

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
WESLEY HOMES FOUNDATION
DES MOINES, WASHINGTON

December 31, 2012

Order No. 13-285
Wesley Homes Foundation
Exhibit A

SALUTATION

Seattle, Washington
October 1, 2013

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

Wesley Homes Foundation
of
Des Moines, Washington

hereinafter referred to as "WHF" at its office, 815 South 216th Street, Des Moines, WA 98198. This report of examination is respectfully submitted showing the condition of the CGA business of WHF as of December 31, 2012.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Wesley Homes Foundation of Des Moines, Washington. This report shows the financial condition of the CGA business and related corporate matters as of December 31, 2012.



Patrick H. McNaughton
Chief Examiner

10-1-13

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2008 through December 31, 2012. The scope of our examination focused only on the transactions and operations of the CGA business. WHF'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, WHF'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 Des Moines office of WHF by examiners from the state of Washington.

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

INSTRUCTIONS

NONE

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

WHF was established in 1996. It was organized for charitable and educational purposes to facilitate the solicitation, recognition, and management of charitable gifts in support of the parent company, Wesley Homes (WH).

Territory and Plan of Operation

On June 3, 2005, the OIC granted WHF Certificate of Exemption No. 271 to conduct a CGA business in the state of Washington.

Total Net Assets

WHF's total net assets as of December 31, 2012 were \$8,489,416. This amount included unrestricted net assets of \$3,671,454. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of WHF for the past five years is reflected in the following schedules:

Schedule 1 - Statements of Financial Position

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocation:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2012	\$9,745,172	\$1,255,756	\$8,489,416	\$3,668,390	\$2,593,159	\$2,227,867
2011	8,619,387	1,182,350	7,437,037	3,239,798	2,188,988	2,008,251
2010	8,710,115	1,349,035	7,361,080	3,373,448	1,980,441	2,007,191
2009	7,253,309	1,446,027	5,807,282	3,144,285	1,677,304	985,693
2008	6,093,844	1,445,744	4,648,100	2,561,033	1,340,006	747,061

Schedule 2 - Statement of Activities and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total revenues	\$1,500,510	\$726,921	\$1,510,340	\$598,698	\$1,138,217
Total expenses	932,377	355,882	631,533	354,271	153,661
Increase (decrease) in net assets	568,133	371,039	878,807	244,427	984,556
Other changes in net assets	484,246	(295,082)	674,991	914,755	(1,583,561)
Net assets at beginning of year	7,437,037	7,361,080	5,807,282	4,648,100	5,247,105
Net assets at end of year	<u>\$8,489,416</u>	<u>\$7,437,037</u>	<u>\$7,361,080</u>	<u>\$5,807,282</u>	<u>\$4,648,100</u>
Number of gift annuity contracts at end of year	113	111	113	110	108

AFFILIATED ORGANIZATIONS

WHF is controlled by its parent company, WH. During 2005, WH reorganized the corporate structure of the organization and all of the assets, liabilities, and operations were transferred into a new legal entity, Wesley Homes Des Moines, LLC which became a subsidiary of WH. Wesley Homes Des Moines, LLC is organized to operate a continuing care retirement community located in Des Moines, Washington. Wesley Homes Lea Hill, LLC is organized to operate a retirement community in Auburn, Washington. Wesley Homes Community Health Services is organized to provide health services to WH's residents and clients in surrounding communities. Wesley Homes at Home, LLC is organized to provide health services under Medicare to WH's residents and clients in surrounding communities.

MANAGEMENT AND CONTROL

Management

According to the restated Articles of Incorporation and Bylaws (May 6, 2006), the management of all the affairs of WHF is vested in a Board of Directors (BOD) consisting of no less than nine and no more than fifteen directors. The BOD is elected by the Board of Trustees of WH. The restated Bylaws state that the

officers of the corporation shall be a president, vice president, secretary, and treasurer who are elected by the BOD at each annual meeting. All officers of the corporation are members of WHF's BOD.

Board of Directors (BOD)

The following individuals were BOD members as of December 31, 2012:

Chuck Booth
Suzanne Burke
Jim Davies
Llewellyn Ernst
Kathryn Garnett
Terese Grady Moon
Fred Hanna
Dick Jobst
Rex Lund
Valerie Offenbecher
Dale Ranstrom
George Reynolds

Officers

The following individuals were officers as of December 31, 2012:

Fred Hanna, President
Terese Grady Moon, Vice President
Kathryn Garnett, Secretary

The position of treasurer was vacant as of December 31, 2012.

Tax Status

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

Conflict of Interest

WHF's conflict of interest policy requires each member of the BOD to disclose any conflict of interest by completing and submitting a conflict of interest questionnaire to the BOD. No exceptions were noted.

ORGANIZATION RECORDS

The BOD meets at least five times a year to discuss any business which is pertinent to WHF. BOD meeting minutes documented the approval of WHF's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary from 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 to render the actuarial opinion. The SAO indicated that WHF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$1,137,703 for 113 in-force annuity contracts as of December 31, 2012.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were physically segregated from the other assets of WHF. Total annuity assets as of December 31, 2012 included investments of \$1,513,726 and a checking account of \$48,072. The annuity investments consisted of cash equivalent, fixed income, and equity funds. Investments were recorded at market value.

SUBSEQUENT EVENTS

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

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments have been addressed and corrected.

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 WHF as of December 31, 2012:

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

Wesley Homes Foundation
Statement of Financial Position
December 31, 2012

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Assets				
Cash and cash equivalents	\$86,980	\$0	\$86,980	
Related Party Receivable (Payable)	(373,447)		(373,447)	
Trustee Held Funds and Restricted				
Investments CGA	1,559,798	(\$7,803)	1,551,995	1
Other investments	6,669,137	7,803	6,676,940	1
Pledges Receivables	934,187		934,187	
Intercompany Loans	820,000		820,000	
Other Current Assets	48,517		48,517	
Total Assets	<u>\$9,745,172</u>	<u>\$0</u>	<u>\$9,745,172</u>	
Liabilities and Net Assets				
Accounts Payable	\$94,758		\$94,758	
Accrued Salaries and Related Benefits	23,295		23,295	
CGA Liability	1,137,703		1,137,703	
Total Liabilities	<u>1,255,756</u>	<u>0</u>	<u>1,255,756</u>	
Net Assets				
Unrestricted	3,671,454		3,671,454	
Temporarily restricted	2,590,095		2,590,095	
Permanently restricted	2,227,867		2,227,867	
Total Net Assets	<u>8,489,416</u>	<u>0</u>	<u>8,489,416</u>	
Total Liabilities and Net Assets	<u>\$9,745,172</u>	<u>\$0</u>	<u>\$9,745,172</u>	

Wesley Homes Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2012

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues:	\$2,170,206	\$0	\$2,170,206
Total expenses:	<u>1,118,206</u>		<u>1,118,206</u>
Increase (decrease) in net assets	1,052,000	0	1,052,000
Other changes in net assets	379		379
Net assets at beginning of year	<u>7,437,037</u>		<u>7,437,037</u>
Net assets at end of year	<u><u>\$8,489,416</u></u>	<u><u>\$0</u></u>	<u><u>\$8,489,416</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Adjustments to WHF's financial statements are as follows:

1. To reflect closing accruals, deferrals, and other financial statement adjustments made by WHF after the 2012 OIC Annual Report filing, based on the audited 2012 Wesley Homes and Subsidiaries Consolidated Financial Statements.

ACKNOWLEDGMENT

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

Constantine Arustamian

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

