

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
CORPORATION OF THE CATHOLIC BISHOP OF YAKIMA  
YAKIMA, WASHINGTON

JUNE 30, 2011

Order No. 12-166  
Corporation of the Catholic Bishop of Yakima  
Exhibit A

**SALUTATION**

Seattle, Washington  
June 4, 2012

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:

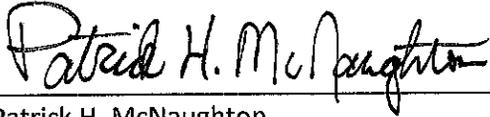
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of the

**Corporation of the Catholic Bishop of Yakima**  
of  
Yakima, Washington

hereinafter referred to as "CCBY" at its office, 5301-A Tieton Drive, Yakima, Washington 98908. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of CCBY as of June 30, 2011.

**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 Corporation of the Catholic Bishop of Yakima, Washington. This report shows the financial condition of the CGA business and related corporate matters of the Corporation of the Catholic Bishop of Yakima as of June 30, 2011.



Patrick H. McNaughton  
Chief Examiner



Date

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## SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2006 through June 30, 2011. The scope of our examination focused only on the transactions and operations of the CGA business. CCBY'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, CCBY's certified public accountant's (CPA's) work papers were 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 Yakima office of CCBY by examiners from the state of Washington.

The examiners reviewed CCBY's CGA Annual Reports as part of the statutory examination. This review was performed to determine if CCBY completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that CCBY's accounts and records were prepared and maintained in accordance with RCW 48.38.010(10)(a).

## INSTRUCTIONS

### **1. Reporting Requirements**

The June 30, 2011 Annual Report submitted by CCBY to the OIC did not fully comply with the requirements stipulated in RCW 48.38.010(10)(a) and the OIC Annual Report Instructions.

- a. The full legal name of the exempt organization was incorrectly reported on the 2011 Annual Report as the Corporation of the Catholic Diocese of Yakima. According to CCBY's Certificate of Exemption, the organization's full legal name is the Corporation of the Catholic Bishop of Yakima.
- b. CCBY's annuity investments are held in a separate account managed by Bank of America/Merrill Lynch. However, the custodial agreement and investment account statement submitted to the OIC identify the Diocese of Yakima as the owner of the account instead of the Corporation of the Catholic Bishop of Yakima.
- c. Property income was incorrectly included in unrestricted expenses, resulting in a \$220,562 understatement of unrestricted expenses and unrestricted income. There was no impact on net income.

**CCBY is instructed to comply with reporting requirements in accordance with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions. The name on the annual report, custodial agreement and the investment account statement should be the name on the Certificate of Exemption pursuant to RCW 48.38.020(2)(a).**

## COMMENTS AND RECOMMENDATIONS

NONE

**ORGANIZATION PROFILE**

**History**

CCBY is a Washington nonprofit organization established in 1951 to raise and manage private support for the benefit of the Diocese of Yakima.

**Territory and Plan of Operation**

CCBY serves 41 parishes in 7 counties. It has control and ownership of the Diocesan Administration, the parishes, and the institutions. The parishes consist of churches, while the institutions consist primarily of schools and cemeteries.

CCBY was granted a Certificate of Exemption No. 183 to conduct a CGA business in the state of Washington by the OIC on August 23, 2002. CCBY had 18 in-force annuity contracts as of June 30, 2011 of which 16 were issued to residents in the state of Washington.

**Total Net Assets**

CCBY's total net assets as of June 30, 2011 were \$115,402,040. This amount included unrestricted net assets of \$114,483,843. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

**Growth**

The growth of CCBY 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>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
2011	\$118,870,908	\$3,468,868	\$115,402,040	\$114,483,843	\$918,197	\$0
2010	113,266,674	889,399	112,377,275	111,073,191	1,304,084	0
2009	108,990,861	767,217	108,223,644	106,944,763	1,278,881	0
2008	105,326,491	1,364,996	103,961,495	102,483,062	1,478,433	0
2007	101,995,656	1,084,312	100,911,344	99,501,855	1,409,489	0

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

	<u>*2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total revenues	\$28,466,301	\$29,856,937	\$46,785,652	\$44,985,385	\$43,733,212
Total expenses	25,441,536	25,703,306	42,523,503	41,935,234	38,728,549
Increase (decrease) in net assets	3,024,765	4,153,631	4,262,149	3,050,151	5,004,663
Net assets at beginning of year	112,377,275	108,223,644	103,961,495	100,911,344	95,906,681
<b>Net assets at end of year</b>	<b>\$115,402,040</b>	<b>\$112,377,275</b>	<b>\$108,223,644</b>	<b>\$103,961,495</b>	<b>\$100,911,344</b>

\*The 2011 balances include an examination reclassification. (See Note 1 to Financial Statements.)

## **AFFILIATED ORGANIZATIONS**

CCBY is one of 194 geographic responsibility centers (dioceses) of the Roman Catholic Church in the United States. It is a suffragan of the Archdiocese of Seattle and is affiliated with the international Roman Catholic Church.

## **MANAGEMENT AND CONTROL**

### **Management**

Pursuant to Chapter 24.12 RCW, Bishop Joseph J. Tyson is deemed to be a corporate body, with all privileges provided by law for religious corporations. The Diocesan Finance Council, Pastoral Council, Presbyteral Council, and Consultors, advise the Bishop on significant issues impacting the Diocese. The Delegates for Administration and Finance, Chancery Operations and Planning, Human Resources, Communications, Catholic Faith Formation, Youth Ministries, Religious, Vicar for Clergy, Chancellor, and Superintendent of Schools, manage the various operational areas of the Diocese on behalf of the Bishop.

### **Corporate Governance**

Under the provisions of 24.12 RCW, CCBY does not have a Board of Trustees. Instead, CCBY has four advisory bodies (The Diocesan Finance Council, Pastoral Council, Presbyteral Council, and Consultors) which provide guidance to the Bishop on significant issues.

### **Officers**

CCBY does not have any officers and is led by a single individual, the Bishop, who is appointed by papal decree.

### **Tax Status**

CCBY is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

### **Conflict of Interest**

CCBY has a formal conflict of interest policy. The policy specifies that employees are to avoid placing themselves in positions that may create or lead to a conflict of interest or the appearance of one. The policy also prohibits employees from having any personal interest in any transaction that involves CCBY.

## **ORGANIZATION RECORDS**

The Chief Financial Officer and the Director of Planned Giving meet at least annually to discuss investment policy and to review investments for compliance with the authorized investment plan. The CGA assets are held in trust with the Bank of America. As the trustee, the Bank of America manages the trust in accordance with the authorized investment plan of CCBY.

### **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 that CCBY's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$360,243 for the 18 in-force annuity contracts as of June 30, 2011. This amount was properly reported in CCBY's financial statements.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of CCBY as required by RCW 48.38.020(2)(a). The total market value of the annuity investments as of June 30, 2011 was \$561,808 and consisted of cash, equities, fixed income, real estate, and commodities. The annuity investments were properly reported in the financial statements at market value.

### **SUBSEQUENT EVENTS**

There were no material events which impacted CCBY 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 CCBY as of June 30, 2011:

Statement of Financial Position  
Statement of Activities and Changes in Net Assets

**Corporation of the Catholic Bishop of Yakima**  
**Statement of Financial Position**  
**June 30, 2011**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Cash and cash equivalents	\$9,376,936	\$0	\$9,376,936
Notes receivable - related party	11,496,262		11,496,262
CGA investments	561,808		561,808
Investments	70,083		70,083
Land, buildings, and equipment, net	97,365,819		97,365,819
<b>Total Assets</b>	<b><u>\$118,870,908</u></b>	<b><u>\$0</u></b>	<b><u>\$118,870,908</u></b>
<b>Liabilities and Net Assets</b>			
Accounts payable	\$163,009	\$0	\$163,009
CGA reserves	360,243		360,243
Accrued liabilities	713		713
Notes payable - related party	2,730,207		2,730,207
Custodial liability	214,696		214,696
<b>Total Liabilities</b>	<b><u>3,468,868</u></b>	<b><u>0</u></b>	<b><u>3,468,868</u></b>
<b>Net Assets</b>			
Unrestricted	114,483,843	0	114,483,843
Temporarily restricted	918,197		918,197
Permanently restricted	0		0
<b>Total Net Assets</b>	<b><u>115,402,040</u></b>	<b><u>0</u></b>	<b><u>115,402,040</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$118,870,908</u></b>	<b><u>\$0</u></b>	<b><u>\$118,870,908</u></b>

**Corporation of the Catholic Bishop of Yakima  
Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2011**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues	\$28,245,739	\$220,562	\$28,466,301	1
Total expenses	<u>25,220,974</u>	<u>220,562</u>	<u>25,441,536</u>	1
Increase (decrease) in net assets	3,024,765	0	3,024,765	
Net assets at beginning of year	<u>112,377,275</u>		<u>112,377,275</u>	
<b>Net assets at end of year</b>	<b><u>\$115,402,040</u></b>	<b><u>\$0</u></b>	<b><u>\$115,402,040</u></b>	

**NOTES TO THE FINANCIAL STATEMENTS**

Examination adjustments to CCBY's financial statements are as follows:

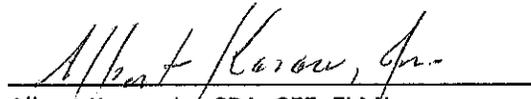
1. To reclassify property income of \$220,562 from expenses to income. (See Instruction 1.c.)

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Corporation of the Catholic Bishop of Yakima 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 R. Gabriel, CFE, 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,

A handwritten signature in cursive script that reads "Albert Karau, Jr." is written over a solid horizontal line.

Albert Karau, Jr., CPA, CFE, FLMI

Examiner-in-Charge

State of Washington

