

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
SEATTLE'S UNION GOSPEL MISSION
SEATTLE, WASHINGTON

August 31, 2012

Order No. 13-169
Seattle's Union Gospel Mission
Exhibit A

SALUTATION

Seattle, Washington
March 26, 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:

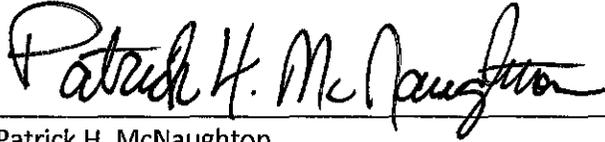
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

Seattle's Union Gospel Mission
of
Seattle, Washington

hereinafter referred to as "SUGM" at its office, 3800 South Othello Street, Seattle, Washington 98118. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of the SUGM as of August 31, 2012.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Seattle's Union Gospel Mission of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Seattle's Union Gospel Mission as of August 31, 2012.



Patrick H. McNaughton
Chief Examiner

5-16-13

Date

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SCOPE OF THE EXAMINATION

The examination covers the period September 1, 2008 through August 31, 2012. The scope of our examination focused only on the transactions and operations of the CGA business. SUGM'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, SUGM's certified public accountant's (CPA's) audit of the August 31, 2012 consolidated financial statements was 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 SUGM by examiners from the state of Washington.

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

INSTRUCTIONS

1. Reporting Requirements

The filing of the OIC Annual Reports by SUGM did not conform to RCW 48.38.010(10)(a) and the OIC Annual Report Instructions. Balances reported in the OIC Annual Report included the accounts of SUGM's affiliate, UGM Landowner. SUGM is the holder of the certificate of exemption. The OIC Annual Report Instructions require that the annual report must be submitted only for the organization holding the certificate of exemption to issue annuities. Examination adjustments were made to remove account balances belonging to SUGM's affiliate, thereby, reflecting only the financial statements of SUGM in accordance with the OIC Annual Report Instructions.

Adjustments to SUGM's 2012 Annual Report resulted in a decrease in prepaid expenses and other of \$26 thousand, a decrease in cash restricted for loan reserves of \$449 thousand, a decrease in land, buildings and equipment of \$25 million, a decrease in net capitalized financing costs of \$394 thousand, a decrease in account payable of \$7 thousand, a decrease in accrued expenses of \$47 thousand, a decrease in notes payable of \$23.5 million, a decrease in unrestricted assets of \$2.3 million, a decrease in revenue of \$1.3 million, and decrease in expenses of \$2.3 million. (See Note 1 to the Financial Statements.)

SUGM is instructed to comply with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions by only including the certificate of exemption holder in the annual report submitted to the OIC.

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

SUGM was organized by Seattle area churches in 1932. The purpose of SUGM is to promote Christian religious principles and conduct rescue mission work in the city of Seattle.

Territory and Plan of Operation

On September 3, 1999, the OIC granted SUGM a Certification of Exemption Number 131 to conduct a CGA business in the state of Washington. There were 29 annuity contracts as of August 31, 2012. All were issued to residents of the state of Washington.

Total Net Assets

SUGM's total net assets as of August 31, 2012 were \$34.5 million. This amount included unrestricted net assets of \$34.3 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of SUGM for the past five years is reflected in the following schedules.

Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net		Temporarily Restricted	Permanently Restricted
			Assets	Unrestricted		
2012	\$36,566	\$2,061	\$34,505	\$34,269	\$82	\$154
2011	37,060	1,099	35,961	35,720	87	154
2010	34,444	956	33,488	33,278	55	154
2009	33,750	2,264	31,486	31,256	75	154
2008	30,930	3,287	27,643	27,405	83	154

Schedule 2 – Statement of Activities and Changes in Net Assets (In Thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total revenues	\$17,969	\$19,589	\$16,355	\$20,117	\$18,272
Total expenses	<u>18,426</u>	<u>17,115</u>	<u>15,519</u>	<u>16,279</u>	<u>15,689</u>
Increase (decrease) in net assets	(457)	2,474	836	3,838	2,583
Other changes in net assets	(1,000)	-	1,166	6	(6,912)
Net assets at beginning of year	<u>35,962</u>	<u>33,488</u>	<u>31,487</u>	<u>27,643</u>	<u>31,972</u>
Net assets at end of year	<u>\$34,505</u>	<u>\$35,962</u>	<u>\$33,489</u>	<u>\$31,487</u>	<u>\$27,643</u>
Number of gift annuity contracts	29	28	27	27	27

AFFILIATED ORGANIZATIONS

SUGM has a controlling interest in UGM Landowner. UGM Landowner is a separate non-profit corporation created in 2007 to purchase and hold real estate property to be used in SUGM operations. UGM Landowner is one hundred percent controlled by SUGM. The audited financial statements of SUGM and UGM Landowner have been presented on a consolidated basis. (See Instruction No. 1.)

MANAGEMENT AND CONTROL

Management

The Board of Trustees (BOT) is responsible for the governance and control of SUGM. The president of SUGM is a member of the BOT. He is responsible for the management of SUGM.

Board of Trustees

The following individuals were trustees as of August 31, 2012:

Andy Toles, Chairman	Matt McGregor
Bill Aanenson, Chairman-elect	Jenny Printz
John Forrest	Linda Ranz
Ann Klein	Michael Tutmarc
Jeff Lilley	Scott Urie

Officers

The following individuals were officers as of August 31, 2012:

Jeff Lilley, President
John Forrest, Treasurer
Linda Ranz, Secretary

Tax Status

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

Conflict of Interest

According to SUGM's Conflict of Interest Policy, the BOT are required to disclose any potential conflicts of interest by submitting a Conflict of Interest Questionnaire form annually to the BOT. Based on our review of the submitted 2012 questionnaire statements, no exceptions were noted.

ORGANIZATION RECORDS

The BOT meets at least six times a year to discuss any pertinent business to SUGM. BOT meeting minutes documented the approval of SUGM's transactions and events.

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 SUGM's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$195 thousand for 29 in-force annuity contracts as of August 31, 2012. The separate reserve fund reported by SUGM on their 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 SUGM as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of August 31, 2012 were \$221,541 and consisted of debt and equity securities and money market funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no additional material events which impacted SUGM between the examination date and the last day of our field work.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments have been addressed and corrected.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation supported the data and amounts presented in SUGM's annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial statements show the unconsolidated financial condition of Seattle's Union Gospel Mission as of August 31, 2012:

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

Seattle's Union Gospel Mission
Statement of Financial Position
August 31, 2012
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Assets				
Cash and cash equivalents	\$1,297	\$0	\$1,297	
Inventory	837		837	
Prepaid expenses and other	559	(26)	533	1
Cash restricted for loan reserves	449	(449)	0	1
Pledges and estate receivables, net	144		144	1
Notes receivables, net of current portion	16,850		16,850	
Investments	7,915		7,915	
CGA Investments	222		222	
Land, buildings and equipment	33,760	(24,992)	8,768	1
Capitalized financing costs, net	394	(394)	0	1
Total Assets	<u>\$62,427</u>	<u>(\$25,861)</u>	<u>\$36,566</u>	
Liabilities and Net Assets				
Account Payable	\$381	(\$7)	\$374	1
Accrued expenses	382	(47)	335	1
Gift annuities payable	195		195	
Notes payable	24,633	(23,475)	1,158	1
Total Liabilities	<u>25,591</u>	<u>(23,529)</u>	<u>2,062</u>	
Net Assets				
Unrestricted	36,600	(2,332)	34,268	1
Temporarily restricted	82		82	
Permanently restricted	154		154	
Total Net Assets	<u>36,836</u>	<u>(2,332)</u>	<u>34,504</u>	
Total Liabilities and Net Assets	<u>\$62,427</u>	<u>(\$25,861)</u>	<u>\$36,566</u>	

Seattle's Union Gospel Mission
Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2012
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues	\$19,290	(\$1,321)	\$17,969	1
Total expenses	20,685	(2,259)	18,426	1
Increase (decrease) in net assets	(1,395)	938	(457)	
Other changes in net assets	0	(1,000)	(1,000)	1
Net assets at beginning of year	38,231	(2,269)	35,962	1
Net assets at end of year	<u>\$36,836</u>	<u>(\$2,331)</u>	<u>\$34,505</u>	

NOTES TO THE FINANCIAL STATEMENTS

Examination adjustments to SUGM's financial statements are as follows:

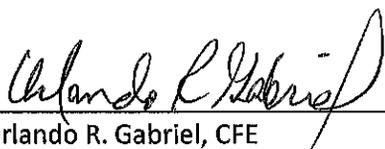
1. Assets, liabilities, revenues, expenses, and net assets of its affiliate, UGM Landowner, were removed in order to present SUGM's financial statements in accordance with the OIC Annual Report Instructions. (See Instruction No. 1.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Seattle's Union Gospel Mission 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 Tony Quach, Financial Examiner, AFE; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Orlando R. Gabriel", written over a horizontal line.

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

