

**STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER**



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

of

**Pacific Northwest Research Institute
Seattle, Washington
September 30, 2009**

Order No. 10-183
Pacific Northwest Research Institute
Exhibit A

SALUTATION

Seattle, Washington
September 30, 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

Pacific Northwest Research Institute

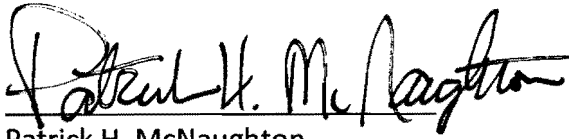
of

Seattle, Washington

hereinafter referred to as "PNRI" at its office, 720 Broadway, Seattle, Washington 98122. This report of examination is respectfully submitted showing the condition of the CGA business of PNRI as of September 30, 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 Pacific Northwest Research Institute of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Pacific Northwest Research Institute as of September 30, 2009.



Patrick H. McNaughton
Chief Examiner

9-30-10

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009. The 2009 Annual Report reflected the balance sheet and statement of revenue and expenses of PNRI as of September 30, 2009. The examination of the 2009 Annual Report covers the period ending September 30, 2009 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2009 for the general interrogatories and charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The scope of our examination focused only on the transactions and operations of the CGA business.

PNRI'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.

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).

INSTRUCTIONS

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

RCW 48.38.020 requires PNRI to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. PNRI maintained a separate fund, but it did not include a surplus of 10% of the calculated reserve amount as required by RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$145,784. As a result, the reported annuities payable was understated by \$52,794 on December 31, 2009. No examination adjustment was necessary due to immateriality.

PNRI is instructed to report the statutory reserve calculated by the actuary pursuant to RCW 48.38.010(10)(c), plus an additional 10% as required by RCW 48.38.020(1) and (3)(c).

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

PNRI was established as Pacific Northwest Research Foundation in 1956 by Dr. William B. Hutchinson, Sr., as a non-profit biomedical and clinical research institute.

Territory and Plan of Operation

On October 3, 1985, OIC granted PNRI Certificate of Exemption No. 17 to conduct a CGA business in the state of Washington.

Total Net Assets

PNRI's total net assets as of September 30, 2009 were \$12,222,610 consisting of \$8,448,978 unrestricted net assets, \$485,234 temporarily restricted net assets and \$3,235,604 permanently restricted assets. The minimum unrestricted net asset requirement pursuant to RCW 48.38.010(6) was satisfied as of September 30, 2009.

Growth

The growth of PNRI for the past five years is reflected in the following schedules. All information was compiled from PNRI's audited financial statements as of fiscal years ending September 30.

Schedule 1 – Statement of Financial Position

| Fiscal Year | Assets | Liabilities | Total Net Assets | Total Net Assets Allocated Into: | | |
|--------------------|---------------|--------------------|-------------------------|---|-------------------------------|-------------------------------|
| | | | | Unrestricted | Temporarily Restricted | Permanently Restricted |
| 2009 | \$14,266,215 | \$2,096,399 | \$12,169,816 | \$8,448,978 | \$485,234 | \$3,235,604 |
| 2008 | 14,979,960 | 2,202,060 | 12,777,900 | 8,626,704 | 672,187 | 3,479,009 |
| 2007 | 17,602,338 | 2,300,579 | 15,301,759 | 10,220,080 | 708,351 | 4,373,328 |
| 2006 | 17,881,572 | 2,209,224 | 15,672,348 | 11,134,895 | 643,349 | 3,894,104 |
| 2005 | 18,173,725 | 2,513,331 | 15,660,394 | 10,277,116 | 1,549,530 | 3,833,768 |

Schedule 2 – Statement of Activities and Changes in Net Assets

| | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Revenues | \$6,409,233 | \$6,939,892 | \$5,663,404 | \$6,680,451 | \$7,210,023 |
| Expenses | (6,717,704) | (7,873,757) | (6,851,018) | (6,792,530) | (7,024,936) |
| Other changes in net assets | (299,613) | (1,589,994) | 817,025 | 124,013 | (51,407) |
| Increase (decrease) in net assets | (608,084) | (2,523,859) | (370,589) | 11,934 | 133,680 |
| Net assets at beginning of year | 12,777,900 | 15,301,759 | 15,672,348 | 15,660,414 | 15,526,734 |
| Net assets at end of year | <u>\$12,169,816</u> | <u>\$12,777,900</u> | <u>\$15,301,759</u> | <u>\$15,672,348</u> | <u>\$15,660,414</u> |

AFFILIATED ORGANIZATIONS

PNRI does not have any affiliated organizations.

MANAGEMENT AND CONTROL

Management

According to the Corporate Bylaws, the affairs of PNRI are managed by the governing Board of Trustees (BOT). Trustees are selected for their interest and ability to carry out the goals of PNRI. The number of trustees must be at least 10, but not more than 20. The term of office for each position is 3 years. All trustees have full voting rights.

Board of Trustees

The BOT as of September 30, 2009:

| | | |
|--------------------|---------------------|---------------------------|
| Sarah Armstrong | Barry Erickson | Lynn Kern |
| Karl L. Aschenbach | Norman Erickson | Richard J. Omato |
| James M. Barry | Juanita M. Garrison | Doug Shaw |
| Lois Jean Broadway | Carol L. Heimkes | Gilliat G. Schroeder, Jr. |
| Dan Caldwell | Ardythe Johnson | |

Officers

Officers as of September 30, 2009:

Richard J. Omata, President and Chief Executive Officer

Jim Gore, Vice-President

Bryon Epp, Director of Finance

Tax Status

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

Conflict of Interest

Trustees are required to submit a conflict of interest questionnaire annually. PNRI's policy statement indicates that, should an actual or potential conflict of interest arise, it will be reviewed and voted upon by the BOT. There were no exceptions noted.

ORGANIZATION RECORDS

The BOT meets six times a year, every other month, to discuss business which is pertinent to PNRI. BOT meeting minutes documented the approval of PNRI'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 PNRI's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$130,192 for two contracts as of December 31, 2009.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of PNRI as required by RCW 48.38.020(2). The market value of the annuity investments as of September 30, 2009 was \$248,584 and consisted of cash equivalents, U.S. Treasury bills, and mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted PNRI's CGA operations between the examination date and the last day of 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 information summarizes the financial statements of PNRI. All numbers were obtained from the audited financial statements.

PACIFIC NORTHWEST RESEARCH INSTITUTE
Statement of Financial Position
September 30, 2009

| | | | |
|---|---------------------|------------|---------------------|
| <u>ASSETS</u> | | | |
| Investments | \$3,171,385 | \$0 | \$3,171,385 |
| CGA investments | 248,584 | | 248,584 |
| Property and equipment | 5,087,062 | | 5,087,062 |
| Other assets | 5,759,184 | | 5,759,184 |
| Total Assets | \$14,266,215 | \$0 | \$14,266,215 |
| | | | |
| <u>LIABILITIES</u> | | | |
| Annuities payable | \$92,990 | \$0 | \$92,990 |
| Accrued expenses | 339,109 | | 339,109 |
| Accounts payable | 223,096 | | 223,096 |
| Other liabilities | 1,388,410 | | 1,388,410 |
| Total Liabilities | 2,043,605 | 0 | 2,043,605 |
| | | | |
| <u>NET ASSETS</u> | | | |
| Unrestricted | 8,501,772 | 0 | 8,501,772 |
| Temporarily restricted | 485,234 | | 485,234 |
| Permanently restricted | 3,235,604 | | 3,235,604 |
| Total Net Assets | 12,222,610 | 0 | 12,222,610 |
| Total Liabilities and Net Assets | \$14,266,215 | \$0 | \$14,266,215 |

**Statement of Activities and Changes in Net Assets
For Fiscal Year Ended September 30, 2009**

| | <u>Balance Per Annual Report</u> | <u>Examination Adjustments</u> | <u>Balance Per Examination</u> |
|-----------------------------------|---|---|---|
| Total revenues | \$6,409,233 | \$0 | \$6,409,233 |
| Total expenses | <u>(6,717,704)</u> | <u> </u> | <u>(6,717,704)</u> |
| Increase (decrease) in net assets | (308,471) | <u> </u> | (308,471) |
| Other changes in net assets | <u>(246,819)</u> | <u> </u> | <u>(246,819)</u> |
| Net assets at beginning of year | <u>12,777,900</u> | <u> </u> | <u>12,777,900</u> |
| Net assets at end of year | <u><u>\$12,222,610</u></u> | <u><u>\$0</u></u> | <u><u>\$12,222,610</u></u> |

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of PNRI during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner and Richard V. Bologna, Financial Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Susan Campbell". The signature is written in black ink and is positioned above the printed name.

Susan Campbell, CPA, CFE, FLMI, ARA

Examiner-in-Charge


State of Washington

AFFIDAVIT

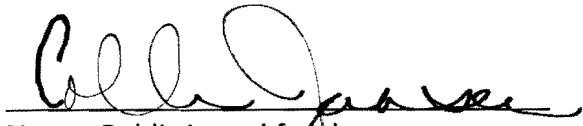
STATE OF WASHINGTON }
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COUNTY OF KING }

Susan Campbell, 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 PNRI'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).


Susan Campbell, CPA, CFE, FLMI, ARA
Life Field Supervising Examiner
State of Washington

Subscribed and sworn to before me on this 30th day of September, 2010.


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

