

Order No. 09-102  
Tacoma Lutheran Home and  
Retirement Community  
Exhibit A

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



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

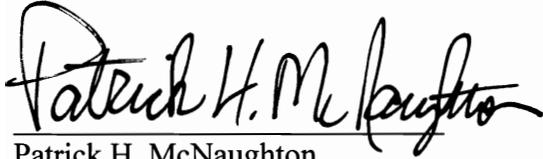
**of**

**Tacoma Lutheran Home and Retirement Community  
Tacoma, Washington**

**DECEMBER 31, 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 Tacoma Lutheran Home and Retirement Community of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of Tacoma Lutheran Home and Retirement Community as of December 31, 2007.



Patrick H. McNaughton  
Chief Examiner

9-28-2009

Date

**SALUTATION**

Seattle, Washington  
September 28, 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

Tacoma Lutheran Home and Retirement Community

of

Tacoma, Washington

hereinafter referred to as "TLRC" at its office, 1301 North Highlands Parkway, Tacoma, Washington 98406. This report of examination is respectfully submitted showing the condition of the CGA business of TLRC as of December 31, 2007.

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007. The scope of our examination focused only on the transactions and operations of the CGA business. TLRC'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, TLRC'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 TLRC by examiners from the state of Washington.

## INSTRUCTIONS

The examiners reviewed TLRC's CGA Annual Reports as part of the statutory examination. This review was performed to determine if TLRC completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that TLRC'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. Annuity Contracts**

The contents of the annuity contracts are incomplete. All of the annuity contracts issued by TLRC did not include the age or birth date of the person during whose life payment is to be made as required by RCW 48.38.030(4) and the reasonable value as of the date of the contract of the benefits as required by RCW 48.38.030(5).

**TLRC is instructed to comply with RCW 48.38.030(4) and 48.38.030(5) and the OIC Annual Report Instructions by including in the annuity contract the age of the person during whose life payment is to be made and the reasonable value as of the date of the agreement of the benefits created.**

### **2. Gift Annuity Payables– Reserves**

RCW 48.38.020 requires TLRC to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. TLRC maintained a separate reserve of \$332,029 which did not agree to the actuary's calculated reserve amount of \$472,964. 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 \$520,260. As a result, the reported annuities payable was understated by \$188,231. (See Examination Adjustment No. 2.)

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

### **3. Reporting Requirements**

The filing of the OIC Annual Reports by TLRC did not conform to Chapter 48.38 RCW and the OIC Annual Report Instructions during the examination period 2003 through 2007. Balances reported included the accounts of TLRC and its supporting organization, Tacoma Lutheran Home Foundation (TLHF). TLRC 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 to issue annuities. Examination adjustments were made to remove account balances belonging to TLHF, thereby, reflecting only the financial statements of TLRC in accordance with the OIC Annual Report Instructions. Adjustments to the 2007 Annual Report resulted in a decrease in cash equivalents of \$471,741; a decrease in marketable securities of \$2,208,794; and a decrease in total net assets of \$2,680,535. (See Examination Adjustment No. 1.)

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

## **COMMENTS AND RECOMMENDATIONS**

### **1. Investments - Board of Governors (BOG) Minutes**

TLRC's investment guidelines and policies stipulate that the BOG is to perform the following: regularly review the investment manager's reports on the result of investments, evaluate the performance of the investment manager, and recommend any changes in investment policy. There was no indication in TLRC's BOG minutes from 2006 through 2008 that an investment manager reported on the results of the investments whether on a monthly, quarterly, semi-annually, or annual basis. Furthermore, there was no documentation in the minutes that the BOG authorized any investment transactions.

**It is recommended that TLRC adhere to its investment guidelines and policies by requiring the investment manager to report on investment results to the BOG at least on a quarterly basis. It is also recommended that the BOG approve any investment transactions and document the approval in the BOG minutes.**

## ORGANIZATION PROFILE

**History:** TLRC is a nonprofit corporation founded in 1938. TLRC provides independent living, assisted care and skilled nursing.

**Territory and Plan of Operation:** On September 18, 1987, the OIC granted TLRC Certificate of Exemption No. 20 to conduct a CGA business in the state of Washington.

**Total Net Assets:** TLRC's total adjusted net assets as of December 31, 2007 were \$3,136,614. This amount included unrestricted net assets of \$2,890,226. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

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

### Schedule 1 – Statement of Financial Position

Calendar Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Temporarily		Permanently Restricted
				Unrestricted	Restricted	
*2007	\$15,610,276	\$12,473,662	\$3,136,614	\$2,890,226	\$222,386	\$24,002
2006	13,580,196	11,508,940	2,071,256	1,897,563	173,693	0
2005	12,522,869	11,577,382	945,487	769,386	176,101	0
2004	13,097,872	11,975,113	1,122,759	1,016,549	106,210	0
2003	13,256,398	12,145,084	1,111,314	1,058,537	52,777	0

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

	2007 *	2006	2005	2004	2003
Revenues and gains	\$17,949,138	\$16,999,416	\$15,275,613	\$14,921,000	\$14,253,127
Expenses	16,695,549	15,793,511	15,396,118	14,930,534	14,094,121
Increase (decrease) in net assets	1,253,589	1,205,905	(120,505)	(9,534)	159,006
Changes in net assets per examination	(188,231)	(80,136)	(56,767)	20,980	(257,418)
Net assets at beginning of year	2,071,257	945,488	1,122,760	1,111,314	1,209,726
<b>Net assets at end of year</b>	<b>\$3,136,615</b>	<b>\$2,071,257</b>	<b>\$945,488</b>	<b>\$1,122,760</b>	<b>\$1,111,314</b>

Number of gift annuity contracts at end of year

33	31	38	38	34
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\* The 2007 balances included examination adjustments. (See Financial Statements.)

## AFFILIATED ORGANIZATIONS

TLRC has two affiliated organizations: Tacoma Lutheran Home Foundation (the Foundation), a nonprofit entity organized to enable TLRC to expand its services to the elderly community; and the Tacoma Lutheran Home, LLC (the LLC), whose membership units are wholly-owned by TLRC and the Foundation. The LLC was formed to receive

any potential gifts of real estate intended to support the mission of TLRC and the Foundation. The LLC did not hold any real estate in 2007 and 2006.

### **MANAGEMENT AND CONTROL**

**Management:** According to TLRC's Bylaws, the management of all the affairs of TLRC is vested in a Board of Governors consisting of not more than 15 individuals of which at least a majority must belong to member Lutheran congregations.

The BOG as of December 31, 2007:

David Alger	Doug Nugent
Bruce Arneklev	Paul M. Opgrande
Deborah Bassett	Gordon Pease
Helen W. Conroy	James Pence
Doug Helland	Dorothy Prybylski
Jan Larsen	Carol Silvernail
Lyle G. Miller	Russell Ziegler

The officers of the corporation consist of a president, a chair, a vice chair, a secretary and a treasurer who are elected or appointed by the BOG at its corporation meeting. All officers are members of TLRC's BOG.

The officers as of December 31, 2007:

Paul M. Opgrande, President	Doug Helland, Treasurer
Lyle G. Miller, Chairman	Carol Silvernail, Secretary
Gordon Pease, Vice-Chair	

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

**Conflict of Interest:** According to TLRC's Conflict of Interest Policy, each BOG member is required to disclose any conflict of interest by completing and submitting a conflict of interest statement annually to the BOG. We reviewed samples of the conflict of interest statements completed by the BOG members. No exceptions were noted.

### **ORGANIZATION RECORDS**

The BOG meets at least ten times a year to discuss any business which is pertinent to TLRC. Except as noted in this report, BOG meeting minutes documented the approval of TLRC'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 its qualification standards. The SAO indicated that TLRC's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$472,964 as of December 31, 2007. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was not properly reported as annuities payable in TLRC'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 TLRC as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2007 was \$1,172,383, and consisted of mutual funds, stocks, U.S. Treasury securities, and other U.S. government obligations. The annuity investments were properly reported in the financial statements at market value.

### **SUBSEQUENT EVENTS**

There were no material events which impacted TLRC'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 TLRC:

**TACOMA LUTHERAN HOME & RETIREMENT COMMUNITY**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2007**

	<u>Balance per Annual Report</u>	<u>Reference</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$5,055,049	1	(\$471,741)	\$4,583,308
Other current assets	1,316,839			1,316,839
Marketable securities	2,208,794	1	(2,208,794)	0
CGA investments	1,172,383			1,172,383
Real estate held for investments	51,375			51,375
Total fixed assets-net	8,048,367			8,048,367
Other assets	438,004			438,004
<b>Total Assets</b>	<b><u>\$18,290,811</u></b>		<b><u>(\$2,680,535)</u></b>	<b><u>\$15,610,276</u></b>
<b><u>LIABILITIES</u></b>				
Current liabilities	\$1,461,145		\$0	\$1,461,145
Other liabilities	119,536			119,536
Long-term debt	6,235,302			6,235,302
Deferred entrance fees	4,137,419			4,137,419
CGA reserves	332,029	2	188,231	520,260
<b>Total Liabilities</b>	<b><u>12,285,431</u></b>		<b><u>188,231</u></b>	<b><u>12,473,662</u></b>
<b><u>NET ASSETS</u></b>				
Unrestricted	5,758,992	1 & 2	(2,868,766)	2,890,226
Temporarily restricted	222,386			222,386
Permanently restricted	24,002			24,002
<b>Total Net Assets</b>	<b><u>6,005,380</u></b>		<b><u>(2,868,766)</u></b>	<b><u>3,136,614</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$18,290,811</u></b>		<b><u>(\$2,680,535)</u></b>	<b><u>\$15,610,276</u></b>

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance Per Annual Report</u>	<u>Reference</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$18,244,636	1	(\$295,498)	\$17,949,138
Total expenses	16,891,133	1	195,584	16,695,549
Increase (decrease) in net assets	1,353,503		(99,914)	1,253,589
Changes in net assets per examination		2	(188,231)	(188,231)
Net assets at beginning of year	4,651,878	1	(2,580,621)	2,071,257
<b>Net assets at end of year</b>	<b><u>\$6,005,380</u></b>		<b><u>(\$2,868,766)</u></b>	<b><u>\$3,136,614</u></b>

Reference:

- 1 To eliminate the assets, liabilities, revenues, expenses and net assets of the affiliated entity, TLHF, in order to present TLRC's statutory financial statements in accordance with the OIC Annual Report Instructions. (See Instruction No. 3.)
- 2 To adjust the charitable gift annuity payable to agree with the calculated statutory annuity reserves. (See Instruction No. 2.)

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of TLRC 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 Edsel Dino, Financial 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**        }  
  }  
**COUNTY OF KING**            } ss  
  }

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 TLRC'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 30<sup>th</sup> day of September, 2009.

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

