

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
NORTH PACIFIC UNION CONFERENCE ASSOCIATION  
RIDGEFIELD, WASHINGTON  
December 31, 2010

Order No. 11-299  
North Pacific Union Conference Association  
Exhibit A

**SALUTATION**

Seattle, Washington  
December 9, 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 matters and financial records pertaining to the charitable gift annuity (CGA) business of

**North Pacific Union Conference Association**  
of  
Ridgefield, Washington

hereinafter referred to as "NPUCA" at its office, 5709 North 20<sup>th</sup> Street, Ridgefield, Washington 98642. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of NPUCA as of December 31, 2010.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of North Pacific Union Conference Association of Ridgefield, Washington. This report shows the financial condition of the CGA business and related corporate matters of North Pacific Union Conference Association as of December 31, 2010.



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Patrick H. McNaughton  
Chief Examiner

12-9-2011

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Date

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## SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2006 through December 31, 2010. The scope of our examination focused only on the transactions and operations of the CGA business. NPUCA'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, NPUCA's 2010 consolidated financial statement was reviewed and utilized 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 Ridgefield office of NPUCA by examiners from the state of Washington.

## INSTRUCTIONS

The examiners reviewed NPUCA's CGA Annual Reports as part of the statutory examination. This review was performed to determine if NPUCA completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that NPUCA's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

### **1. Investment Statement not in the name of NPUCA**

The account name on the custodial statement for Financial Northeastern Companies (FNC), which is used for the CGA assets of NPUCA, is under the name of North Pacific Union Conference (NPUC) which is an unincorporated entity affiliated with NPUCA.

**NPUCA is instructed to comply with RCW 48.38.020(2)(a) by changing the account name to North Pacific Union Conference Association.**

### **2. Annuity Contracts**

Some contracts do not include the age of the person during whose life payment is to be made as required by RCW 48.38.030(4).

**NPUCA is instructed to comply with RCW 48.38.030(4) by including the age of the person during whose life payment is to be made.**

## COMMENTS AND RECOMMENDATIONS

There were no comments and recommendations noted while performing this review.

## ORGANIZATION PROFILE

### **History**

NPUCA is controlled by the North Pacific Union Conference. It is an entity of the Seventh-day Adventist Church which holds title to properties, administers financial affairs related to owned assets, receives gifts and deposits of money, makes loans, issues annuities and is the legal entity under which planned giving and trust services operates. NPUCA was incorporated on March 30, 1906 in the state of Oregon. The latest Articles of Amendment to the Restated Articles of Incorporation were filed July 17, 1986.

### **Territory and Plan of Operation**

NPUCA is the Northwest regional headquarters for the work of the Seventh-day Adventist Church. This includes more than 400 churches, and 140 elementary and secondary schools.

NPUCA was granted Certificate of Exemption Number 11 to conduct a CGA business in the state of Washington by the OIC on February 24, 1982. There were 252 in-force annuity contracts as of December 31, 2010.

### **Total Net Assets**

NPUCA's total net assets as of December 31, 2010 were \$20,585,883. This amount included an unrestricted net asset of \$18,545,801. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### **Growth**

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

### **Schedule 1 – Statement of Financial Position**

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2010	\$95,758,277	\$75,172,394	\$20,585,883	\$18,545,801	\$1,917,857	\$122,225
2009	89,385,711	70,272,091	19,113,620	17,045,201	1,946,194	122,225
2008	73,820,494	56,195,099	17,625,395	15,879,104	1,624,066	122,225
2007	67,757,822	50,083,187	17,674,635	16,673,661	878,749	122,225
2006	62,197,241	45,474,084	16,723,157	14,854,251	1,746,681	122,225

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total revenues	\$6,794,455	\$6,662,993	\$8,510,652	\$5,718,033	\$4,677,900
Total expenses	5,322,192	5,174,768	8,559,892	4,766,555	3,865,918
Increase (decrease) in net assets	1,472,263	1,488,225	(49,240)	951,478	811,982
Net assets at beginning of year	19,113,620	17,625,395	17,674,635	16,723,157	15,911,175
<b>Net assets at end of year</b>	<b>\$20,585,883</b>	<b>\$19,113,620</b>	<b>\$17,625,395</b>	<b>\$17,674,635</b>	<b>\$16,723,157</b>

**AFFILIATED ORGANIZATIONS**

NPUCA is the Northwest regional headquarters of the Seventh-day Adventist Church. The Seventh-day Adventist Church worldwide is organized into 12 world divisions, which are in turn divided into regional union conferences. These union conferences are further divided into local conferences which in turn are directly responsible for local churches within their area. The North American Division of the world church which encompasses Canada and the United States contains 9 union conferences. The North Pacific Union Conference is responsible for six local conferences in the states of Alaska, Idaho, Montana, Oregon and Washington.

**MANAGEMENT AND CONTROL**

**Management**

The business, operations, and affairs of NPUCA are vested in a Board of Trustees (BOT) consisting of 40 members, who are elected by the members of the organization for a term of 5 years. All BOT belong to the North Pacific Union Conference of Seventh-day Adventists.

**Board of Trustees**

The following individuals were trustees as of December 31, 2010:

Kami Borg	Elder Ervin Furne	Elder Stephen McPherson
Elder Ramon Canals	Dale Galusha	Dr. John McVay
Dick Clark	Dr. Eric Haeger	Elder Gary Parks
Jon Corder	Kathy Hernandez	Bob Paulsen
Elder Kenneth Crawford	Deanne Hoehn	Pedro Pozos
Harold Dixon	Elder Alan Hurlbert	Elder Al Reimche
Larry Dodds	Blaine Kenney	Elder Bill Roberts
Elder Wendell Downs	Elder Merlin Knowles	Dr. Ben Rodriguez
Dr. Colin Dunbar	Marvin Lee	Elder Alvaro Sauza
German Escalante	Dr. Steve Libby	Conrad Thomas
Ruth Farnsworth	Alix Mansker	Andre Wang
Elder Robert Folkenberg, Jr.	Elder Alphonso McCarthy	Ann Westermeyer
Judy Fowler	Don Mead	
Elder John Freedman	Donna Montgomery	

**Officers**

The following individuals were officers as of December 31, 2010:

Max Torkelsen II, President  
John Loor, Jr., Vice President  
Mark Remboldt, Vice President  
Gary W. Dodge, Secretary  
Robert D. Hastings, Associate Secretary/Treasurer  
Kimberley Schroeder, Assistant Treasurer

**Tax Status**

NPUCA is a tax-exempt public foundation under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest**

NPUCA has a formal conflict of interest policy. The policy has procedures for reviewing the Trustees and Officers Disclosure Statement, which the BOT and officers were required to submit annually, for any activities or participation on the part of the BOT and officers that could possibly be interpreted as a conflict of interest. The policy also has procedures for resolving any disclosed conflicts of interest. Based on our review of the submitted 2010 disclosure statements, no exceptions were noted.

**ORGANIZATION RECORDS**

The BOT meets four times a year to discuss any pertinent business to NPUCA. BOT meeting minutes documented the approval of NPUCA's transactions and events. In addition to the BOT, NPUCA has two committees: Investment and Trust Management.

**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 NPUCA's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$5,282,288 for 252 in-force annuity contracts as of December 31, 2010. This amount was properly reported in NPUCA's financial statements.

**ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of NPUCA as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of December 31, 2010 were \$9,037,103 and consisted of bonds, stocks, certificate of deposits, money market funds, and exchange traded funds. The annuity investments were properly reported in the financial statements at market value. (See Instruction No. 1)

### **SUBSEQUENT EVENTS**

There were no material events which impacted NPUCA 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 statements show the financial condition of the North Pacific Union Conference Association as of December 31, 2010:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**North Pacific Union Conference Association**  
**Statement of Financial Position**  
**December 31, 2010**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Note</u>
<b>Assets</b>				
Cash and cash equivalents	\$3,380,776	\$0	\$3,380,776	
CGA assets	9,037,102		9,037,102	
Investments	33,204,851		33,204,851	
Notes receivable	41,128,884		41,128,884	
Land and buildings, net	8,141,092		8,141,092	
Others	865,572		865,572	
<b>Total Assets</b>	<b><u>\$95,758,277</u></b>	<b><u>\$0</u></b>	<b><u>\$95,758,277</u></b>	
<b>Liabilities and Net Assets</b>				
CGA liabilities	\$5,288,288		\$5,288,288	
Other liabilities	69,884,106		69,884,106	
<b>Total Liabilities</b>	<b><u>75,172,394</u></b>	<b><u>0</u></b>	<b><u>75,172,394</u></b>	
<b>Net Assets</b>				
Unrestricted	18,448,890	96,911	18,545,801	1
Temporarily restricted	2,014,768	(96,911)	1,917,857	1
Permanently restricted	122,225		122,225	
<b>Total Net Assets</b>	<b><u>20,585,883</u></b>	<b><u>0</u></b>	<b><u>20,585,883</u></b>	
<b>Total Liabilities and Net Assets</b>	<b><u>\$95,758,277</u></b>	<b><u>\$0</u></b>	<b><u>\$95,758,277</u></b>	

**North Pacific Union Conference Association  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2010**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$6,794,455	\$0	\$6,794,455
Total expenses	5,322,192		5,322,192
Increase (decrease) in net assets	1,472,263		1,472,263
Net assets at beginning of year	19,113,620		19,113,620
<b>Net assets at end of year</b>	<b><u>\$20,585,883</u></b>	<b><u>\$0</u></b>	<b><u>\$20,585,883</u></b>

**Note to Financial Statements**

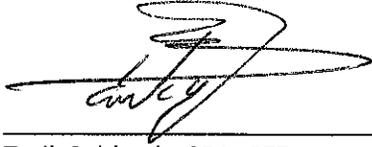
1. To adjust the information reported to the OIC to reflect NPUCA's adjustment to net assets accounts, reclassify \$96,911 from temporary restricted net assets to unrestricted net assets, after its Annual Report was submitted to the OIC.

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of North Pacific Union Conference Association 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; Edsel R. Dino, Financial Examiner; and Orlando R. Gabriel, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



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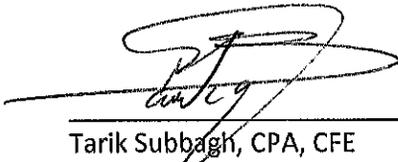
Tarik Subbagh, CPA, CFE  
Property and Casualty Field Supervising Examiner  
State of Washington

**AFFIDAVIT**

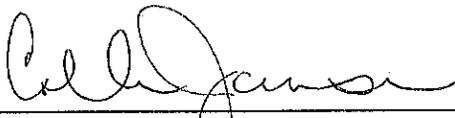
**STATE OF WASHINGTON**        }  
  } ss  
**COUNTY OF KING**            }

Tarik Subbagh, 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 the Charitable Gift Annuity business of North Pacific Union Conference Association 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.

  
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Tarik Subbagh, CPA, CFE  
Property and Casualty Field Supervising Examiner  
State of Washington

Subscribed and sworn to before me this 9th day of December, 2011.

  
\_\_\_\_\_  
Notary Public in and for the  
State of Washington

