

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
COMMUNITY FOUNDATION OF NORTH CENTRAL WASHINGTON
WENATCHEE, WASHINGTON

JUNE 30, 2014

SALUTATION

Seattle, Washington
March 5, 2015

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

Community Foundation of North Central Washington
of
Wenatchee, Washington

hereinafter referred to as "CFNCW." The examination was performed from our OIC office located at Central Building, 810 Third Avenue, Suite 650, Seattle, WA 98104. All of the information and supporting documentation required to perform this examination were requested via email and sent electronically to our office. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of CFNCW as of June 30, 2014.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Community Foundation of North Central Washington of Wenatchee, Washington. This report shows the financial condition of the CGA business and related corporate matters of Community Foundation of North Central Washington as of June 30, 2014.



Patrick H. McNaughton
Chief Examiner

8-12-15

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
INSTRUCTIONS	1
COMMENTS AND RECOMMENDATIONS	1
ORGANIZATION PROFILE	2
History	2
Territory and Plan of Operation	2
Total Net Assets.....	2
Growth.....	2
AFFILIATED ORGANIZATIONS	2
MANAGEMENT AND CONTROL	3
Management	3
Board of Trustees (BOT)	3
Officers	3
Tax Status.....	3
Conflict of Interest.....	3
ORGANIZATION RECORDS	3
SEPARATE RESERVE FUND (SRF)	4
SUBSEQUENT EVENTS	4
ACCOUNTING RECORDS AND PROCEDURES	4
FINANCIAL STATEMENTS	4
Statement of Financial Position.....	5
Statement of Activities and Changes in Net Assets.....	6
NOTES TO THE FINANCIAL STATEMENTS	6
ACKNOWLEDGMENT	7
AFFIDAVIT	8

SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2009 through June 30, 2014. The scope of our examination focused only on the transactions and operations of the CGA business. CFNCW'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, CFNCW's June 30, 2014 audited financial statements were reviewed and utilized to facilitate efficiency in the examination. The Company received an unqualified opinion for all years under review.

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

INSTRUCTIONS

1. Reporting Requirements

The filing of the OIC Annual Report by CFNCW did not comply with RCW 48.38.010(a) and the OIC Annual Report Instructions. The Organization could not provide supporting records to reconcile to the OIC Annual Reports filed for the five year period under examination. Consequently, no reconciliations could be performed and the Foundation failed to cooperate in order to facilitate the reconciliation of the accounts.

CFNCW is instructed to comply with RCW 48.38.10(10)(a) and the OIC Annual Report Instructions, and to maintain accurate accounts and records to support the amounts reported to the OIC. CFNCW is also instructed to comply with RCW 48.03.030(1) which requires the organization to make freely accessible its accounts, records, documents, and files to facilitate the examination.

2. Inaccurate Annuity Payments

CFNCW made payments to an annuitant annually instead of quarterly as required per the annuity contract.

Pursuant to RCW 48.38.030, CFNCW 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

The Community Foundation of North Central Washington (CFNCW) is a nonprofit organization established in 1986. CFNCW manages long-term charitable gifts, and provides grants and scholarships to nonprofit organizations and individuals in Chelan, Douglas, and Okanogan counties of Washington State.

Territory and Plan of Operation

On September 26, 1994, the OIC granted CFNCW a Certificate of Exemption No. 58 to conduct a CGA business in the state of Washington. There were five in-force annuity contracts as of June 30, 2014, and all five were issued to residents of the state of Washington.

Total Net Assets

CFNCW's total net assets as of June 30, 2014 were \$ 30,218,686. This amount included unrestricted net assets of \$ 13,027,234. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of CFNCW for the past five years, as of June 30, is reflected in the following schedules based on the organization's audited financial statements:

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Total Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted
2014	\$56,017,039	\$25,798,353	\$30,218,686	\$13,027,334	\$17,191,352	\$0
2013	47,196,014	21,243,461	25,952,553	12,352,348	13,600,205	0
2012	41,952,635	18,800,825	23,151,810	11,648,277	11,503,533	0
2011	41,115,007	18,082,376	23,032,631	12,131,458	10,901,173	0
2010	36,068,310	17,579,811	18,488,499	8,910,093	9,578,406	0

Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total revenues	\$13,230,911	\$9,630,835	\$4,593,458	\$11,241,607	\$10,431,202
Total expenses	4,392,180	4,554,474	3,805,110	5,814,695	3,412,306
Increase (decrease) in net assets	8,838,731	5,076,361	788,348	5,426,912	7,018,896
Other changes in net assets	(4,572,598)	(2,275,618)	(669,169)	(882,780)	0
Net assets at beginning of year	25,952,553	23,151,810	23,032,631	18,488,499	11,469,603
Net assets at end of year	<u>\$30,218,686</u>	<u>\$25,952,553</u>	<u>\$23,151,810</u>	<u>\$23,032,631</u>	<u>\$18,488,499</u>

Number of gift annuity contracts
in force

5	5	5	5	5
---	---	---	---	---

AFFILIATED ORGANIZATIONS

CFNCW is affiliated with CFNCW Property Holdings, LLC, and 9 South Wenatchee Avenue, LLC.

MANAGEMENT AND CONTROL

Management

CFNCW is governed by a Board of Trustees (BOT) comprised of community members from north central Washington State. The number of trustees may be no less than twelve and no more than thirty. Each trustee is eligible for three, three-year terms. After a trustee has completed three terms, they are ineligible for re-election for one year.

Board of Trustees (BOT)

Trustees as of June 30, 2014:

Katie Pauly, Chair	Steve Robinson
Ken Marson, Vice Chair	Peter Rutherford
Diane Carson	Eliot Scull
Bart Clennon	Ron Skagen
Lisa Day	Gil Sparks
Claudia DeRobles	Mark Spurgeon
Elmira Forner	Mike Stancil
Jane Gilbertsen	Mike Steele
Deb Hartl	Kris Taylor
Craig Homchick	Nevio Tontini
Ken Jackson	Peter Valaas
Mary Lou Johnson	Darci Waterman
Hank Manriquez	David Weber
Danielle Marchant	Anne White

Officers

Officers as of June 30, 2014:

Beth Stipe, Executive Director

Tax Status

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

Conflict of Interest

BOT members, community advisors, volunteers, and staff are required to disclose any potential conflicts of interest. In addition, they are required to sign a confidentiality agreement. The responsibility for identifying and applying the policy is placed on the individual members of the Board Trustees, the community advisors, volunteers, and staff.

ORGANIZATION RECORDS

The BOT meets bi-monthly and must have fifty percent present for a quorum. BOT meeting minutes documented the approval of CFNCW's transactions and events. No exceptions were noted.

SEPARATE RESERVE FUND (SRF)

CFNCW's SRF was reviewed and found to be in compliance with RCW 48.38.020(2)(a) which requires the SRF assets to be held legally and physically segregated from the other assets of CFNCW, and RCW 48.38.010(10)(b) which requires an actuarial opinion to be issued by a qualified actuary relating to annuity reserves. In addition, CFNCW was in compliance with RCW 48.38.020(3)(c) which requires CFNCW to maintain a SRF balance equal to the actuarial calculation for annuity reserves plus a 10 percent surplus. No exceptions were noted.

SUBSEQUENT EVENTS

There were no additional material events which impacted CFNCW between the examination date and the last day of our field work.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation cannot be reconciled to the OIC Annual Report or CFNCW's audited financial statements. (See Instructions No. 1.)

FINANCIAL STATEMENTS

The following financial statements show the financial condition of CFNCW as of June 30, 2014:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

Community Foundation of North Central Washington
Statement of Financial Position
June 30, 2014

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Note</u>
Assets				
Cash and cash equivalents	\$919,468	\$0	\$919,468	
CGA investments	174,586		174,586	
Other investments	54,765,704		54,765,704	
Adjustment to Balance to Annual Report	<u>25,459,562</u>	<u>(25,459,562)</u>	<u>0</u>	1
Total Assets	<u>\$81,476,601</u>	<u>(\$25,459,562)</u>	<u>\$56,017,039</u>	
Liabilities and Net Assets				
CGA liabilities	\$122,116		122,116	
Other liabilities	<u>25,676,237</u>		<u>25,676,237</u>	
Total Liabilities	<u>25,798,353</u>	<u>0</u>	<u>25,798,353</u>	
Net Assets				
Unrestricted	12,913,842	113,492	13,027,334	1
Temporarily restricted	42,764,406	(25,573,054)	17,191,352	1
Permanently restricted	<u>0</u>		<u>0</u>	
Total Net Assets	<u>55,678,248</u>	<u>(25,459,562)</u>	<u>30,218,686</u>	
Total Liabilities and Net Assets	<u>\$81,476,601</u>	<u>(\$25,459,562)</u>	<u>\$56,017,039</u>	

**Community Foundation of North Central Washington
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2014**

	Balance Per Annual Report	Examination Adjustments	Balance Per Examination	Note
Total revenues	\$13,230,911	\$0	\$13,230,911	
Total expenses	<u>4,392,180</u>		<u>\$4,392,180</u>	
Increase (decrease) in net assets	8,838,731	0	8,838,731	
Other changes in net assets	20,886,964	(25,459,562)	(4,572,598)	1
Net assets at beginning of year	<u>25,952,553</u>		<u>25,952,553</u>	
Net assets at end of year	<u>\$55,678,248</u>	<u>(\$25,459,562)</u>	<u>\$30,218,686</u>	

NOTES TO THE FINANCIAL STATEMENTS

1. To reflect generally accepted accounting principle adjustments and corrections from the unaudited estimated financial information that was reported to the OIC prior to completion of CFNCW's audited financial statements.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Community Foundation of North Central Washington 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, ARA, from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

Constantine Arustamian

Constantine Arustamian, CFE, CIE, MCM, CPA, CPCU, FLMI, FFSI, ARC, ARM, ARe, AIS, AIAF, API
Financial Examiner
State of Washington

