

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



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

**of**

**Tacoma Orthopedic Association  
Tacoma, Washington**

**December 31, 2008**

Order No. 10-122  
Tacoma Orthopedic Association  
Exhibit A

**SALUTATION**

Seattle, Washington  
July 7, 2010

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 Orthopedic Association

of

Tacoma, Washington

hereinafter referred to as "TOA" or the "Association" at its office, 311 South L Street, Tacoma, Washington 98415. This report of examination is respectfully submitted showing the condition of the CGA business of TOA as of December 31, 2008.

**ASSISTANT 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 Orthopedic Association of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of Tacoma Orthopedic Association as of December 31, 2008.

  
MICHAEL V. JORDAN, CPA, CFE, MHP  
Assistant Chief Examiner

7-7-2010  
Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2004 through December 31, 2008. The 2008 Annual Report reflected the balance sheet and statement of revenue and expenses of TOA as of December 31, 2008. The examination of the 2008 Annual Report, therefore, covers the period ending December 31, 2008 for the balance sheet and statement of revenue and expenses sections, general interrogatories and 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.

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

## **INSTRUCTIONS**

The examiners reviewed TOA's CGA Annual Reports as part of the statutory examination. This review was performed to determine if TOA completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that TOA'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 December 31, 2008 Annual Report submitted by TOA to the OIC did not comply with the requirements stipulated in RCW 48.38.010(10)(a) and in the OIC Annual Report Instructions and therefore could not be used for the preparation of the financial statements in this report.

- a. TOA could not provide detailed financial records to support or reconcile the data reported in the 2008 Annual Report. The numbers reported on the Federal Tax Form 990 for TOA were used to prepare the financial information in this report on a non-consolidated basis.

b. The Association's balances reported in the 2008 Annual Report incorrectly included the accounts of two trusts managed by TOA for the benefit of Mary Bridge Children's Hospital. TOA is the holder of Certificate of Exemption No. 159. The OIC Annual Report Instructions specifically require that the annual report must be submitted individually for the organization holding the certificate of exemption to issue annuities.

**TOA is instructed to comply with reporting requirements in accordance with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions by maintaining accurate accounts and records to support the amounts reported to the OIC on a non-consolidated basis.**

## **2. Unrestricted Net Assets**

TOA's unrestricted net asset balance of (\$1,472,445) as of December 31, 2008; (\$1,662,464) as of December 31, 2007; and \$319,710 as of December 31, 2006 as reported on its Federal Tax Form 990 were significantly below the minimum amount of net assets of \$500,000, as required by RCW 48.38.010(6). Pursuant to RCW 48.38.012, TOA may not issue any new charitable gift annuities until it meets the minimum unrestricted net assets required by RCW 48.38.010(6).

**TOA is instructed to maintain, at all times, the required \$500,000 of unrestricted net assets to ensure compliance with RCW 48.38.010(6) and RCW 48.38.012.**

## **3. CGA Liabilities - Reserves**

RCW 48.38.020 requires TOA to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. TOA maintained a separate fund, but it did not include a surplus of 10% of the calculated reserve amount as required by RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$39,248. As a result, the reported annuities payable was understated by \$3,568 on December 31, 2008. No examination adjustment was necessary due to immateriality.

**TOA 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)(c).**

## **COMMENTS AND RECOMMENDATIONS**

None

## ORGANIZATION PROFILE

**History:** TOA was founded in 1921. TOA is an organization of volunteers whose purpose is to further the interest of and aid in the support of Mary Bridge Children's Hospital by donating funds raised through its trust, association, and guild projects.

**Territory and Plan of Operation:** On April 17, 2001, the OIC granted TOA Certificate of Exemption No. 159 to conduct a CGA business in the state of Washington. There were four in-force annuity contracts as of December 31, 2008; all issued to residents of the state of Washington.

**Total Net Assets:** TOA's total net assets as of December 31, 2008 were (\$1,251,000). This amount included an unrestricted net asset of (\$1,472,445). The minimum unrestricted net assets requirement was not satisfied pursuant to RCW 48.38.010(6). (See Instruction No. 2.)

**Growth:** The growth of TOA for the past five years is reflected in the following schedules. All information was compiled from TOA's 2008 Federal Tax Form 990.

### Schedule 1 – Statement of Financial Position

<u>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>
<b>2008</b>	\$2,124,311	\$3,375,311	(\$1,251,000)	(\$1,472,445)	\$221,445	
<b>2007</b>	2,580,091	4,056,921	(1,476,830)	(1,662,464)	185,634	
<b>2006</b>	2,031,652	1,485,974	545,678	319,710	225,968	
<b>2005</b>	1,835,135	1,429,926	405,209	179,241	225,968	
<b>2004</b>	1,577,883	2,176,000	(598,117)	(772,073)	173,956	

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

Total expenses	1,067,756	3,877,287	1,338,914	1,276,057	1,908,621
Increase (decrease) in net assets	331,804	(2,010,713)	110,389	994,494	737,319
Net unrealized loss on investments	(105,974)	(11,795)	30,080	8,832	42,754
Change in net assets for the year	225,830	(2,022,508)	140,469	1,003,326	780,073
Net assets at beginning of year	(1,476,830)	545,678	405,209	(598,117)	(1,378,190)
<b>Net assets at end of year</b>	<b>(\$1,251,000)</b>	<b>(\$1,476,830)</b>	<b>\$545,678</b>	<b>\$405,209</b>	<b>(\$598,117)</b>
Number of gift annuity contracts at end of year	4	5	5	5	4

## AFFILIATED ORGANIZATIONS

TOA is affiliated with Mary Bridge Children's Hospital and Health Center and Mary Bridge Foundation. It also manages two trusts established for the benefit of Mary Bridge Children's Hospital.

## MANAGEMENT AND CONTROL

**Management:** TOA is governed by a Board of Trustees (BOT) of not more than thirty members. The trustees are elected by the members of the BOT and may serve for three consecutive terms of three years each (9 years) and may be re-elected to three additional three-year terms after a year off. The president can serve up to a two-year extension.

**Board of Trustees:** The BOT as of December 31, 2008:

Karen Alderman	Dolores Fabulich
Kay Armstrong	Norma Iverson
Amy Bettsworth	Annette Remen
Judy Bleiweiss	Charlene Richardson
Gretchen Bush	Sue Richey
Tara Cady	Jo Roller
Mary Carlisle	Lois Ruck
Alice Charron	Claudia Shaddock
Loretta Clubb	Anita Sheehan
Shirley Collins	Joan Shelman
Joan Cooley	Alice Stenhjem
Jean Cunningham	Crystal Strub
Mary Duke-Martyn	

**Officers:** The officers as of December 31, 2008:

Joan Shelman, President  
Jo Roller, First Vice President  
Sue Richey, Second Vice President  
Mary Carlisle, Recording Secretary  
Judy Bleiweiss, Treasurer

**Tax Status:** TOA is a tax-exempt charitable, religious, educational and scientific organization under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest:** The members of the BOT and officers are required to abide by the conflict of interest provision as stated in Article XVIII, Section 3, of TOA's Bylaws. No trustee or officer is disqualified from holding any office by reason of any interest, but any conflict of interest must be made known to TOA at the earliest practical time. There were no exceptions noted.

### **ORGANIZATION RECORDS**

The BOT meets several times a year to discuss any business which is pertinent to TOA. BOT meeting minutes documented the approval of TOA'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 TOA's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$39,248 for four contracts as of December 31, 2008. The additional 10% as required by RCW 48.38.020(3)(c) was not properly reported as annuity liabilities in TOA's financial statements. (See Instruction No. 1.)

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of TOA as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2008 was \$40,636 and consisted of cash equivalents and mutual funds. The annuity investments were properly reported in the financial statements at market value.

### **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation did not support the data and amounts presented in the annual reports and financial statements. (See Instruction No. 1.)

### **SUBSEQUENT EVENTS**

There were no material events which impacted TOA's CGA operations between the examination date and the last day of our field work.

## FINANCIAL STATEMENTS

### TACOMA ORTHOPEDIC ASSOCIATION STATEMENT OF FINANCIAL POSITION December 31, 2008

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Note</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$1,959,791	(\$1,322,429)	\$637,362	1
Investments	5,203,911	(4,565,922)	637,989	1
CGA investments		40,636	40,636	1
Accounts receivable	749,844	(36,685)	713,159	1
Other assets	423,642	(339,030)	84,612	1
Audit adjustment	3,782,824	(3,782,824)	0	2
Fixed assets-net	10,553		10,553	
<b>Total Assets</b>	<u><u>\$12,130,565</u></u>	<u><u>(\$10,006,254)</u></u>	<u><u>\$2,124,311</u></u>	
<b><u>LIABILITIES</u></b>				
Annuities payable	\$35,680	\$0	\$35,680	
Grants payable		2,875,227	2,875,227	1
Other payables	3,346,131	(2,881,727)	464,404	1
<b>Total Liabilities</b>	<u><u>\$3,381,811</u></u>	<u><u>(\$6,500)</u></u>	<u><u>\$3,375,311</u></u>	
<b><u>NET ASSETS</u></b>				
Unrestricted	8,563,120	(10,035,565)	(1,472,445)	1
Temporarily restricted	185,634	35,811	221,445	1
Permanently restricted				
<b>Total Net Assets</b>	<u><u>8,748,754</u></u>	<u><u>(9,999,754)</u></u>	<u><u>(1,251,000)</u></u>	
<b>Total Liabilities and Net Assets</b>	<u><u>\$12,130,565</u></u>	<u><u>(\$10,006,254)</u></u>	<u><u>\$2,124,311</u></u>	

**TACOMA ORTHOPEDIC ASSOCIATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For Fiscal Year Ended December 31, 2008**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Note</u>
Total revenues	\$2,869,738	(\$1,470,178)	\$1,399,560	1
Total expenses	369,592	804,138	1,173,730	1
Increase (decrease) in net assets	2,500,146	(2,274,316)	225,830	
Audit adjustment	(894,477)	894,477	0	2
Net assets for the year	1,605,669	(1,379,839)	225,830	
Net assets at beginning of year	7,143,085	(8,619,915)	(1,476,830)	1
<b>Net assets at end of year</b>	<u>\$8,748,754</u>	<u>(\$9,999,754)</u>	<u>(\$1,251,000)</u>	

**Notes to Financial Statements**

1. To eliminate the financial information of the two trusts that TOA manages for Mary Bridge Children's Hospital. (See Instruction No. 1b.)
2. To adjust the audited financial information to the information reported to the OIC. (See Instruction No. 1a.)

**ACKNOWLEDGMENT**

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

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

