

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



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

of

**KCTS Television
Seattle, Washington
December 31, 2009**

Order No. 11-01
KCTS Television
Exhibit A

SALUTATION

Seattle, Washington
January 6, 2011

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

KCTS Television

of

Seattle, Washington

hereinafter referred to as "KCTS" at its office, 401 Mercer Street, Seattle, Washington 98109. This report of examination is respectfully submitted showing the condition of the CGA business of KCTS as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of KCTS of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of KCTS as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

1-6-2011

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009. The scope of our examination focused only on the transactions and operations of the CGA business. KCTS'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.

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 KCTS by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed KCTS's CGA Annual Reports as part of the statutory examination. This review was performed to determine if KCTS 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. Inaccurate Annuity Payments

During 2008, KCTS failed to make required contractual payments to an annuitant. KCTS corrected the error during 2009. In addition, during 2009, KCTS made payments to the annuitant, but they were for incorrect amounts. KCTS corrected those deficiencies with an additional payment to the annuitant in 2010.

Pursuant to RCW 48.38.030, KCTS is instructed to adhere to the terms of the annuity contract requirements that specify the exact amount of annuity to be paid and the timing of the payments.

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

KCTS is a nonprofit organization established in 1954 and incorporated in the state of Washington on September 16, 1983. KCTS provides educational and cultural television programming to viewers in the state of Washington and British Columbia, Canada. It is a member of the Public Broadcasting Service and American Public Television.

Territory and Plan of Operation

On March 28, 1988, the OIC granted KCTS a Certificate of Exemption Number 23 to conduct a CGA business in the state of Washington. There were nineteen (19) in-force annuity contracts as of December 31, 2009, all issued to residents of the state of Washington.

Total Net Assets

KCTS's total net assets as of December 31, 2009 were \$10,676,063. This amount included an unrestricted net asset of \$8,982,718. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of KCTS for the past five years is reflected in the following schedules.

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>
2009	\$15,800,904	\$5,124,841	\$10,676,063	\$8,982,718	\$1,255,501	\$437,844
2008	15,815,391	5,383,322	10,432,069	8,197,685	1,796,540	437,844
2007	23,179,256	11,782,292	11,396,964	8,911,806	2,075,314	409,844
2006	21,575,190	11,913,546	9,661,644	6,663,974	2,587,826	409,844
2005	20,408,300	11,743,684	8,664,616	4,980,493	3,130,033	554,090

Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total revenue	\$19,192,359	\$19,282,809	\$21,022,842	\$18,578,412	\$21,182,885
Total expenses	18,948,365	20,247,704	19,287,522	17,581,384	19,670,574
Adjustment					
Increase (decrease) in net assets	243,994	(964,895)	1,735,320	997,028	1,512,311
Net assets at beginning of year	<u>10,432,069</u>	<u>11,396,964</u>	<u>9,661,644</u>	<u>8,664,616</u>	<u>7,152,305</u>
Net assets at end of year	<u>\$10,676,063</u>	<u>\$10,432,069</u>	<u>\$11,396,964</u>	<u>\$9,661,644</u>	<u>\$8,664,616</u>

AFFILIATED ORGANIZATIONS

KCTS operates a for-profit subsidiary, Channel 9 Corporation (the Corporation), which provides promotional and financial support for KCTS through the marketing of products related to public television programs. Another KCTS subsidiary, Intris, Inc. (Intris), a for-profit organization, provides promotional and financial support for KCTS through the development of DTV technology.

The consolidated financial statements included the accounts of KCTS, the Corporation, and Intris. Intris is a dormant entity; it did not have any profit or loss activity in 2009 and 2008.

MANAGEMENT AND CONTROL

Responsibility for governing the organization is vested in a Board of Directors (BOD) comprised of twelve (12) persons. The BOD meets quarterly during the year to discuss business which is pertinent to KCTS. The BOD Finance and Audit Committee review financial reports and any pertinent data and issues.

Board of Directors

BOD as of December 31, 2009:

Robert Flowers – Chair
Nancy Evans – Vice Chair
Doug Beighle
Eric Bremner
Michael Coie
Anne Farrell
Christopher Gray

Linda Killinger
Carolyn Lake
ChangMook Sohn
John Warner
Stephen Welch

Officers

Officers as of December 31, 2009:

Maurice Bresnahan, President and Chief Executive Officer
Michael Coie, Treasurer
Doug Beighle, Secretary
Nancy Geiger, Assistant Secretary

Tax Status

KCTS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Corporation and Intris are for-profit taxable companies that file their own federal income tax returns each year.

Conflict of Interest

According to 2008 IRS Form 990, the BOD and key employees are required to fill out a conflict of interest (COI) disclosure form annually. Employees are required to inform their supervisor in writing of any potential conflict of interest. When a conflict arises, the officer or Board Member shall refrain from discussing or voting on the issue. The CEO and the BOD are responsible for ensuring that the COI policy is followed. There were no exceptions noted.

ORGANIZATION RECORDS

The BOD meets quarterly to discuss any business which is pertinent to KCTS. BOD meeting minutes documented the approval of all 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 annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$128,806 for nineteen

contracts as of December 31, 2009. This amount included the 10% surplus required by RCW 48.38.020(3)(c).

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of KCTS's as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2009 was \$167,593 and consisted of money market, exchange traded and mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted 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 KCTS.

KCTS
Statement of Financial Position
December 31, 2009

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$1,868,988	\$0	\$1,868,988
Investments	3,382,248		3,382,248
Charitable gift annuities	167,593		167,593
Other assets	10,382,075		10,382,075
Total Assets	<u>\$15,800,904</u>	<u>\$0</u>	<u>\$15,800,904</u>
<u>LIABILITIES</u>			
CGA reserves	128,806	0	128,806
Other liabilities	4,996,035		4,996,035
Total Liabilities	<u>5,124,841</u>	<u>0</u>	<u>5,124,841</u>
<u>NET ASSETS</u>			
Unrestricted	8,982,717	0	8,982,717
Temporarily restricted	1,255,501		1,255,501
Permanently restricted	437,844		437,844
Total Net Assets	<u>10,676,063</u>	<u>0</u>	<u>10,676,063</u>
Total Liabilities and Net Assets	<u>\$15,800,904</u>	<u>\$0</u>	<u>\$15,800,904</u>

Statement of Activities and Changes in Net Assets
For Fiscal Year Ended December 31, 2009

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenue	\$19,192,359	\$0	\$19,192,359
Total expenses	18,948,365		18,948,365
Increase (decrease) in net assets	243,994	0	243,994
Net assets at beginning of year	10,432,069		10,432,069
Net assets at end of year	<u>\$10,676,063</u>	<u>\$0</u>	<u>\$10,676,063</u>

NOTES TO THE FINANCIAL STATEMENTS

NONE

ACKNOWLEDGMENT

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

Respectfully submitted,

Constantine Arustamian

Constantine Arustamian, CPA, CFE, ARC, ARM, ARe, AIS, AIAF
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
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 } ss
COUNTY OF KING }

Constantine Arustamian, 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 KCTS'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).

Constantine Arustamian

Constantine Arustamian, CPA, CFE, ARC, ARM, ARe, AIS, AIAF
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 6th day of January, 2011.

Colleen Jansen

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

