

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
SEATTLE OPERA
SEATTLE, WASHINGTON

June 30, 2012

Seattle Opera
Order No. 13-0226
Exhibit A

SALUTATION

Seattle, Washington
July 22, 2013

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:

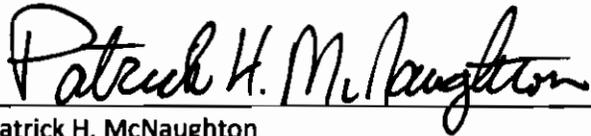
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate affairs and financial records pertaining to the charitable gift annuity (CGA) business of

Seattle Opera
of
Seattle, Washington

hereinafter referred to as the "Opera" at its office at 1020 John Street, Seattle, WA 98109. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of the Opera as of June 30, 2012.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the CGA business of the Seattle Opera of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of the Seattle Opera as of June 30, 2012.



Patrick H. McNaughton
Chief Examiner

7/22/2013

Date

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SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2007 through June 30, 2012. The scope of our examination focused only on the transactions and operations of the CGA business. The Opera'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, the Opera's certified public accountant's (CPA's) work papers 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 examiners reviewed the Opera's CGA OIC Annual Reports as part of the statutory examination. This review was performed to determine if Seattle Opera completed the Annual Reports in accordance with the OIC Annual Report Instructions published by the OIC and to verify that Seattle Opera's accounts and records were prepared and maintained in accordance with Chapter RCW 48.38.010(10)(a).

INSTRUCTIONS

NONE

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Policy

The Opera has a Conflict of Interest Policy which does not require an annual signing of a conflict of interest statement, nor does it state that key Opera employees are required to sign a conflict of interest statement annually.

It is recommended that the Opera revise its Conflict of Interest Policy to require an annual review of the Conflict of Interest Policy and an annual signing of a conflict of interest statement by key Opera employees.

ORGANIZATION PROFILE

History

The Opera is a not-for-profit organization founded in 1963 that produces and presents operas in Seattle, Washington and also presents touring and educational programs.

Territory and Plan of Operation

The Opera was granted a Certificate of Exemption No. 121 to conduct a CGA business in the state of Washington by the OIC on September 8, 1998. The Opera had 37 in-force annuity contracts as of June 30, 2012.

Total Net Assets

The Opera's total net assets as of June 30, 2012 were \$36,334,966. This amount included unrestricted net assets of \$3,597,137. The minimum unrestricted net asset requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

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

SCHEDULE 1 – STATEMENT OF FINANCIAL POSITION

Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocation:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2012	\$47,071,838	\$10,736,874	\$36,334,964	\$3,597,136	\$22,147,839	\$10,589,989
2011	46,739,981	9,552,432	37,187,549	5,016,247	22,437,553	9,733,749
2010	44,059,416	12,558,320	31,501,096	1,685,117	21,066,398	8,749,581
2009	52,843,735	16,682,424	36,161,311	2,483,490	25,391,203	8,286,618
2008	54,404,121	14,222,967	40,181,154	2,466,932	28,207,661	9,506,561

SCHEDULE 2 – STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	2012	2011	2010	2009	2008
Total Revenues	\$9,705,423	\$8,909,493	\$13,133,880	\$9,286,682	\$8,512,654
Total Expenses	21,821,107	21,566,553	28,072,317	21,594,133	21,062,340
Excess (deficit) for the year	(12,115,684)	(12,657,060)	(14,938,437)	(12,307,451)	(12,549,686)
Other changes in net assets	11,263,099	18,343,513	10,278,222	8,287,608	22,091,001
Net assets at beginning of year	37,187,549	31,501,096	36,161,311	40,181,154	30,639,839
Net assets at end of year	\$36,334,964	\$37,187,549	\$31,501,096	\$36,161,311	\$40,181,154
Number of gift annuity contracts at end of year	37	36	37	37	33

AFFILIATED ORGANIZATIONS

The Opera has beneficial interests in the Seattle Opera Foundation (Foundation). The Foundation was established in 1982 to receive and invest donations for the benefit of the Opera. The Foundation is reported separately from the financial statements of the Opera.

MANAGEMENT AND CONTROL

Management

The management of the affairs of the Opera is vested in a Board of Trustees (BOT) made up of not less than forty-five (45) or more than ninety (90) persons elected by members. A majority of the authorized number of trustees constitute a quorum except when a vacancy or vacancies prevent such a majority.

Board of Trustees

The following individuals were Trustees as of June 30, 2012:

Richard Albrecht	William Gerberding	Steven Phelps
Willie Aikens	Paul Goodrich	Tom Puentes
Thomas Allen	Jeffrey Hanna	James Raisbeck
Klm Anderson	Jim Hodge	Dana Rasmussen
Rosemarie Anderson	Gary Houlahan	Johnathan Rosoff
Patricia Bostrom	Kennan Hollingsworth	Stephen Sprenger
Dr. Brenda Burns	Ron Hosogi	John Starbard
Johnathan Caves	Janet Wright Ketcham	Delphine Stevens
Gregory Chan, M.D.	Jay Lapin	John Sullivan
Steven Clifford	Thomas Lemly	Maryanne Tagney-Jones
Robert Comfort	Laura Lundgren	Russell Tousley
Janice Condit	Kelly Jo MacArthur	James Uhlir
Charles Cosse	Brian Marks	Moya Vazquez
James Cullen	Bruce McCaw	Joan Watjen
Susan Detweiler, MD	JJ McKay	William Weyerhaeuser
James Faulstich	Tom McQuaid	Judith Whetzel
Mary Foerster	Edward Milles	Kathleen Wilcox
Robert Fries	Louise Miller	Kenneth Willman
Diana Gale	John F. Nesholm	Scott Wyatt
Richard Gemperle	Rosemary Peterson	Evelyn Zabo

Officers

The following individuals were Officers as of June 30, 2012:

John F. Nesholm, Chairman	Max Gellert, Vice President
William Weyerhaeuser, President	Paul Goodrich, Vice President
Rosemarie Anderson, Executive Vice President	Louise Miller, Vice President
Maryanne Tagney-Jones, Secretary	Steven Phelps, Vice President
Gary Houlahan, Treasurer	James Raisbeck, Vice President
William Gerberding, Chairman Emeritus	Dana Rasmussen, Vice President
Richard Albrecht, Vice President	Johnathan Rosoff, Vice President
Thomas Allen, Vice President	Stephen Sprenger, Vice President
Steven Clifford, Vice President	Moya Vasquez, Vice President
James Cullen, Vice President	
James Faulstich, Vice President	
Diana Gale, Vice President	

Tax Status

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

Conflict of Interest

The Opera'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 BOT and he or she has received instructions from the BOT. (See Comment and Recommendation No. 1.)

ORGANIZATION RECORDS

The BOT met four times per year, on average, to discuss business pertinent to the Opera. BOT meeting minutes documented the approval of the Opera'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. The SAO indicated that the Opera's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be \$592,652 for 37 in-force annuity contracts as of June 30, 2012. The separate reserve fund reported by the Opera on its financial statements also included an additional 10 percent in compliance with RCW 48.38.020(3)(c).

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of the Opera as required by RCW 48.38.020(2). The market value of the annuity investments as of June 30, 2012 was \$764,463.19 and consisted of bonds and stocks. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no additional material events which impacted the Opera 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 the Opera at June 30, 2012:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

SEATTLE OPERA
STATEMENT OF FINANCIAL POSITION
June 30, 2012

	Balance per Annual Report	Examination Adjustments	Adjusted Balance
Assets			
Cash and cash equivalents	\$7,708,708	\$0	\$7,708,708
Cash permanently restricted - CGA	764,463		764,463
Investments	4,509		4,509
Other assets	<u>38,594,159</u>		<u>38,594,159</u>
Total Assets	<u>\$47,071,839</u>	<u>\$0</u>	<u>\$47,071,839</u>
Liabilities			
Accrued annuities payable - long-term	\$508,036	\$0	\$508,036
Other liabilities	<u>10,228,837</u>		<u>10,228,837</u>
Total Liabilities	<u>10,736,873</u>	<u>0</u>	<u>10,736,873</u>
Net Assets			
Unrestricted net assets	3,597,137		3,597,137
Temporarily restricted net assets	22,147,840		22,147,840
Split interest trust fund	<u>10,589,989</u>		<u>10,589,989</u>
Total Net Assets	<u>36,334,966</u>	<u>0</u>	<u>36,334,966</u>
Total Liabilities and Net Assets	<u>\$47,071,839</u>	<u>\$0</u>	<u>\$47,071,839</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For Fiscal Year Ended June 30, 2012

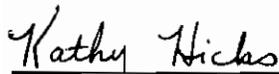
	Balance per Annual Report	Examination Adjustments	Adjusted Balance
Total revenues	\$20,968,523	\$0	\$20,968,523
Total expenses	<u>21,821,108</u>		<u>21,821,108</u>
Increase (decrease) in net assets	(852,585)	0	(852,585)
Net assets at beginning of year	<u>37,187,549</u>		<u>37,187,549</u>
Net assets at end of year	<u>\$36,334,964</u>	<u>\$0</u>	<u>\$36,334,964</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Opera 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 Christine Berch, CPA, Financial Examiner from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



Kathy Hicks, CPA, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

Kathy Hicks, 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 the Opera'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).

Kathy Hicks
Kathy Hicks, CPA, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 22nd day of July, 2013.

Colleen Jansen
Notary Public in and for the
State of Washington

