

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
PACIFIC NORTHWEST BALLET ASSOCIATION
SEATTLE, WASHINGTON

JUNE 30, 2013

Order No. 14-73
Pacific Northwest Ballet Association
Exhibit A

SALUTATION

Seattle, Washington
February 20, 2014

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:

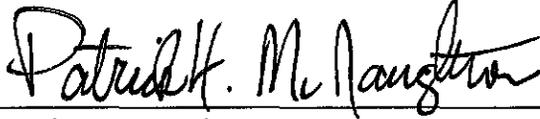
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

Pacific Northwest Ballet Association
of
Seattle, Washington

hereinafter referred to as "PNBA" at its office, 301 Mercer Street, Seattle, WA 98109. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of PNBA as of June 30, 2013.

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 Ballet Association of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Pacific Northwest Ballet Association as of June 30, 2013.



Patrick H. McNaughton
Chief Examiner

4-22-14

Date

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SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2008 through June 30, 2013. The scope of our examination focused only on the transactions and operations of the CGA business. PNBA'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, PNBA's June 30, 2013 audited financial statements were reviewed and utilized 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 PNBA by examiners from the state of Washington.

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

INSTRUCTIONS

None

COMMENTS AND RECOMMENDATIONS

None

ORGANIZATION PROFILE

History

PNBA was founded in 1972 as Pacific Northwest Dance Association. PNBA 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 PNBA Certificate of Exemption No. 40 to conduct a CGA business in the state of Washington.

Total Net Assets

PNBA's total net assets as of June 30, 2013 were \$3,370,210. This amount included unrestricted net assets of \$1.3 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of PNBA for the past five years is reflected in the following schedules:

Schedule 1 – Statement of Financial Position

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2013	\$7,684,352	\$4,314,142	\$3,370,210	\$1,315,325	\$2,054,885	\$0
2012	8,171,751	4,510,621	3,661,130	1,255,376	2,405,754	0
2011	9,311,561	4,550,945	4,760,616	2,371,221	2,389,395	0
2010	9,547,919	5,064,660	4,483,259	2,541,273	1,941,986	0
2009	9,766,636	4,436,865	5,329,771	2,977,892	2,351,879	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	\$24,330,464	\$21,768,565	\$22,287,816	\$21,355,460	\$22,483,567
Total expenses	<u>24,621,384</u>	<u>22,868,051</u>	<u>22,010,459</u>	<u>22,201,972</u>	<u>24,145,337</u>
Increase (decrease) in net assets	(290,920)	(1,099,486)	277,357	(846,512)	(1,661,770)
Other changes in net assets					
Net assets at beginning of year	<u>3,661,130</u>	<u>4,760,616</u>	<u>4,483,259</u>	<u>5,329,771</u>	<u>6,991,541</u>
Net assets at end of year	<u>\$3,370,210</u>	<u>\$3,661,130</u>	<u>\$4,760,616</u>	<u>\$4,483,259</u>	<u>\$5,329,771</u>
Number of gift annuity contracts	5	5	5	8	8

AFFILIATED ORGANIZATIONS

Pacific Northwest Ballet Foundation (PNBF) is affiliated with PNBA. PNBF was founded to conduct and support activities exclusively for the benefit of PNBA.

MANAGEMENT AND CONTROL

Management

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

Board of Trustees

The following individuals were trustees as of June 30, 2013:

Heidi Alessi	Patrice Auld
Carl Behnke	Susan Brotman
Cheryl Clark	Robert Cremin
Jerald Farley	Joan Fitzmaurice
Stephen Fuhs	Joerg Gablonsky

Robin Gainey
Susan Grinstein
Maria Gunn
Aya Hamilton
Kalen Holmes
Gail James
Sara Jones
Travis Keeler
Wendy Kizzier
Lisa Kroese
Natasha Lalji
Carol Neiman
Susan Okamoto
Gwendolyn Payton
Tom Puentes
Richard Redman
Sharon Richardson
Catherine Ries
Johnese Spisso
David Vaskevitch
Connie Walsh
Sheree Wen

Lynne Graybeal
William Grinstein
David Hadley
W. Daniel Heidt
Peter Horvitz
Pam Johnson
H. David Kaplan
April Kiebertz
Rocke Koreis
Gregory Kusnick
Lynn Lindsay
Joe Norman
Alida Oles
Barbara Pearson
James Raisbeck
Christina Rich
Barbara Ries
Scott Scherer
Jeanne Tweten
Deidra Wager
Deborah Watson
Leslie Yamada

Officers

The following individuals were officers as of June 30, 2013:

Aya Hamilton, Chair
Joe Norman, President
Carl Behnke, Immediate Past Chair
W. Daniel Heidt, Treasurer
Lynn Lindsay, Secretary
David Hadley, Assistant Treasurer
Lynne Graybeal, Assistant Secretary

Tax Status

PNBA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on unrelated business income.

Conflict of Interest

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

ORGANIZATION RECORDS

The BOT meets six times a year to discuss any business which is pertinent to PNBA. The minutes from the BOT meetings documented the approval of PNBA's transactions and events.

SEPARATE RESERVE FUND (SRF)

PNBA's separate reserve fund 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 PNBA, 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, PNBA was in compliance with RCW 48.38.020(3)(c) which requires PNBA 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 PNBA 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 PNBA's annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial statements show the unconsolidated financial condition of PNBA as of June 30, 2013:

Statement of Financial Position
Statement of Activities and Changes in Net Assets

Pacific Northwest Ballet Association
Statement of Financial Position
June 30, 2013

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Cash and cash equivalents	\$82,183	\$0	\$82,183
Account receivable	16,719		16,719
Contributions receivable, net	1,660,257		1,660,257
Inventory	253,297		253,297
Prepaid expenses	843,076		843,076
Long-term contributions receivable	82,148		82,148
Investments	192,804		192,804
CGA separate reserve fund	186,976		186,976
Investment in gift shop	230,194		230,194
Personal property and leasehold improvements, net	4,136,698		4,136,698
Total Assets	<u>\$7,684,352</u>	<u>\$0</u>	<u>\$7,684,352</u>
Liabilities and Net Assets			
Accounts payable and accrued expenses	\$1,089,471	\$0	\$1,089,471
Deferred revenue	2,997,882		2,997,882
CGA liabilities	146,182		146,182
Notes payable	80,607		80,607
Total Liabilities	<u>4,314,142</u>	<u>0</u>	<u>4,314,142</u>
Net Assets			
Unrestricted	1,315,325	0	1,315,325
Temporarily restricted	2,054,885		2,054,885
Total Net Assets	<u>3,370,210</u>	<u>0</u>	<u>3,370,210</u>
Total Liabilities and Net Assets	<u>\$7,684,352</u>	<u>\$0</u>	<u>\$7,684,352</u>

**Pacific Northwest Ballet Association
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2013**

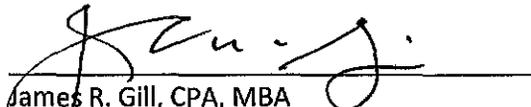
	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$24,330,464	\$0	\$24,330,464
Total expenses	24,621,384		24,621,384
Increase (decrease) in net assets	(290,920)	0	(290,920)
Net assets at beginning of year	3,661,130		3,661,130
Net assets at end of year	\$3,370,210	\$0	\$3,370,210

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Pacific Northwest Ballet Association during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner and Tarik Subbagh, CPA, CFE, MSBA, Property and Casualty Field Supervising Examiner, both from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,


James R. Gill, CPA, MBA
Financial Examiner
State of Washington

