

Order No. 11-11  
Camp Berachah Ministries  
Exhibit A

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



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

**of**

**Camp Berachah Ministries  
Auburn, Washington**

**DECEMBER 31, 2009**

**SALUTATION**

Seattle, Washington  
January 25, 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

Camp Berachah Ministries

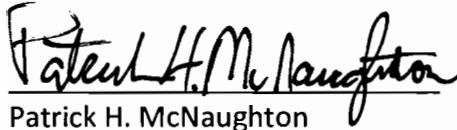
of

Auburn, Washington

hereinafter referred to as "CBM" at its office, 19830 SE 328<sup>th</sup> Place, Auburn, Washington 98092. This report of examination is respectfully submitted showing the financial condition and the related corporate matters of the CGA business of CBM 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 Camp Berachah Ministries, Auburn, Washington. This report shows the financial condition of the CGA business and related corporate matters of Camp Berachah Ministries as of December 31, 2009.



Patrick H. McNaughton  
Chief Examiner

1-25-2011

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. CBM'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 Auburn office of CBM by examiners from the state of Washington.

## **INSTRUCTIONS**

The examiners reviewed CBM's CGA Annual Reports as part of the statutory examination. This review was performed to determine if CBM completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the 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. Reporting Requirements**

The December 31, 2009 Annual Report submitted by CBM to the OIC did not comply with the requirements stipulated in RCW 48.38.010(10)(a) and in the OIC Annual Report Instructions. The net assets reported to the OIC were incorrectly reported as the total assets of \$9,480,002 instead of the net assets of \$6,170,398.

**CBM is instructed to comply with reporting requirements in accordance with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions.**

### **2. Charitable Gift Annuity Investments**

CBM was not in compliance with RCW 48.38.020(2)(b), which requires that the assets of the separate reserve fund be invested in the same manner that persons of reasonable prudence, discretion, and intelligence exercise in the management of a like enterprise. Investments should be of sufficient value, liquidity, and diversity to assure the institution's ability to meet its outstanding obligation.

- a. CBM invested in two limited liability partnerships, Heritage-Orcas Partners, LP and Heritage Capital Partners, LP and one limited liability corporation, Covenant Capital, LLC. According to the confidential private offering memorandums of these entities, any investment will involve significant risks and should be viewed as non-liquid investments. This practice did not conform to CBM's Board of Directors' organization policies, which state, "The camp will utilize money market and investment accounts at the discretion of the President, and approved by the Board of Directors (BOD) as part of the Annual Financial Plan. Investment strategy will be what is commonly described as "modest or conservative," with the purpose and intent to make the best use of funds received, without taking undue risk."
- b. There was no evidence in the BOD minutes that the BOD approved the above investments or that the BOD was informed by the President of the risk associated with these types of investments.
- c. During the period of the examination, investments in Heritage Capital Partners, LP and Covenant Capital, LLC were depleted by annuity payments leaving the investment in Heritage-Orcas Partners, LP of \$95,845. We were unable to substantiate the market value of the investment in Heritage-Orcas Partners, LP.

**CBM is instructed to comply with RCW 48.38.020(2)(b) and invest CGA assets in the same manner that persons of reasonable prudence, discretion, and intelligence would exercise. CBM is also instructed to have its BOD review and approve all investment transactions and document the approval in the BOD minutes.**

### **3. CGA Reserves**

Pursuant to RCW 48.38.020(3)(c), an organization is required to increase its actuarially calculated separate reserve fund by a surplus of 10 percent. CBM did not increase the separate reserve fund by 10 percent. As a result, the reported CGA reserves were understated on December 31, 2009 by \$7,211. No examination adjustment was required due to immateriality.

**CBM is instructed to increase the separate reserve fund calculated by the actuary by a surplus of 10 percent pursuant to RCW 48.38.020(3)(c).**

### **4. Annuity Contracts**

Per RCW 48.38.030(5), each charitable annuity contract or policy form must include the reasonable value as of the date of the agreement of the benefits created. The reasonable values reported in CBM's annuity contracts were incorrect.

**CBM is instructed to comply with RCW 48.38.030(5) by including the reasonable or present value as of the date of the agreement of the benefits created.**

## **COMMENTS AND RECOMMENDATIONS**

### **1. Conflict of Interest**

CBM's conflict of interest policy requires BOD members to complete a conflict of interest form when a conflict of interest occurs or is suspected. The policy also requires that, if a conflict of interest occurs, certain required procedures would apply:

1. The Executive Committee will review all possible conflicts of interest and if needed, forward to the full BOD for a decision.
2. The related party will be excused during the process of BOD deliberation.
3. The BOD will perform an annual review of any known or suspected related-party transactions.

During the course of the examination, it was determined that the former chairman of the BOD managed two entities that administered the CGA business and had significant control of the entities where CGA funds were invested. A conflict of interest form was completed by the former chairman but no evidence or BOD minutes were provided to document that the required three procedures above were performed.

**It is recommended that CBM follow its conflict of interest policy which requires completion of a conflict of interest form when a conflict of interest occurs or is suspected. When a conflict exists, CBM should follow the required procedures, including a review by the Executive Committee of all possible conflicts of interest, excusing the person from any BOD deliberation, and an annual review performed of related party transactions. The review and disposition of all conflicts of interest should be clearly documented in the BOD and executive committee minutes.**

## **ORGANIZATION PROFILE**

**History:** CBM was incorporated in the state of Washington in February 1991. CBM is an independent non-denominational ministry. CBM operates a retreat center, camping facilities, bookstore and country store, and offers a number of programs for families and children.

**Territory and Plan of Operation:** On July 31, 2001, the OIC granted CBM a Certificate of Exemption Number 166 to conduct a CGA business in the state of Washington.

**Total Net Assets:** CBM's total net assets as of December 31, 2009 were \$6,170,398 consisting of \$6,144,559 unrestricted net assets, and \$25,839 temporarily restricted net assets. The minimum unrestricted net assets requirement pursuant to RCW 48.38.010(6) was satisfied as of December 31, 2009.

**Growth:** The growth of CBM for the past five years is reflected in the following schedules. All information was compiled from CBM's financial statements as of December 31:

**Schedule 1 – Statement of Financial Position**

Year	Assets	Liabilities	Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2009	\$9,480,002	\$3,309,604	\$6,170,398	\$6,144,559	\$25,839	\$0
2008	9,189,059	2,898,426	6,290,634	6,290,634	0	0
2007	9,331,240	2,838,657	6,492,583	6,470,266	22,317	0
2006	9,135,370	2,631,060	6,504,310	6,504,310	0	0
2005	9,086,976	2,674,227	6,412,749	6,412,749	0	0

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

	2009	2008	2007	2006	2005
Support and revenues	\$2,899,831	\$3,164,747	\$3,118,627	\$3,011,091	\$2,698,855
Operating expenses	3,020,546	3,367,364	3,130,354	2,919,530	2,669,297
Net income (loss)	(120,715)	(202,617)	(11,727)	91,561	29,558
Unreconciled adjustment	479	668			
Net assets at beginning of year	6,290,634	6,492,583	6,504,310	6,412,749	6,383,191
<b>Net assets at end of year</b>	<b>\$6,170,398</b>	<b>\$6,290,634</b>	<b>\$6,492,583</b>	<b>\$6,504,310</b>	<b>\$6,412,749</b>

Number of gift annuity contracts at end of year	8	8	8	7	6
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**MANAGEMENT AND CONTROL**

**Management:** According to CBM's Bylaws, the BOD has authority in all matters pertaining to the property and business of CBM. Membership on the Board includes directors and officers of CBM as determined by the Board of Directors, Articles of Incorporation, and Bylaws.

**Board of Directors:** The BOD as of December 31, 2009:

Gary Benton, Chairman  
 John Stewart, Chairman Elect  
 Steve Altick, Board Member  
 Russ Babcock, Board Member  
 Ron DeVore, Associate Board Member  
 Bill Keim, Board Member  
 Paul Putnam, Board Member Emeritus



Laurie Stewart, Board Member  
Floyd Taylor, Board Member Emeritus

**Officers:** The officers as of December 31, 2009:

Steve Altick, President  
David Lundquist, Treasurer  
Brian Christian, Secretary

**Tax Status:** CBM is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest:** CBM's conflict of interest policy requires BOD members to complete a conflict of interest form any time a conflict of interest occurs or is suspected. The policy also requires that if a conflict of interest occurs certain required procedures would apply. (See Comment and Recommendation No.1.)

#### **ORGANIZATION RECORDS**

The BOD meets at least three times a year to discuss any business which is pertinent to CBM. BOD meeting minutes documented the approval of CBM's transactions and events but not its investment transactions. (See Instruction No. 2.)

#### **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 meets its qualification standards. The SAO indicated that CBM's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be \$103,056.

#### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of CBM as required by RCW 48.38.020(2)(a). We were unable to substantiate the market value of the investment. (See Instruction No. 2.)

### **SUBSEQUENT EVENT**

Heritage-Orcas Partners, LP moved CBM's equity balance of \$94,841 at September 30, 2010 to a redemption suspense account on November 2, 2010. On December 20, 2010, the OIC notified CBM to suspend solicitation and issuance of charitable gift annuities until it can demonstrate that the separate reserve fund is adequately funded.

### **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation generally supported the data and amounts presented in the annual reports and financial statements. (See Instruction No. 2.)

### **FINANCIAL STATEMENTS**

The following financial information summarizes the financial statements of CBM:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**Camp Berachah Ministries  
Statement of Financial Position  
December 31, 2009**

	<b>Balance per Annual Report</b>	<b>Examination Adjustments</b>	<b>Balance Per Examination</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$239,614	\$0	\$239,614
CGA investments	95,845		95,845
Other assets	9,144,543		9,144,543
<b>Total Assets</b>	<b><u>\$9,480,002</u></b>	<b><u>\$0</u></b>	<b><u>\$9,480,002</u></b>
<b><u>LIABILITIES</u></b>			
CGA reserves	\$93,687	\$0	\$93,687
Other liabilities	3,215,917		3,215,917
<b>Total Liabilities</b>	<b><u>3,309,604</u></b>	<b><u>0</u></b>	<b><u>3,309,604</u></b>
<b><u>NET ASSETS</u></b>			
Unrestricted	6,144,559	0	6,144,559
Temporarily restricted	25,839		25,839
<b>Total Net Assets</b>	<b><u>6,170,398</u></b>	<b><u>0</u></b>	<b><u>6,170,398</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$9,480,002</u></b>	<b><u>\$0</u></b>	<b><u>\$9,480,002</u></b>

**Camp Berachah Ministries**  
**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 revenues	\$2,899,831	\$0	\$2,899,831
Total expenses	<u>3,020,546</u>		<u>3,020,546</u>
Increase (decrease) in net assets	(120,715)	0	(120,715)
Unreconciled adjustment	479		479
Net assets at beginning of year	<u>6,290,634</u>		<u>6,290,634</u>
<b>Net assets at end of year</b>	<b><u><u>\$6,170,398</u></u></b>	<b><u><u>\$0</u></u></b>	<b><u><u>\$6,170,398</u></u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

NONE

## ACKNOWLEDGMENT

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

Respectfully submitted,

*Constantine Arustamian*

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

**AFFIDAVIT**

STATE OF WASHINGTON            }  
  } 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 CBM’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 25<sup>th</sup> day of January, 2011.

*Colleen Jansen*

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

