

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



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

of

**Panorama City Foundation
Lacey, Washington**

December 31, 2008

SALUTATION

Seattle, Washington
October 4, 2010

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

Panorama City Foundation

of

Lacey, Washington

hereinafter referred to as "PCF" at its office at 1751 Circle Lane SE, Lacey, Washington 98503. This report of examination is respectfully submitted showing the condition of the CGA business of PCF as of December 31, 2008.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of Panorama City Foundation of Lacey, Washington. This report shows the financial condition of the CGA business and related corporate matters of Panorama City Foundation as of December 31, 2008.



Patrick H. McNaughton
Chief Examiner

10-4-10

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2004 through December 31, 2008. The 2008 Annual Report reflected the balance sheet and statement of revenue and expenses of PCF as of December 31, 2008. Because the Company did not request an exemption to file its report as of August 31, its fiscal year-end, the detailed financial statements are presented as of December 31, 2008, and Schedules 1 and 2 which show condensed financial data for the period of examination are presented as of its fiscal year-end of August 31.

PCF'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 the CGA reporting. The results of the examination are commented upon in the various sections of this report. In addition, PCF'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 Lacey office of PCF by examiners from the state of Washington.

INSTRUCTIONS

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

- a) The amount reported as "Net Assets" on the OIC Annual Report was PCF's total assets. Therefore, the amount reported as "Net Assets" was not reduced by PCF's liabilities. (See Adjustment No. 1.)
- b) Several invoices for building construction costs were included as an expense when they should have been accounted for as assets. In addition, PCF identified several other accounting adjustments that were not properly reported in the OIC Annual Report. (See Adjustment No. 3.)
- c) PCF was unable to reconcile the Statement of Net Income and Expenses reported in the OIC Annual Report to its internal accounts and records. (See Adjustments No. 5 and 6.)

PCF is instructed to comply with RCW 48.38.010 which requires the OIC Annual Report to be filed pursuant to the OIC Annual Report Instructions.

2. CGA Liabilities – Reserves

RCW 48.38.020(3)(a) and (b) require PCF to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts, and RCW 48.38.020(3)(c) requires a surplus of 10% in addition to the reserve computed under subsections (a) and (b). PCF maintained a separate reserve of \$136,999 at December 31, 2008, which was less than the amount computed by its actuary. Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be the actuary's calculated reserve amount of \$221,709 plus an additional ten percent, for a total of \$243,880. As a result, the reported reserve was understated by \$106,881 as of December 31, 2008. (See Adjustment No. 2.)

PCF is instructed to report the statutory reserve calculated by the actuary plus an additional 10% surplus required by RCW 48.38.020(3).

COMMENTS AND RECOMMENDATIONS

There were no comments and recommendations made in this examination report.

ORGANIZATION PROFILE

History: PCF is a not-for-profit corporation, established May 21, 1997, in the state of Washington to raise funds to support residents of Panorama (formerly known as "Panorama City"), a continuing care retirement community located in Lacey, Washington.

Territory and Plan of Operation: On May 17, 2004, OIC granted PCF Certificate of Exemption No. 241 to conduct a CGA business in the state of Washington.

Total Net Assets: After examination adjustments, PCF's total net assets as of December 31, 2008 were \$4,865,847. This amount included unrestricted net assets of \$2,690,225. The minimum unrestricted net asset requirement was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of PCF for the past five years is reflected in the following schedules. All information was compiled from PCF's audited financial statements as of fiscal years ending August 31.

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2008	\$5,655,555	\$332,715	\$5,322,840	\$2,408,281	\$2,914,559	\$0
2007	5,027,073	144,254	4,882,819	2,019,239	2,863,580	0
2006	2,636,354	328,916	2,307,438	1,534,379	773,059	0
2005	2,176,204	228,584	1,947,620	1,322,968	624,652	0
2004	1,469,440	68,694	1,400,746	1,060,971	339,775	0

Schedule 2 – Statement of Activities and Changes in Net Assets

	2008	2007	2006	2005	2004
Total Revenues	\$877,900	\$2,883,507	\$682,294	\$685,177	307,796
Total Expenses	(224,437)	(352,344)	(301,712)	(230,109)	(139,437)
Excess (deficit) for the year	653,463	2,531,163	380,582	455,068	168,359
Other changes in net assets	(213,442)	44,218	(20,764)	91,806	12,666
Net assets at beginning of year	4,882,819	2,307,438	1,947,620	1,400,746	1,219,721
Net assets at end of year	\$5,322,840	\$4,882,819	\$2,307,438	\$1,947,620	\$1,400,746
Number of gift annuity contracts at end of year	15	15	14	7	0

AFFILIATED ORGANIZATIONS

Panorama (formerly known as “Panorama City”) is a non-profit corporation organized under the laws of the state of Washington. PCF was established to raise funds to support residents of Panorama. Panorama provides support to PCF to raise awareness of PCF within the Panorama community. Panorama processes certain operating and payroll expenses on behalf of PCF. Also, PCF occupies a facility, owned by Panorama, rent free. Panorama also contributed to PCF’s defined contribution retirement plan on behalf of PCF’s employees.

MANAGEMENT AND CONTROL

Management: According to the Articles of Incorporation, the management of PCF shall be vested in a Board of Directors (BOD). The number of directors, and the method of selecting directors, shall be fixed by the Bylaws. The BOD shall consist of not less than fifteen or more than twenty five directors.

BOD as of December 31, 2008:

Ruby Adams	Mary Jo Hinkel
Arra Browning	Frank Lerner
Patt Clark	Don Plank
Bonnie Eismann	Rita Read
Bill Gavin	James Taylor
Nelse Hanson	Jack VanLeuven

Officers as of December 31, 2008:

Elaine Coffman	President
Bernardine Clarke	First Vice President
Joseph DiSanto	Second Vice President
Don Melnick	Vice President for Construction
David Rotter	Treasurer
Eileen Keith	Secretary

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

Conflict of Interest: PCF's conflict of interest policy requires that in the event of an actual or potential conflict of interest, a board or committee member should refrain from any action on the matter that is the subject of the conflict until full disclosure has been made to the BOD and he/she has received instructions from the BOD. No exceptions were noted.

ORGANIZATION RECORDS

The BOD met monthly in 2008 to discuss business pertinent to PCF. BOD meeting minutes documented the approval of PCF's transactions and events. No exceptions were noted.

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 PCF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$221,709 as of December 31, 2008. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was not properly reported as annuities payable in PCF's financial statements. (See Instruction No. 2.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of PCF as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2008 was \$312,584 and consisted of bonds and stocks. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

1. Transfer of Asset

On August 31, 2009, a building in the amount of \$3.7 million was transferred to Panorama. Net assets after the transfer were approximately \$1.0 million.

2. Surrender of Certificate of Exemption and Merger with Panorama

On November 23, 2009, the OIC granted a Certificate of Exemption to Panorama. PCF has surrendered its certificate of exemption and has initiated a process to transfer its CGA business and merge into Panorama.

ACCOUNTING RECORDS AND PROCEDURES

There were several instances in which PCF did not properly account for its transactions. In addition, the Foundation was unable to produce adequate support for its Statement of Net Income and Expenses. (See Instruction No. 1.)

FINANCIAL STATEMENTS

The following financial information summarizes the financial statements of PCF at December 31, 2008.

**PANORAMA CITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008**

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>	<u>Notes</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$305,966	\$100	\$306,066	4
Current receivables and other assets	288,272	(91,133)	197,140	
Long term receivables	260,317		260,317	
Building and improvements, net	681,534	934,291	1,615,825	3
Fixed assets, net	2,483			
Investments	2,766,313		2,766,313	
Total Assets	<u>\$4,304,885</u>	<u>\$843,258</u>	<u>\$5,148,143</u>	3,4
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities	0	33,036	33,036	1,4
CGA liability	0	243,880	243,880	1,2,4
Payable to affiliate	0	5,380	5,380	1,4
Total Liabilities	<u>0</u>	<u>282,296</u>	<u>282,296</u>	1,2,4
<u>NET ASSETS</u>				
Unrestricted	1,574,410	1,115,815	2,690,225	1,2,3,4
Temporarily restricted	2,730,475	(554,853)	2,175,622	1,2,3,4
Permanently restricted	0		0	
Total net assets	<u>4,304,885</u>	<u>560,962</u>	<u>4,865,847</u>	1,2,3,4
Total Liabilities and Net Assets	<u>\$4,304,885</u>	<u>\$843,258</u>	<u>\$5,148,143</u>	1,2,3,4

**PANORAMA CITY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For Year Ended December 31, 2008**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Net assets at beginning of year	\$5,125,167	\$0	\$5,125,167	
Total revenues	196,213	734,168	930,381	3,4
Total expenses	(1,736,059)	702,925	(1,033,134)	2,3,4
Increase (decrease) in net assets	(1,539,846)	1,437,093	(102,753)	2,3,4
Unreconciled variance, per annual report	719,564	(719,564)	0	5
Unreconciled variance, per examination		(156,567)	(156,567)	6
Net assets at end of year	<u>\$4,304,885</u>	<u>\$560,962</u>	<u>\$4,865,847</u>	2,3,4,5

Adjustment Notes:

1. Net Assets

The amount reported as Total Net Assets in PCF's Annual Report was not reduced by its liabilities.

2. CGA Reserves

RCW 48.38.020 requires PCF to book a liability equal to its actuarial reserves plus a surplus of ten percent which amounted to \$243,880. PCF booked only \$136,999 in its accounting records, which was not included in its reported liabilities or net assets at December 31, 2008 (See Adjustment Note No 1.) The amount reported in PCF's December 31, 2008 accounting records was \$136,999, which did not tie to the \$149,569 disclosed in the OIC Annual Report.

3. Construction in Progress

PCF's OIC Annual Report classified \$934,291 of construction in progress as expenses when this amount should have been classified as an asset.

4. Miscellaneous Adjustments

PCF identified several accounting adjustments that were not properly reflected in the 2008 OIC Annual Report.

5. Unreconciled Variance– Balance Per OIC Annual Report

PCF's reported net income, when added to the prior year's reported net assets (beginning net assets) did not equal the ending net assets reported. The majority of this variance is due to Note No. 1.

6. Unreconciled Variance – Balance Per Exam

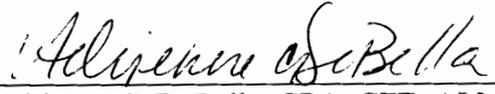
PCF's adjusted net income, when added to its beginning net assets, did not reconcile to its ending net assets. The unidentified variance was (\$156,567).

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of PCF 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, Life and Disability Field Supervising Examiner from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



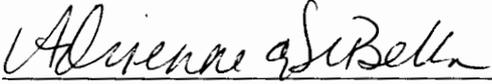
Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 }
 } ss
COUNTY OF KING }

Adrienne C. DeBella, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of PCF'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).



Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 4th day of October, 2010.



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

