Liabilities - Reserves

RCW 48.38.020 requires GTCF to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. GTCF maintained a separate reserve of \$604,027 which did not agree to the actuary's calculated reserve amount of \$625,797. The amount of the separate reserve is also required to include a surplus of ten percent (10%) per RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$688,377. As a result, the reported annuities payable was understated by \$84,350 on December 31, 2007. No examination adjustment was made due to immateriality.

GTCF is instructed to report the statutory reserve calculated by the actuary pursuant to RCW 48.38.010(10)(c), plus an additional 10% as required by RCW 48.38.020(1) and (3).

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in this examination report.

ORGANIZATION PROFILE

History: GTCF is a not-for-profit corporation organized in 1981 under the laws of the state of Washington. The corporation is organized to carry out charitable, educational, and scientific purposes for the benefit of the people of the greater Tacoma area. GTCF grants funds to a variety of charitable and not-for-profit organizations to support their respective programs.

Territory and Plan of Operation: On March 28, 1988, the OIC granted GTCF a Certificate of Exemption Number 24 to conduct a CGA business in the state of Washington. There were forty in-force annuity contracts as of December 31, 2007; thirty-eight were issued to residents of the state of Washington, one was issued to a resident of California, and one was issued to a resident of Oregon.

Total Net Assets: GTCF's total adjusted net assets as of June 30, 2007 were \$59,167,714. This amount included unrestricted net assets of \$50,220,875. The

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

Growth: The growth of GTCF for the past five years is reflected in the following schedules. All information was compiled from GTCF's audited financial statement supplemental schedules as of fiscal years ending June 30:

Schedule 1 – Statement of Financial Position

<u>Fiscal Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	<u>Total Net Assets Allocated Into:</u>		
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
2007	\$69,458,857	\$10,291,143	\$59,167,714	\$50,220,875	\$6,085,145	\$2,861,694
2006	53,981,633	8,098,786	\$45,882,847	41,208,444	1,863,791	2,810,612
2005	48,410,030	7,479,742	\$40,930,288	36,318,044	1,849,328	2,762,916
2004	43,343,340	5,340,790	\$38,002,550	32,840,611	3,118,251	2,043,688
2003	37,106,898	3,950,312	\$33,156,586	28,543,503	2,569,395	2,043,688

Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues and support	\$17,102,771	\$8,800,760	\$6,201,491	\$8,284,296	\$2,924,808
Expenses	<u>3,817,904</u>	<u>3,848,201</u>	<u>3,972,204</u>	<u>3,438,332</u>	<u>3,525,829</u>
Increase (decrease) in net assets	13,284,867	4,952,559	2,229,287	4,845,964	(601,021)
Net assets at beginning of year	45,882,847	40,930,288	38,002,550	33,156,586	33,757,607
Prior-period adjustment			698,451		
Net assets at end of year	<u>\$59,167,714</u>	<u>\$45,882,847</u>	<u>\$40,930,288</u>	<u>\$38,002,550</u>	<u>\$33,156,586</u>
Number of gift annuity contracts at end of year	40	40	38	36	33

AFFILIATED ORGANIZATIONS

GTCF's affiliates consist of the following not-for-profit corporations: The Friends of Lakewold, established in December 1986; and The Western Forest Industries Museum, established in June 1998.

MANAGEMENT AND CONTROL

Management: GTCF is governed by a Board of Directors (BOD). The BOD has fifteen members. All directors are elected by an affirmative vote of a majority of the directors. A director is not eligible to serve more than two consecutive three year terms unless at least three years have elapsed from the expiration of the second term.

Directors as of June 30, 2007:

Mary Ann Anderson	Dennis Hanberg	Amy Lewis
Albert S. Bacon, III	John Holmaas	Claude A. Remy
Peter Darling	Sherlyn Iverson	Terry Stone
Wendy Gray	John Lantz	James L. Walton
Linda Gutman	John S. Larsen	Joan D. Watt

According to the Bylaws, the officers of the corporation are a chairperson, a vice chairperson, a secretary, and a treasurer who are elected by the BOD from its membership. Also, the BOD appoints a president to serve as the chief executive officer of the corporation.

Officers as of June 30, 2007:

James L. Walton, Chair
Wendy Gray, Vice Chair
Terry Stone, Treasurer
John Lantz, Secretary
Rose Lincoln, President/Chief Executive Officer

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

Conflict of Interest: Every director, officer, and staff member is asked to complete and sign a conflict of interest questionnaire annually. Every director, officer, and staff member must disclose all actual and potential conflicts and recuse himself/herself from participating in the discussion of, or voting on, any transaction or arrangement in which he/she has a potential or actual conflict of interest. All conflicts of interest are to be noted in the BOD's meeting minutes. No exceptions were noted.

ORGANIZATION RECORDS

The BOD meets six times a year to discuss any business which is pertinent to GTCF. BOD meeting minutes documented the approval of GTCF'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. The SAO indicated that GTCF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$625,797 as of December 31, 2007. This amount, plus an additional 10% as required by RCW

48.38.020(3)(c), was not properly reported as annuity liabilities in GTCF's financial statements. (See Instruction No. 2.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of GTCF as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2007 was \$1,151,061 and consisted of mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted GTCF'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 GTCF:

THE GREATER TACOMA COMMUNITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2007

	<u>Balance per</u> <u>Annual Report</u>	<u>Adj.</u>	<u>Examination</u> <u>Adjustments</u>	<u>Balance Per</u> <u>Examination</u>
<u>ASSETS</u>				
Cash	\$1,389,944	1	(\$171,048)	\$1,218,896
Bequest, trust and other receivables	5,692,999	1	(13,147)	5,679,852
CRUT, other pooled investments	60,692,054	1	(25,000)	60,667,054
CGA investmens	1,174,506		0	1,174,506
Fixed assets	4,624,704	1	(4,580,155)	44,549
Land for sales	674,000		0	674,000
Other assets	2,694,231	1	(2,694,231)	0
Total Assets	<u>\$76,942,438</u>		<u>(\$7,483,581)</u>	<u>\$69,458,857</u>
<u>LIABILITIES</u>				
Accounts payable	\$215,066	1	(\$64,808)	\$150,258
Split interest agreements	1,265,121		0	1,265,121
CGA reserves	637,977		0	637,977
Other liabilities	8,237,787		0	8,237,787
Total Liabilities	<u>10,355,951</u>		<u>(64,808)</u>	<u>10,291,143</u>
<u>NET ASSETS</u>				
Unrestricted	55,788,186	1	(5,567,311)	50,220,875
Temporarily restricted	6,089,930	1	(4,785)	6,085,145
Permanently restricted	4,708,371	1	(1,846,677)	2,861,694
Total Net Assets	<u>66,586,487</u>		<u>(7,418,773)</u>	<u>59,167,714</u>
Total Liabilities and Net Assets	<u>\$76,942,438</u>		<u>(\$7,483,581)</u>	<u>\$69,458,857</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For Fiscal Year Ended June 30, 2007

	<u>Balance Per Annual Report</u>	<u>Adj.</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$18,439,711	1	(\$1,336,940)	\$17,102,771
Total expenses	5,108,857	1	(1,290,953)	3,817,904
Increase (decrease) in net assets	13,330,854		(45,987)	13,284,867
Net assets at beginning of year	53,255,633	1	(7,372,786)	45,882,847
Net assets at end of year	\$66,586,487		(\$7,418,773)	\$59,167,714

Examination Adjustments:

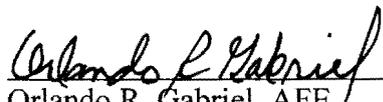
1. Assets, liabilities, expenses, and net assets of the affiliated entities were removed in order to present GTCG's financial statements in accordance with the OIC Annual Report Instructions. (See Instruction No. 1.)

ACKNOWLEDGMENT

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



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

