

Order No. 09-02
Pacific Northwest Ballet Association
Exhibit A

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



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

of

**Pacific Northwest Ballet Association
Seattle, Washington**

DECEMBER 31, 2006

SALUTATION

Seattle, Washington
January 6, 2009

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 Ballet Association

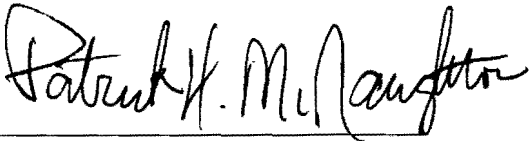
of

Seattle, Washington

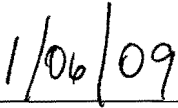
hereinafter referred to as "PNWBA" at its office at 301 Mercer Street, Seattle, Washington 98109. This report of examination is respectfully submitted showing the condition of the CGA business of PNWBA as of December 31, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the CGA business of Pacific Northwest Ballet Association, Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Pacific Northwest Ballet Association as of December 31, 2006.



Patrick H. McNaughton
Chief Examiner



Date

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....1

INSTRUCTIONS.....1

COMMENTS AND RECOMMENDATIONS.....1

ORGANIZATION PROFILE2

History2

Territory and Plan of Operation.....2

Net Assets.....2

Growth.....2

AFFILIATED ORGANIZATIONS3

MANAGEMENT AND CONTROL3

Management3

Board of Trustees3

Officers.....3

Tax Status.....3

Conflict of Interest.....4

ORGANIZATION RECORDS4

STATEMENT OF ACTUARIAL OPINION4

ANNUITY ASSETS CUSTODIAL FUNCTION.....4

SUBSEQUENT EVENTS4

ACCOUNTING RECORDS AND PROCEDURES.....4

FINANCIAL STATEMENTS4

ACKNOWLEDGMENT6

AFFIDAVIT7

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006. The scope of our examination focused only on the transactions and operations of the CGA business. PNWBA'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. In addition, PNWBA'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 Seattle office of PNWBA by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed PNWBA's CGA Annual Reports as part of the statutory examination. This review was performed to determine if PNWBA completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization'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 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%. PNWBA did not increase the separate reserve fund by 10%. As a result, the reported CGA reserves were understated on December 31, 2006 by \$21,526. No examination adjustment was required due to immateriality.

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

COMMENTS AND RECOMMENDATIONS

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

ORGANIZATION PROFILE

History: PNWBA was founded in 1972 as Pacific NW Dance Association. PNWBA stages several major ballets each year, operates a ballet school, and actively promotes public interest in the art of ballet.

Territory and Plan of Operation: On March 30, 1992, OIC granted PNWBA Certificate of Exemption Number 40 to conduct a CGA business in the state of Washington.

Total Net Assets: PNWBA's total net assets as of December 31, 2006 were \$11,226,526 consisting of \$10,028,545 unrestricted net assets and \$1,197,981 temporarily restricted net assets. The minimum unrestricted net asset requirement pursuant to RCW 48.38.010(6) was satisfied as of December 31, 2006.

Growth: The growth of PNWBA for the past five years is reflected in the following schedules. All information was compiled from PNWBA's unaudited financial statements.

Schedule 1 – Statement of Financial Position

Calendar Year	Assets	Liabilities	Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2006	\$12,476,803	\$1,250,277	\$11,226,526	\$10,028,545	\$1,197,981	\$0
2005	11,878,539	2,518,545	9,359,994	9,359,994	0	0
2004	11,707,663	2,082,644	9,625,019	9,625,019	0	0
2003	14,553,074	3,260,534	11,292,540	11,292,540	0	0
2002	14,888,258	3,736,217	11,152,041	7,458,536	3,693,505	0

Schedule 2 – Statement of Activities and Changes in Net Assets

	2006	2005	2004	2003	2002
Total Revenue, oper. & nonoperating	\$21,103,842	\$17,290,831	\$20,054,489	\$14,386,196	\$ 10,439,930
Total Expenses, oper. & nonoperating	(19,237,308)	(17,966,532)	(19,313,880)	(9,269,985)	(8,599,074)
Net Income (loss)	\$1,866,534	(\$675,701)	\$740,609	\$5,116,211	\$1,840,856
Number of Gift Annuity Contracts	9	8	8	6	7

Schedule 2 – Statement of Activities and Changes in Net Assets were compiled from the Annual Reports submitted to OIC. The above schedule does not include information on changes in net assets because PNWBA was unable to produce such reports for calendar years ending December 31, 2005, 2004, 2003, and 2002. PNWBA's reporting period is fiscal year ending June 30.

AFFILIATED ORGANIZATIONS

Pacific Northwest Ballet Foundation (PNWBF) is affiliated with PNWBA. PNWBF was formed to conduct and support activities exclusively for the benefit of PNWBA.

MANAGEMENT AND CONTROL

Management: According to the Bylaws, the affairs of PNWBA are managed by the governing Board of Trustees (BOT). Trustees are selected for their interest and ability to carry out the purposes of PNWBA.

The BOT as of December 31, 2006:

Danielle Ackerley	W. Daniel Heidt	Alida Oles
Kay Baxter	Peter Horowitz	Heidi Orr
Hallock Beals	John Iverson	Laura Peterson
Linda Beasley-Warren	Jacquelyn Jaech	Anne Phelps
Carl Behnke	Gail James	James Raisbeck
Peter Boal	Pamela Johnson	Richard Redman
Susan Brotman	Glenn Kawasaki	Kim Richter
D. David Brown	Travis Keller	Barbara Ries
Diane Burgess	April Kiebertz	Michael Righi
Robert Cremin	Betty Kreager	Paula Rose
Susan Duffy	Afshan Lakha	Esther Rotella
Joan Fitzmaurice	James Leslie	Jane Stonecipher
Stephen Fuhs	Madelyn Lindsay	Wayne Thurman
Robin Gainey	Robert Lipp	Bonnie Towne
Caroline Goedhart	Rian MacLeod	Bertrand Valdman
Lawrence Graham	Arthur Mazzola	David Vaskevitch
William Grinstein	Jane McConnell	Deidra Wager
Susan Grinstein	David Michaud	Richard Weisman
Aya Hamilton	Susie Nificy	Joshua Windsor
Jan Harper Johnson	Joe Norman, Jr.	Evelyn Zabo
Cathi Hatch	Susan Okamoto	

The officers as of December 31, 2006:

Peter Horowitz, Chairman	Carl Behnke, Secretary
Aya Hamilton, President	W. Daniel Heidt, Assistant Secretary
Bertrand Valdman, Treasurer	Cathi Hatch, Immediate Past Chairman
Hallock Beals, Assistant Treasurer	

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

Conflict of Interest: BOT members are required to submit a conflict of interest questionnaire annually. PNWBA's policy statement indicates that should an actual or potential conflict-of-interest arise, it will be reviewed and voted upon by the BOT. No exceptions were noted.

ORGANIZATION RECORDS

The BOT meets at least six times a year to discuss any business which is pertinent to PNWBA. BOT meeting minutes document the approval of PNWBA'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 PNWBA's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$215,263.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of PNWBA as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2006 was \$255,001. The annuity investments consisted of cash, bonds, and equity funds, and were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted PNWBA's CGA operations between the examination date and the last day of our 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 financial information summarizes the financial statements of PNWBA as of December 31, 2006.

STATEMENT OF FINANCIAL POSITION

	Balance per Annual Report	Examination Adjustments	Balance Per Examination
<u>ASSETS</u>			
Cash and cash equivalents	\$1,417,952	\$0	\$1,417,952
Investments	1,040,378		1,040,378
CGA Investments	255,001		255,001
Other assets	9,763,472		9,763,472
Total Assets	\$12,476,803	\$0	\$12,476,803
<u>LIABILITIES</u>			
Accounts Payable & Accrued Expenses	\$701,137	\$0	\$701,137
CGA reserves	211,108		211,108
Other liabilities	338,032		338,032
Total Liabilities	1,250,277	0	1,250,277
<u>NET ASSETS</u>			
Unrestricted	10,028,545		10,028,545
Temporarily restricted	1,197,981		1,197,981
Permanently restricted	0		0
Total Net Assets	11,226,526	0	11,226,526
Total Liabilities and Net Assets	\$12,476,803	\$0	\$12,476,803

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

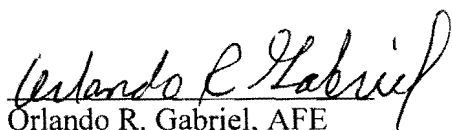
	Balance Per Annual Report	Examination Adjustments	Balance Per Examination
Total revenues	\$21,103,840	\$0	\$21,103,840
Total expenses	(19,237,308)		(19,237,308)
Increase (decrease) in net assets	1,866,532	0	1,866,532
Net assets at beginning of year	9,359,994		9,359,994
Net assets at end of year	\$11,226,526	\$0	\$11,226,526

ACKNOWLEDGMENT

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

Respectfully submitted,



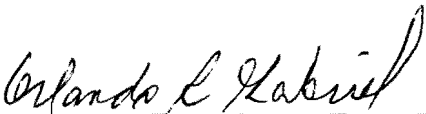
Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 }
COUNTY OF KING } ss
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Orlando R. Gabriel, 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 PNWBA'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).



Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 6th day of January, 2009.



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

